

# Getting all the Motives Right

Driving International Corporate Responsibility (ICR)  
to the Next Level

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SMO publishes scientific analyses, bundles and reviews on the interface of society and business.

This SMO analysis concerns [Innovation and Entrepreneurship](#), one of the four pillars of SMO.

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The SMO, the Dutch Foundation for Society and Entrepreneurship, founded in 1968, aims at contributing to the debate on the embeddedness of entrepreneurial firms in society.

Society cannot exist without entrepreneurial self-discovery and initiatives, firms depend on the institutions of society. Societies cannot flourish, social, cultural, political, welfare, without an entrepreneurial spirit. Firms in their turn depend for their success on a well-educated population, the rule of law, freedom of thought and speech, democracy, a civil society and with that morality and trust.

The Scottish moral philosopher Adam Smith (1723-1790) introduced the idea of the invisible hand as a mechanism to balance the profit motives of the entrepreneur and the general interest. The integration of the private profit motive and a responsibility for the general interest, that is both the moral order of society and the preservation of the physical environment, is even more topical as it ever has been. As the princess Beatrix has taught us during her reign as queen of the Netherlands: it is our responsibility to hand over the world in a better shape to the next generation as we have received it.

In the twentieth century Smith's invisible hand with respect to the market mechanism became replaced by the visible hand of the managerial hierarchy, and with respect to the balance between the private interests of the entrepreneur, the profit motive, this was more or less balanced by strong institutions and a large state. Due to liberalization, materialization, postmodernity and the growth of information processing capacity many of the institutions have weakened and the state was reduced. With that the responsibility to balance the private profit motive with the general interests has shifted to the private entrepreneur.

Basically, sound people have two sources of valuation, utility maximization (the profit motive) and moral duty. However, in the fog of daily life it is not always easy to understand one's own and other's motives, especially with respect to sustainability. From the perspective of intentions consequences are not always clear, from the perspective of consequences the side-effects of the means are not always clear. Motives with respect to means and ends are blurred by bounded knowledgeability as well as by values and emotions.

Therefore the SMO is happy to publish this book written by Rob van Tulder on the role of motivations in creating business models that incorporate and integrate, as a successor to Smith's visible hand over the profit motive and the general interest, to clear the fog of motives into action for a world that is sustainable, in terms of welfare, moral order and a healthy biodiverse physical environment.

Hans Strikwerda

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### Acknowledgements and reading guidelines

This book has become quite a volume! It is the result of a commitment I made to various stakeholder groups over the years. This commitment was to systematically develop basic and fundamental insights [with practical relevance] on the role of corporations in effectively taking up international sustainability challenges.

Sustainability is arguably one of the grandest challenges of our time. However, the present discourse on corporate sustainability is clouded by quick opinions and often superficial (partial) observations. This is quite disturbing for those that are not only motivated to 'do something' about sustainability but are interested in making a real impact. Impact can only be achieved by having a solid understanding of the drivers of change, which are largely related to a complex interplay of motivations. Gaining insights in motivations seems easier than it actually is. We need to dissect motivations at various levels of analysis, along many pathways of change, and related to various stakeholders. This requires a slow build-up of the argument and has consequently resulted in a multi-layered book rather than an article. And the book is also robust - which makes it even less of a quick read. In this context, I "plead guilty" for applying a well-known principle in the sustainability discourse: TINA - There Is No Alternative. There are no simple approaches or quick fixes to sustainability challenges. Sorry for that! 😊

Consequently, getting real insights is always a time-consuming and motivational challenge to anyone that wants to participate in this effort (as writer, reader, practitioner, or co-researcher). I hope that the combination of presentation techniques applied in this book will nevertheless help the reader to gain more structured insights into the subtle motivational facilitators and barriers that a transition to more sustainable business models requires. The index should help.

This book has also become *testimony* of the very processes that it tries to understand and describe: not only that motivation matters, but that achieving deeper insights cannot be based on intrinsic motivation alone. So next to my own commitment to writing this book, the book has been the result of the commitment, support, collaboration, and pressure of eight groups of stakeholders:

1. The Department of Business-Society Management at RSM Erasmus University:  
This department was founded 20 years ago and has been a meeting place for academics with many backgrounds, but with one passion: to understand

- what drives companies and their leaders to address sustainability issues. For this book I am mostly indebted to the insights gained from my direct colleagues (professors as well as PhD students) in business ethics, leadership, nonprofit management, and corporate communication. They provided a sustained source of motivation not to shy away from interdisciplinary approaches. Important stakeholder names include Muel Kaptein, Cees van Riel, Marius van Dijke, Joep Cornelissen, Steve Kennedy, Salla Laasonen, Gail Whiteman, Lucas Meys, David de Cremer, and Cees van Dam.
2. The Rotterdam School of Management at Erasmus University: This school has slowly moved from a teaching institute to a research and societal 'valorization' institute in which the business school has reshaped itself by looking at companies as 'value adding' entities instead of 'profit maximizing' entities. The recent change of motto and the embrace of the Sustainable Development Goals as leading for the business school provide a most stimulating environment to grasp the contribution of companies to societal problems. The support of three consecutive deans (including also the rectors of the Institute for Social Studies) provided additional legitimacy to my personal ambition. Important names include Paul Verhaege, George Yip, Steef van der Velden, and Eva Rood.
  3. The Max Havelaar Foundation: This Foundation has stimulated me to work on a variety of topics related to sustainable development that might not have crossed my mind. Organizing the annual Max Havelaar lecture together with the committed staff of the Foundation was always a friendly motivational challenge: intense discussions on the role of 'trademarks', how to involve opinion leaders, define topics that are relevant, and stick to a formula that was perhaps not sexy, but most appropriate (involving three spheres of society in the discussion). Important names include Jochum Veerman, Coen de Ruiter, and Peter D'Angremond.
  4. My esteemed students: Working on international business models and checklists in a more traditional scientific organization requires specialization. But the sheer luxury to be part of the biggest Master in the world on corporate sustainability issues (organized by the Department of Business-Society Management) gave me the opportunity to nourish my motivation through student participants. Over the years, dozens of highly committed students have been working with my models and have added vital insights, topics, and data to the basic modeling. My PhD students formed a separate group . At

least ten of them have used the thinking behind the models presented in this book for further in-depth academic studies on specific issues of International Corporate Responsibility (ICR). The names of both groups are listed in the quotes throughout the volume and in the literature references.

5. The Partnerships Resource Centre (PrC): The PrC was founded in 2009 with considerable support from the Ministry of Foreign Affairs and various corporate and societal stakeholders and has served as the platform to work on more concrete ideas on getting 'beyond compliance'. In this book the 'collaborative route' will be identified as the most advanced stage of sustainability, which requires a different constellation of motives (beyond individual motivation). Since 2015, the staff of the PrC has also taken up the practical organization of the Max Havelaar lectures. Important names include Rianne Strijker-van Asperen, Marieke de Wal, Addisu Lashitew, Stella Pfisterer, Andrea da Rosa, Fabienne Fortanier, Nienke Keen, Ismaella Stoteler, Siri Lijfering, Laura Lucht, Annette Pelkmans, Jane Capacio and Sacha Goudswaard.
6. Practitioners: Over the years, practitioners have validated the taxonomies that I developed in various practical research projects (see publication lists), in the Max Havelaar lectures (see for names the quotes throughout the volume), and in various discussion groups and platforms. Important stakeholders include international organizations (UN, UNCTAD, UNDP), national ministries (Foreign Affairs, Agriculture), major multinational enterprises, and Civil Society Organizations. Some of their inputs are included throughout this volume as quotes.
7. SMO: This publisher has been most forthcoming in supporting my motivation to write this fundamental contribution. Several consecutive and committed managers have been extremely patient in allowing me to postpone the deadline of the final manuscript in order to make it more inclusive. The same applies to Thomas Bijen who has performed beyond his responsibility for DTP and graphics. As I understand it, this book is not only the 'biggest' ever produced under the auspices of SMO but also goes together with a reorientation of the organization towards more purpose-driven initiatives of companies. In that sense, the delayed release of this book is timely!
8. My dedicated team: This book would not have been possible without my dedicated team both at home and at the university. Eveline van Mil and Ronny Reshef have been a continuous motivational and technical support. In an earlier stage of this project, Elena Osmoscescu compiled the distance tables.

This book is therefore also a *tribute* to these groups of very important stakeholders. They helped to co-create the thinking in this book and strengthened my conviction that a more solid and deeper approach to motivation would not only be necessary, but also possible – in the sense that stakeholders would be interested in grasping the complexities of motivations at all levels of analysis in order to really drive companies and society to higher levels of sustainability. The responsibility of the texts and all the techniques introduced, of course, remain with me.

#### How to use this book

In an internet era of 'de-reading' and 'quick observations', I can easily imagine that a volume like this poses a major challenge - even for motivated receivers of the multi-layered message(s) of this book. Motivation matters here as well. So, the following reading tips may help you to make optimal use of the book:

- **For all:** The index is particularly useful for a quick search on relevant dimensions. Please read the preface that explains the basic argument of the whole volume. I hope this will motivate the reader to study those parts of the book that promise the greatest insights for some of the day-to-day questions you come across.
- **For managers:** Please use the checklists throughout the book as a quick scan technique for defining your position. Immediately start with chapter 7. This chapter is useful for a more strategic assessment of your company's position. You can work on effective change trajectories once you are more aware of your sustainability ambitions.
- **For students and scholars:** The basic motivational models are useful. The logic behind the three levels of motivation is universal, so this can create a solid and basic understanding in what motivates companies to move forward. Please read first the foreword and the chapters 1 and 5 (introductions to Parts I and II). Students involved in more detailed studies can focus on specific challenges per change trajectory for which the index provides easy points of access.
- **For consumers:** Chapters 1 and 2 are particularly relevant. You can focus on the motivational checklists that are listed there and find out what you really want and how consistent you are in this ambition. There is no moral judgement - every change trajectory starts with awareness!
- **For policy makers:** Understanding the tipping points for managers to move from one level of commitment to a higher level of commitment is important.

Policy research shows that the effectiveness of policies depends on the transition phase of the target audience (companies, consumers, civil society), which in turn is strongly influenced by their motivations. Effective policies play on motivations more than on anything else. The insights listed in chapters 4, 6 and 8 provide further insights.

The greatest motivation comes from working together with others on moving in the right direction. This is one of the basic messages of this book. This also applies to the users of this book. If various stakeholders can complement each other in applying the insights that are presented in this book, the impact grows. Sustained motivation is more a matter of insights, passion, and time-investment rather than of funding. This also applies to the price of this book. I am happy that SMO provided me the – competitively priced - platform to present my insights. This should facilitate a process in which all participants are able – if they are willing – to get all the motives right!

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Rotterdam, June 2018

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# Preface

COMPETING BEYOND  
REGULATION

**PREFACE:  
COMPETING BEYOND REGULATION**



### Motivated to go beyond regulation and further than compliance?

Sustainable development is one of the *grandest challenges* of our time. Laws do not suffice to resolve pervasive, international and systemic issues such as climate change, poverty, hunger, health, peace or education. Companies that are serious about their sustainability ambitions (also known as corporate social responsibility, CSR) therefore take up responsibilities beyond compliance with national laws. They are expected to do this on a voluntary basis, which makes it a daring ambition. However, most companies increasingly sell and source internationally. Operating in an *international* environment with International CSR (ICR) ambitions confronts companies with three additional challenges:

- *Divergence*: Laws between countries differ; what national law should be used as the benchmark? As regulations can differ per issue, should companies adopt different practices per issue and country?
- *Volatility*: The international environment is also more turbulent than the national environment. Laws change over time; trade and investment agreements between countries change over time. Rules and regulation in countries can become stricter, but they can also become more lenient. What changes can be anticipated or should be taken into account?
- *Governance gaps*: In many areas in the international arena, there are no laws, only norms and morals, guidelines and voluntary initiatives. The international governance gap creates room for companies to adopt higher but also lower standards of sustainability.

These challenges exist *instantaneously* and often *simultaneously*. They confront managers and corporate leaders to fundamentally question their sustainability motivations, but also the sustainability motives of their stakeholders (customers, employees, suppliers). Are they all sufficiently motivated to *effectively* strive for more sustainability? What drives them? Are there 'right' or 'wrong' motives? What motives are easier to realize and what motives might create (new) barriers to change? Getting *all* the motives for ICR right is the main purpose of this book.

### Driving ICR to the next level?

Unfortunately, the discourse on drivers and motives for ICR strategies concentrates on two main sources of motivation: (a) negative motivations that are triggered by (international) reputational risks or crises and (b) positive motivations on the basis of morals. Both arguments are seriously flawed.

*Negative motivation: Triggered by (international) crises?*

Many international responsibility issues were an immediate result of a crisis, a public affairs scandal or pressure of critical societal groups. Indeed, the public discourse on international corporate responsibilities (ICR) has been strongly triggered by events that have been reported in the national and international media: The collapse of a garment-factory along the clothing supply chain in Bangladesh (Rana Plaza, 2013); oil spills in the Gulf of Mexico (BP Deep Water Horizon, 2010); slavery and child labor in the cocoa chain in Ivory Coast (2012); corruption in many countries (when has this not been happening?); the sale of bad mortgages all around the world (US, Europe; 2008); tax evasion in developed and developing countries (reported in the media since 2010), excessive CEO remunerations (since the turn of the millennium). In most of these cases, companies largely complied with the law of the country in which they were operating. They did not do anything illegal. But the international outcry and moral indignation were nevertheless incredibly intense. The main argument, therefore, is that abiding by laws is clearly not enough; the culprits should and could have done more.

Trigger events are considered to create a wake-up call for companies that their 'business as usual' way of operating is no longer accepted. Something has to change. But what and how?

- *This defines the first question about motivation: Are trigger events sufficient motivation for companies to go the extra mile and make sustainability work in a world with considerable regulation gaps?*

This question becomes more pertinent if we consider what has happened in the aftermath many of these events – Not much. Reputational risk has proven to be a relatively modest motivation to trigger fundamental change.<sup>i</sup> The greater the distance to the trigger event – be it geographical, cultural or administrative – the weaker the motivation seems to become in engaging in more than superficial change. This finding even applies to instances where companies or their employees malpractice, i.e., acted against some of the laws of the country they were operating in. Credible sanctions are particularly difficult to implement in sectors that are large, fast-moving and international - ranging from banking to the clothing industry. As a consequence, cases of (alleged) irresponsible corporate and employee behavior turn out to be quite resilient and sticky.

Maybe the best way to illustrate the sticky nature of these issues is to see what happened with two of the classical disaster cases that happened several decades ago. First, the Bhopal chemical plant disaster in India that occurred in 1984. It is the world's worst industrial disaster to date. It caused the immediate death of an estimated 10,000 local people in the first week and 25,000 more people later on, while the number of affected people amounted to 600,000. Following court cases as recent as 2014, the aftermath of this case is still on the agenda for the American company Dupont – a company that did not even own the plant (of Union Carbide) at the time of the disaster. Another example: in 1995 serious human rights clashes ensued in Nigeria between Royal Dutch Shell and the local Ogoni population. Today, Shell is still held liable for the damage to the local communities in courts around the world.<sup>ii</sup>

The original optimism of the 1990s that trigger events would stimulate companies to move beyond compliance – for fear of reputational damage - has consequently dampened. These cases reveal complex choice and decision-making processes.

- *Driving ICR to the next level requires a more solid understanding of motives beyond mere (extrinsic) reputation and risk considerations.*

#### *Positive motivation: triggered by morals?*

Business leaders often legitimize their sustainability strategy by referring to their moral motivation. A famous statement by an American corporate leader when asked why he wanted to become sustainable: "Because I want to do the right thing." But the combination of 'high morals' and day-to-day business practice turns out to be problematic. Moral leadership of business leaders is often received with skepticism and distrust. Also, morals are very context specific as they tend to differ per country and per issue. Moral leadership, therefore, comes with serious challenges and operational consequences, in particular for companies that are serious about walking the talk.

- *The second fundamental question on motivation is as follows: Are positive moral attitudes sufficient for not just 'doing the right thing' but for doing 'the right things right' in a world with sizable regulation gaps?*

The strength of the moral source of motivation rarely proves sufficient to move from strategic intent to a realized strategy, not in the least because the practice is surrounded by tinkering, trade-offs, and dilemmas, for which no universal morals

exist. Companies that operate in an international environment often have to deal with 'less moral' competitors, that are nevertheless formidable adversaries. Abundant anecdotal evidence shows that making ICR work is not necessarily problematic because of a lack of ambitions, intent or moral awareness. Many leaders of Dutch companies, for instance, are personally very interested and driven to become more sustainable. It was found that the more internationalized companies are, the more they are interested in behaving responsibly.<sup>iii</sup> Consumers are also increasingly aware of the impact of their buying behavior. When asked, more than 85% of consumers in the Netherlands said to be motivated to buy more sustainable products. But for companies and consumers alike it proves difficult to put principle into practice and successfully implement ICR at any meaningful scale. These findings show that there are strong and weak motivations for real change.

Size seems to play a role in this. For instance, medium-sized enterprises in the Netherlands don't pay much attention to ICR issues such as fair trade, child labor, poverty, biodiversity or climate change, whereas larger Dutch companies score much better on these dimensions.<sup>iv</sup> Larger companies not only have more time and money at their disposal, but they are also in a better position (in value chains) to make the transition work. They seem to be better able to redefine and redesign their international business models. Size relates to power in international value chains, which in turn seems to positively influence the ability of companies to implement ICR strategies. However, in the popular discourse, power is often treated with great distrust, due to its alleged correlation with low morals.

Addressing international sustainability challenges in a strategically powerful manner therefore confronts companies with some fundamental, almost existential questions. Why were we founded? What motivated us to go international? What future do we see for our company? Do we have the ambition to become sustainable – whatever that may mean - or do we only aspire to sustainability if it is directly profitable? What dilemmas and trade-offs do we face and are we willing to address these in the short run to reach our ambitions? If faced with greater complexity and uncertainty in our environment, how can we stick to our intentions? Do we want or need to do that alone or do we work towards a shared purpose in collaboration with others? Finding meaningful answers to dilemmas like these prompt companies to move beyond sheer morals. Considerations are

often more existential than moral, more strategic than ethical.<sup>v</sup>

- *Driving ICR to the next level also requires a more solid understanding of motives that go beyond (intrinsic) moral considerations and their strengths.*

### A triple trust gap in a VUCA world

Getting as many motives as possible right is particularly relevant because of the appearance of two (interrelated) challenges: Increased uncertainty and increasing trust gaps. We are living in a so-called VUCA world. This acronym was introduced by the US military College to cover the increased Volatility, Uncertainty, Complexity, and Ambiguity that technological, political and economic processes create at the moment. The world is increasingly multilateral and moves in unpredictable directions. A VUCA world seriously hampers the way organizations and people make decisions, plan for the future, manage risks and foster change – which may get worse if they want to adopt a more long-term perspective as is required for many ICR issues.<sup>vi</sup> A VUCA world creates challenges but also opportunities. Reaping opportunities, however, requires a certain degree of legitimacy for the strategies proposed by influential players like organizations.

Unfortunately, increased uncertainty currently goes together with little trust. Trust in the private sector to adequately and voluntarily address sustainability challenges has reached an all-time low. The annual study of GlobeScan/SustainAbility on sustainable leadership notes that only 20% of respondents consider the private sector's performance on sustainable development good.<sup>vii</sup> And this performance perception has been decreasing. The 2014 Edelman Trust Barometer<sup>viii</sup> shows that only 25% of respondents around the world trusts business leaders to address (sustainability) issues correctly. An even lower percentage trusts them to tell the truth and make ethical and moral decisions. There is only one sector that has lower scores: The public sector with 6% trust levels. Consequently, the legitimacy of governments to come up with effective rules on sustainability is very low. Finally, psychological studies show that individuals in the VUCA world are strongly biased towards short-term and intuitive decisions, even if they realize that those decisions have negative effects on themselves (obesity, tobacco) or others (slavery, injustice).

This means that there is a triple trust gap. It relates to three dimensions of decision-making around ICR in a VUCA world:

- *Why*: For individuals in trusting (and understanding) their own motivations;

- *What*: For entrepreneurs to trust the sophistication of their thinking about what to prioritize and at what pace;
- *How*: At an international level – faced with regulatory voids and low trust in the ability of governments to define effective rules – to implement sustainable practices across borders.

Managing the transition to higher levels of sustainability consequently poses severe strategic and tactical headaches. A wealth of research on issue management and personal motivation shows that a negative frame (crisis, doom scenario's, do-no-harm, and health risks) might increase awareness, but often does not result in the desired change. Skepticism does not help either. Many of the sustainability problems cannot be regulated away; not in a national environment and certainly not in an international environment. This is because of legal voids, trust gaps, and regulatory volatility.

Moving beyond regulation requires positive and realistic alternatives that take all motivations and the sometimes vicious interaction that guides them into account. For individuals, this boils down to the question whether they are willing and able to do something. For leaders of companies, this boils down to the question whether or not they can come up with new and more appropriate value propositions and sophisticated business models. And, of course, whether this is financially feasible and commercially viable, as financially non-viable business models are not sustainable either. Moreover, if the end-result of this (planning) exercise is not known – because of the VUCA world – how do you assess whether you are moving in the right direction and what alliances are necessary to change track if necessary?

#### This book and its main argument

If positive and negative motivations don't provide a sufficient driver for making an effective transition to advanced levels of sustainability, it becomes vital to dive deeper into the exact dynamics of motivation for CSR: Is it intellectually feasible to get all the motives right and practically feasible to bring ICR to a higher level? There are thousands of relevant books and articles written on the topic of CSR, but not on ICR. Most of the discourse centers around ecological themes and not around the social aspects. And they hardly ever mention the economic side of ICR. The basic argument in this book is the *other way around* and uses the

economic side as a starting point. We will primarily look at the business case and the business model that companies use, what (personal) motives they might have to go abroad, consider how companies can make the transition to higher levels of sustainability/ICR and what types of motivational (mental) tipping points/barriers they should overcome. The argument of this book is as follows:

*Motives matter..*

Whatever the skeptics may argue, sustainability begins with intent. A core dimension of any business model is the so-called value-proposition and the business case. It defines the vision, mission, and aim of a company and its leaders. Why would corporate leaders be motivated to engage in ICR in the first place? The value proposition of a company also requires an idea of the 'business case' for ICR. Frontrunner companies are trying to make their value proposition more inclusive; they include profits as a means while using ecological (planet) and social (people) ambitions as their main aim. Developing business models for (and with) a future takes stock of an increasing number of sustainability requirements as a trigger for new value propositions. Companies that aim at making ICR work will try to move from simple value added to *shared-value creation* and are inspired by serving societal needs, rather than serving markets only.

*...but they are difficult to achieve and implement..*

For companies, moving beyond law and borders – as part of internationalization processes - adds complexity and risks but also opportunities to achieve their intentions. Both large and small enterprises face a wide range of international issues that are considerably more wicked than in their home markets – such as poverty, corruption, inequality, poor working conditions, human rights violations and ecological degradation. Companies are faced with increased CSR risks that can negatively affect their reputation and competitive position at home. It often prompts them to adopt a reactive strategy and to consider how to mitigate these risks.

*...because of an unclear understanding of risks and opportunities..*

In an international environment, adequate risk management is more complex and therefore more pressing than in a national environment. Companies always have to take a variety of risks into account, but can also use their international CSR strategy to enhance their competitive position abroad effectively. For this

to happen, corporate leaders need to understand what the motives to operate internationally were, and what it means to be faced with different regulation practices and regulatory turbulence around taxation, trademarks, standards and other forms of regulation. Can the resulting regulatory void be considered a risk or liability or an opportunity for bringing ICR to the next level?

*...and what it takes to make the transition.*

In defining the transition from 'ICR as a liability' to 'ICR as a competitive advantage and opportunity' managers need a clear and practical overview of the barriers and tipping points they will encounter and need to overcome. Otherwise, the transition may become fragmented, poorly managed and it will ultimately fail. How can managers mitigate risks and appropriately demarcate responsibilities? Should companies do it alone or work together with other stakeholders in partnerships? Well-managed stakeholder relationships can lead to a sustainable competitive advantage.

*Conceptual ambiguity burdens this transition...*

Corporate leaders that try to make the transition to higher levels of sustainability often get trapped in a minefield of intentions and realities, which can give ample ground for skeptical comments. The same applies to stakeholders that have to assess whether the company is serious about its intention to genuinely become more sustainable. It is important to get the basic concepts right. Not with lengthy discussions on definitions, but through practical delineations of what it means. To support this exercise, this preface concludes with a glossary of popular ICR concepts. It consists of two columns. On the left: we will list the way many of these concepts are regularly - and often mistakenly - used. On the right, we will show how they could be used if a more realistic setting, as explained in this book, is adopted.

*... that often leads to either too practical or too general advice...*

The book contributes to the scientific discourse on the antecedents of sustainable transitions but is also aimed at practitioners in small and large companies. It introduces a large number of motivational challenges that ideally have to be taken into account by practitioners as well as scholars. This book includes concrete tools for managers, such as checklists to map motivations and the multifold of trade-offs and dilemmas that people face, distance maps to figure out what countries



are more high-risk than others, issue priority schemes, materiality checklists (for partnership portfolio strategies), and – finally - detailed checklists to map motivations in functional areas linked to the identification of tipping points. Every practitioner in this area should have some minimum level of understanding of the complexities involved before he or she can truly profit from the opportunities that are presented by a well-managed ICR strategy. That is why this book has two parts. The first part outlines the (why) basics of motivation at the three levels at which the trust gap needs to be addressed: individual, organizational and international. Part two focuses on the (what and how) dynamics of ICR; it discusses the most important dimensions of business models that can help implement these motivations, provides checklists for mapping motives and ends with an illustration of the Dutch practice.

*... for which the litmus test ultimately is how companies deal with complex decisions.*

The ultimate ICR test is relatively straightforward and essentially comes down to three dimensions: Is the company capable and willing to embrace relevant motives; does it address the most important areas of contention *at the same time* (see *Table 1*); and does it work on implementing this in a concrete business model. Implementing strategies always involves prioritization and selection of issues. However, this does not apply to basic motives. The popular moral discourse concentrates on companies that are (allegedly) capable, but not willing. But even “capable and willing” companies and their leaders are faced with a large number of often interrelated and timely issues that are not easy to align: ecological issues (planet), social issues (people) and economic issues (prosperity/profit).<sup>ix</sup> The degree of complexity that is involved with each of these areas differs considerably. The business case for ecological strategies is increasingly available, but for social and economic strategies in an international context, it appears less easy and straightforward to define a business case for ICR. This is not only because of weak or fragmented international regulation but also because there is still a short-term incentive to profit from income inequalities and fragmented regulation. The real litmus test for delineating next level sustainable international business models will, therefore, likely deal with social inequality and – even more importantly – ultimately economic issues like taxation or intellectual property rights protection.

Main themes	ECOLOGY Planet	SOCIAL People	ECONOMIC Profit and prosperity
Priority issues	Climate change Biodiversity Animal welfare Pollution; CO <sub>2</sub> emissions Availability of re-sources Responsible fishing Access to water Access to energy Food and nutrition security Healthy diets Deforestation	Poverty Income inequality Wealth distribution Emancipation Inclusiveness Privacy Human rights Living wage Corruption/bribery Education Safety Security Health Sexual harassment Diversity	Fairtrade Fair prices Inclusive markets Fair taxes Competition policy/ collusion Intellectual property rights Protection Pricing strategies Fraud Insider/Rogue trading Transparency (consumer information) Fair bonuses

Table 1. Three Interrelated Sustainability Areas

This book and its content: From trade-offs to leadership challenges

Companies do not have the luxury to wait and see. They have to deal with two sides of the discourse on international sustainability *at the same time*:

1. *The cloud*: The popular side of the discourse that includes narratives, best-practices, worst-practices, moral judgment, skepticism, impressions, ideologies, hopes, trust gaps and (dis)illusions. The popular side of the discourse is extremely important as it defines the context in which companies have to operate. But this discourse is clouded by biases, confusing uses of concepts, superficial observations and (often dominantly negative) frames that obscure a proper discussion.
2. *The ground*: Represents the hard side of the discourse on sustainability, the analyses and the choices that have to be made. Most of the time they represent difficult, if not impossible, trade-offs between a large number of issues that have to be tackled simultaneously. What to do, what to focus on and at what pace to take action?

### IN THE CLOUD: STORIES



### ON THE GROUND: TRADE-OFFS



Figure 1. Aligning cloud and ground of corporate responsibilities

### The origins of this book

This book is a follow-up on three book publications on related topics:

- *International Business-Society Management* (2006; published by Routledge)
- *Doing Business in Africa* (2013; published by NABC/Berenschot/RSM Erasmus University)
- *Managing the transition to a sustainable enterprise* (2014; published by Earthscan); and the Dutch version: 'Duurzaam ondernemen waarmaken' (2012; published by Van Gorcum).

In all three books, fundamental observations were made on the motivations of companies to internationalize and take up more social responsibilities. This book combines these two perspectives and applies the tools introduced to a (Dutch) constituency interested in ICR.

This book also builds on the highly appreciated input of three types of stakeholders:



- **Change agents** present at Max Havelaar lectures. Starting in 2007, the annual Max Havelaar lectures have provided balanced ideas from four different angles on hot topics surrounding ICR: (1) science, (2) governments, (3) firms and (4) NGOs. The boxes in this book contain summarized statements from all ten Max Havelaar lectures. Noteworthy statements by keynote speakers are also quoted in the text; including, amongst many others, leaders like Jeffrey Sachs, Noreena Hertz, Jan Pronk, Bert Koenders, Alexander Rinnooy Kan, Antony Burgmans, Peter Blom, Johan van de Gronden, Willemijn Verloop. ([www.maxhavelaarlecture.org](http://www.maxhavelaarlecture.org)).

- **Master students:** Generations of Erasmus University (Rotterdam School of Management) students wrote Master theses on specific ICR topics. They defined possible business models and approaches towards a large number of issues, e.g., taxation, climate change, (urban) poverty, food security, child labor, circular economy and partnership portfolios. Their findings will be quoted throughout this book, but will, in particular, be used to illustrate the mapping techniques introduced in chapter 7.
- **Dutch stakeholders:** Five key participants other than the companies in the Dutch debate on ICR were asked to write a short contribution for this book. They discuss their opinion on the types of progress that have been made and what challenges still lie ahead. Chapter 8 covers their contributions and shows some of the progress that has been made in the Netherlands on bringing ICR to a next level.

On sustainability as core business:

***“My main message to business is: examine your core technologies and deploy them for the sake of the Millennium/Sustainable Development Goals [...]. If you are not working in the poorest places, take that extra step; they are your customers in the future.”***

Jeffrey Sachs, director Earth Institute,  
MH lecture 2007 ‘Poverty and Business’

Concept	<b>IN THE CLOUD:</b> How it is regularly used  	<b>ON THE GROUND:</b> How it could be used (this book)  
<b>IMVO/ICR</b>	An abbreviation for International Corporate Social Responsibility. It is used as a catch-all category for social responsibility. The emphasis often lies on ecological issues; the responsibility companies take for their impact on society is voluntary and beyond what is required by law.	Four different definitions are relevant which – depending on the context – get a particular practical meaning: responsibility or responsiveness on a social, personal or societal level; the international dimension provides dilemmas but also opportunities; involuntary codes are not necessarily bad. 'What is required by law' is ambiguous.
<b>ISO 2600</b>	<u>Standard</u> for Organizational Responsibility; a label or trademark.	A <u>guideline</u> that can help in enabling the transition to a more sustainable enterprise.
<b>Materiality Matrix</b>	Listing of relatively easy to solve issues or selection of issues that are addressed by the company out of necessity (defensive reasons). The public materiality matrix differs from the matrix for internal use. The matrix is often accumulated through consultation with a selected group of stakeholders (not necessarily the most important and critical ones).	A materiality matrix in principle shows all topics that are of high, medium and low interest for the company as well as stakeholders. It can serve as an agenda for further stakeholder discussions and the selection of relevant stakeholders that were not represented in previous consultations. ICR materiality actively tries to align with major societal challenges – such as the SDGs – that are present in the countries that the companies operate in.
<b>Companies as countries</b>	Statement: 'Amongst the 100 largest economies in the world, there are 53 companies ...' This suggests that multinational corporations are important players; can act as 'quasi-government' and consequently should be held more responsible.	Companies are not countries. They can be bigger than a country, but they are usually smaller. Corporate turnover/revenues/sales are not the same as the Gross Domestic Product of a country; the former is based on all income generated in the supply chain; the latter only contains value added in the country.
<b>CSR Risk</b>	Companies engage in CSR to mitigate reputational risk; if something 'unethical' appears in their operations (or in that of their suppliers), they can be negatively affected. ICR risks and due diligence procedures look at negative triggers for CSR.	Companies often started to work on CSR because of extrinsic and reputation motives (trigger), but nowadays frontrunner companies are equally motivated by intrinsic and strategic motives. The risk is a negative frame, and real sustainability requires a positive frame.
<b>ICR as ethics</b>	Company leaders often argue that they engage in CSR because it is the right thing to do. When asked why many leaders still answer that it is the right thing to do. This is called a tautology.  ICR should be organized as a philanthropic activity. This creates the least amount of legitimacy problems. People do not trust leaders who argue in favor of ICR as a matter of (enlightened) self-interest.	Be suspicious of good intentions (even your own). Doing the right thing is not enough; you also have to do the right thing right. Otherwise, practice shows that ethical considerations are not enough to ensure that ICR will be implemented. There are many ethical choices that are full of dilemmas and not easy to solve in an international arena. The challenge is to make ICR normal and not just apart from ethical considerations. Corporate leaders need to come up with a more sophisticated vision and make ICR part of their core business.

Getting all the Motives Right:  
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<b>ICR as box ticking</b>	In many procedures for getting government contracts or applying for grants, ICR (IMVO) policies are introduced as an additional requirement – although price and other criteria are often still leading. Organizations introduce minimalistic ICR policies so that they can finish the procedure.	Use these requirements as stimuli to really (re)think your organization's value proposition. Don't just tick the box. Consider it an opportunity to work on a better business model and a more sustainable competitive advantage in the longer run. Research shows that more sophisticated ICR strategies often include better business models.
<b>Proactive</b>	Used to distinguish from reactive. Often meaningless, certainly in the area of CSR. Mainly interpreted as future-oriented, as early or as preventive action. In personnel advertisements one of the most abused indicators of the last years: We are looking for a proactive account manager.	This is a very precise concept. It is not the same as active. It implies that actors engage in joint action with (primary and secondary) stakeholders of which the outcome is not necessarily clear. It is both oriented on the future and the present, but it always addresses a societal problem in its complexity with attention to unintended consequences.
<b>Defensive/reactive</b>	Concepts used by critical observers of companies. They reproach them for being primarily interested in 'window dressing' and not in real change. When a company leader defends his/her organization for having made mistakes, their legitimacy to do this is often ridiculed.	It is not bad to (initially) be defensive and reactive. Most existing companies have invested a lot in previous business models that are not easy to change. Existing stakeholders (employees, communities, financiers) need to be considered as well. There is therefore always a logical phase during transitions where people are reactive/defensive. Nothing to be ashamed of, but important to recognize and work on. Legitimacy can depend just as much on the action taken after an incident as the actions that were taken to prevent it.
<b>Sustainability</b>	This is the most abused concept of this time. It is a 'catch-all' concept and therefore often useless. Sometimes used ideologically, without implementation. Suspicion of green-washing and PR is strongly linked to this concept (not without reason).	Requires re-definition, because it remains a very important concept. It is also often used when only talking about 'ecological' sustainability, whereas it should also include 'social' and 'economic' sustainability. Not a concept to be trashed, but to be nurtured and further developed.
<b>Business case for CSR</b>	Can we gain short-term profits by engaging in CSR? If not, then CSR is not feasible and not our priority.	Short term profitability is a means and not an end for almost all (legal) companies. Besides, what makes profits for almost any activity in a company is difficult to prove. There are many business cases for CSR and even more for ICR. Investment strategies hardly ever lead to short-term profits (as is the case with ICR).
<b>'Win-win'</b>	Suggests that everybody will profit from the initiative. Often not true or only feasible in the long run.	Hollow suggestion. Win-lose is equally important in change processes that will probably require considerable transition/switching costs; danger of the 'win-win' requirement is that participants only agree on the 'lowest common denominator' and hinder progress beyond that point.

<b>Best practice reasoning</b>	This looks in particular at the smaller start-up firms in CSR, or at social enterprises. They provide exemplary – best-practice – cases to be copied by others. They can also provide the ‘revolutionary’ change needed to face the radical systemic challenges (ecological, financial, economic, health, safety, privacy).	It is better to look at ‘ <i>relevant practice</i> .’ Small might be beautiful, but large is still powerful. The business models of start-ups can inspire larger firms, but they often lack the scale and the power to provide answers to the systemic problems of sustainability we face. Mainstreaming CSR with larger companies requires transition and evolution, which in the end can provide a scale to make the systematic change possible. Large and small companies can proactively become allies.
<b>Sustainable leadership</b>	We tend to look at single leaders: Ray Anderson of Interface, Paul Polman of Unilever, Peter Bakker at TNT. They are held single-handedly responsible for the change of the organization. Often considered the same as ethical or visionary leadership.	Leadership involves followership as well as guidance. Whether leaders are effective depends on the transition phase their organizations are in and the way they can overcome the related tipping points. Leadership is often connected, collective, joint, and servant. Each of these leaders has stated this themselves. Moreover: sustainability leadership requires “thought leadership” as well.
<b>Due diligence</b>	The care a reasonable person should take before entering into an agreement or a transaction with another party. Getting the facts right. Very often used as a defensive tool to minimize risk and potential litigation. Corporate responsibility to respect human rights indicates that “business must act with due diligence to avoid infringing on the rights of others and to address negative impact with which they are involved” (Ruggie Principles)	If due diligence is only used as a defensive tool, this might not be enough for making the transition to sufficiently high levels of sustainability. Codes of conduct have also been found to have limited value in making the transition to more active and inclusive ICR strategies.  It is important that human rights are not violated, but the real challenge lies in how humans can be empowered through corporate activities. In many instances, this goes beyond respect.

Getting all the Motives Right:  
Driving International Corporate Responsibility (ICR) to the Next Level



# Part I

# Motivation

ON FICKLE INTENTIONS AND THE  
NEED FOR EXTERNAL STIMULI

Getting all the Motives Right:  
Driving International Corporate Responsibility (ICR) to the Next Level

# 1.

INTRODUCTION: GETTING THE  
FUNDAMENTALS RIGHT

## IN THE CLOUD

"They only do it (invest in sustainability) because they have to."

"We want to be sustainable, but we can't."

"Sustainability is primarily window-dressing."

"Want to know a bullshit term? It is 'sustainability'!"

"We are working on it, but it takes time."

"I really want to do it, but I can't do it on my own."

"I don't know what I want, because it is too complex."

"Trust me: I am really committed to doing good."

## ON THE GROUND

### KEY TRADE-OFFS:

- Intrinsic – Extrinsic motivation
- Primary – Secondary motivation
- Intended – Emergent strategy
- Willingness – Actual behavior
- Ecology - Social - Economy
- Passive – Active attitude
- Cognitive – Motivational biases
- Rational – Irrational decisions
- Push – Pull factors
- What I want – What I need
- Tactic – Strategic
- Short term – Long term
- Liability (within regulation) – Responsibility (beyond regulation)
- Risk – Opportunity
- Negative duty – Positive duty
- Negative motivation – Positive motivation
- Pro-self – Pro-social
- Global – Local

### 1.1 Dealing with the 'why' of international sustainability

Competing 'beyond regulation' to drive international (corporate) sustainability is the leading challenge addressed by this book. This ambition requires a solid understanding of what drives the behavior of companies as well as the behavior of individuals. This ambition thus calls for a thoughtful exploration of the *fundamentals* of sustainable behavior. Why do we do the things that we do? What drives and activates our behavior for international sustainability? All encapsulated, what is *motivation*?

Motivation refers to the force that initiates, guides and maintains goal-oriented behavior for people and organizations.<sup>1</sup> It explains how people and organizations are motivated to do something about the challenges of (international) sustainability and how it fundamentally affects their choice for a more passive or more active attitude. But motives rarely develop in isolation. People and organizations rarely have single motives. For complex and daunting challenges such as sustainability there are rather complex constellations of many, sometimes conflicting motives. They are influenced by circumstances, framed by previous decisions and inspired by assessments – made by the people, their peers, their organizations, governments or by opinion leaders. The motivational cloud is electric and seriously disputed. Simplification does not help much.

Sustainability challenges require people to think about almost existential motivational questions such as: What do you value in life? Are you mostly intrinsically or extrinsically motivated? Do you consider sustainability your responsibility or the problem and responsibility of others? Are you primarily motivated by (perceived) problems or by opportunities? If doom-scenarios motivate you around an issue like climate change, what happens with your motivation when, for instance, some scientist casts (reasonable or unreasonable) doubt about the likelihood that this scenario will materialize? Does your drive taper off or does it make you even more committed? Can you trust your motivations and decisions if you don't completely understand what motivates you? Would you be able to acknowledge that you made mistakes or perhaps could have done better in hindsight?

In hindsight, most people are inclined to *rationalize* their decisions on why they did or did not do something. People feel the need to give meaning and sense to the way they acted, both consciously and subconsciously. Change is related to

self-image and positive experiences. People tend to act in ways that make them feel good about themselves.<sup>ii</sup> They do this even in instances where their choices were not based on all the information, were routinely or intuitively taken, or forced by circumstances. Most of the time, people tend to rationalize their decisions *ex-post*. This is the case with both good and bad decisions. Research on behavioral ethics and decision-making shows that this relates to the human desire to make things right or whole, even if the decisions were wrong. Criminals, for instance, often tend to rationalize their actions because they are convinced of their own good intentions.<sup>iii</sup> People want to have a positive self-image. They mix up motives and intentions; they confuse motivational drivers with desired outcomes.

The discourse on sustainability is laden with good intentions. It is also paved with a large number of biases that relate to systematic deviations in the decision-making of what can be considered rational or sound judgment. Biases are usually split up into two categories: (1) Cognitive biases – also referred to as cold biases - with distorting consequences for observations, awareness and information processing; (2) motivational biases – also referred as hot biases - with twisting consequences for decision-making, beliefs, and action. In reality, both biases co-exist and are mutually influential.<sup>iv</sup>

## 1.2 Levels of motivation

Managers and corporate leaders are just as inclined as any other person to present rational explanations and justifications for why they adopted specific strategies and to deny that they may have taken decisions based on wrong or non-rational motives. Cognitive and motivational biases also affect their ability to objectively assess risks involved and to appraise the extent to which these risks can be reasonably judged as acceptable.

Constraints in sound judgment and decision-making add considerable complexity to research and advice on international corporate sustainability at three different levels:

- Personal: How to assess personal motivation(s) on sustainability. To what extent should you take intentions (including your own) seriously?
- Organizational: How to assess an organization's motivation and strategy for sustainability as well as the leadership role taken by managers. To what extent

should you take corporate visions seriously?

- International: How to assess the international ambitions of organizations across borders. To what extent should you take international corporate responsibility visions seriously?

With questions of international corporate sustainability, all three levels are relevant and they interact from a psychological level (personal motivation) to a more comprehensive and complex organizational level (international). They create an incendiary mixture of dilemmas trade-offs and possibilities. The mixture changes over time and makes it difficult to align personal and organizational motives and to keep control over change-processes.

It has been found that many corporate leaders are personally very committed to the future of the planet (their children). But they have difficulties in integrating this personal hope and sense of urgency into the business model of their organization. This is not just because it is impractical, but also because they have long-held beliefs about how things should be done and a weak understanding of their motivations. A typical American entrepreneur, for instance, finds it completely normal to first earn a lot of money against harsh competition on the basis of short-term profit-maximization motives, while giving back to society as an act of philanthropy only after they have retired. This attitude is externally influenced; to a certain degree, it is even expected from the entrepreneur. In a European context, this philosophy is much less common. The context of the motivation – be it socially, culturally and sectoral – matters as well.

So there are a number of important reasons as to why we should be interested in understanding the *real* motivations of people and organizations for international sustainability:

- It makes it possible to make a better assessment of the antecedents of change;
- It provides an aim (purpose) to change processes at various levels of analysis;
- It helps to define gaps in what can realistically be expected from people and organizations that aim for sustainability;
- It might explain why some intrinsic motivations – which are considered the most 'ethical' motives for dealing with sustainability issues – are rather fickle;
- It helps you to question your motives and intentions (can you trust yourself?);
- It reveals how difficult it is to make strategic intentions real;

- It illustrates how much you overestimate your intentions and rationality (and that of others) in change-processes.

If you don't understand – and become aware of - what drives you as a person, as an entrepreneur or as a leader, you cannot effectively change or improve your behavior and your organizational strategy, let alone expect the same from others. That is why this chapter is aimed at delineating the basics of motivation for sustainability.

#### **BOX 1. Inspiring TED Talks on motivation**

The foundations of the approach in this book are strongly influenced by a new generation of (organizational) behavioral psychologists and economists. They have created a large number of vital insights on the motivation for individuals, leaders, and organizations. Instead of providing a long list of references, we like to use a more popular medium to get this message across: TED Talks. TED Talks are personal presentations by leading scholars that last no more than 15 minutes.

The most inspiring TED Talks on motivation have been given by psychologists who have found out a lot about the human psyche that shows that (a) our decision-making is not very rational, because (b) people think fast, (c) people think socially (affected by the opinions of others); (d) people think in mental models that have been founded in their upbringing and their cultural and economic background, which (e) makes their cognitive perceptions seriously flawed. This means that (f) we can benefit from becoming more aware of (psychological) biases. In the real world, these biases will affect the way individual motivations for sustainability and sustainable business models around the world can be constructed and implemented.

The most inspiring and relevant talks for Part I are:

- Dan Ariely – Are we in control of our decisions? If we understood our cognitive limitations in the same way as our physical limitations, we



could design a better world - How equal do we want the world to be? You'd be surprised;

- Dan Gilbert – Why we make bad decisions; why are we happy?: Our beliefs about what will make us happy are often wrong; thinking of the future as an extrapolation of our present self does not help; we have the freedom to choose, though.
- Barry Schwartz - The choice paradox; why more is less – and how to deal with choice paralysis: This talk provides the basic findings that too many choices can lead to paralysis and unhappiness
- David Brocks – How to navigate our lives?
- Daniel Kahneman – Nobel Prize laureate in economics: Our experience of the world is not the same as our memory of these experiences. This has a big impact on our personal choices, life satisfaction, and even public policies.
- Mel Robbins – What do you want? How to get 'activation energy' and move from inactive to active.
- Dan Pink – The puzzle of motivation: Intrinsic motivations broaden your focus, extrinsic motivations narrow your focus; financial rewards do not work.
- John Robinson – Create a positive narrative; a negative narrative (do no harm) is not good enough.
- Brene Brown – The power of vulnerability. On courage, vulnerability and daring greatly and delineating what you really want.
- Mihaly Csikszentmihalyi – On positive psychology. What makes life worth living? It's not money. Pleasure and lasting satisfaction are brought about by activities that bring about a state of 'flow';
- Simon Sinek – Start with the "why" question (how great leaders inspire everyone to take action).
- Mel Robbins – Why motivation is garbage. Why is it so hard to do small things? Our minds are designed to stop us, have a habit of hesitating and to pick the easier way out).
- Per Espen Stoknes - How to transform apocalypse fatigue into action on global warming (explaining why doom scenarios do not motivate).

Cf. <https://www.ted.com>

### 1.3 Confronting two sources of motivation

Motivation, incentive and decision-making theories generally distinguish between two basic dimensions of motivation: primary and secondary motivations (Figure 1.1).

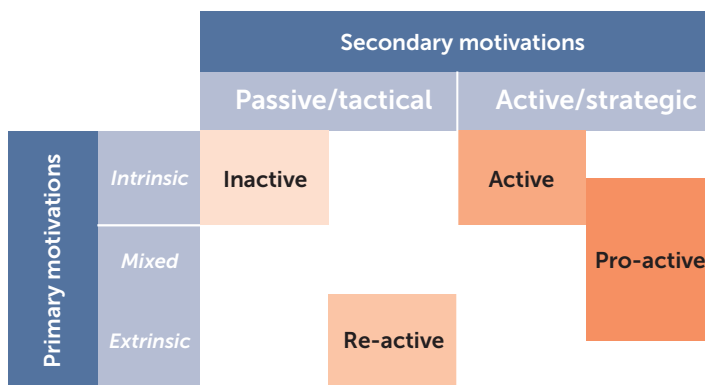


Figure 1.1 Motivational constellations

1. **Primary motivations** relate to the origins of motivation. They can be intrinsic, extrinsic or mixed. *Intrinsic motivation* comes from individuals themselves. It is often driven by interest or enjoyment in the task or ambition because it is personally rewarding. Intrinsic motivation is linked to passion, ambition and linked to the development of one’s own capabilities. *Extrinsic motivation*, on the other hand, is caused by external influences. It is aimed at attaining outcomes that cannot be obtained by intrinsic motivation alone and includes rewards like high finance or good grading, but also penalties for (perceived) misbehavior. We talk about *mixed motives* when intrinsic and extrinsic motives both appear at the same time. Psychology has developed the so called ‘self-determination’ theory. According to this approach Individuals are faced with the challenge how to ‘internalize’ extrinsic motives. In terms of game theory, mixed-motive-games require that players both cooperate and compete.<sup>v</sup>

2. **Secondary motivations** define the aim or goals of the motivation. They can be learned and acted upon. They can be passively or actively pursued and represent *the dynamics and direction* of the motivational game. In psychology and organizational behavior theory, secondary motives include power, security, status, achievement and the like. Secondary motivations can be tactical, strategic or mixed. *Strategic motives* have a long-term perspective, whereas *tactical motives* depend on short-term considerations.

In the strategic management literature, the motivation of companies to gain a long-term advantage is also known as strategic intent. But even if managers or corporate leaders are convinced of their commitment to sustainability, how sure can one really be about the grit, dedication, ability, and vigor that they can bring to the table to actually implement these intentions over an extended period of time? Organizations are usually motivated by short-term goals and intentions, because of external influences that call for alterations, compromises and gradual or substantial diversions from the intended course, thereby creating a so-called 'emergent' strategy. External influences provide the litmus test for the firmness of strategic intent: the degree to which the intended strategy is deliberately and persistently pursued and actually implemented. The clash of emerging and intended strategies result in a number of non-realized strategies, but also in realized strategies (Figure 1.2).

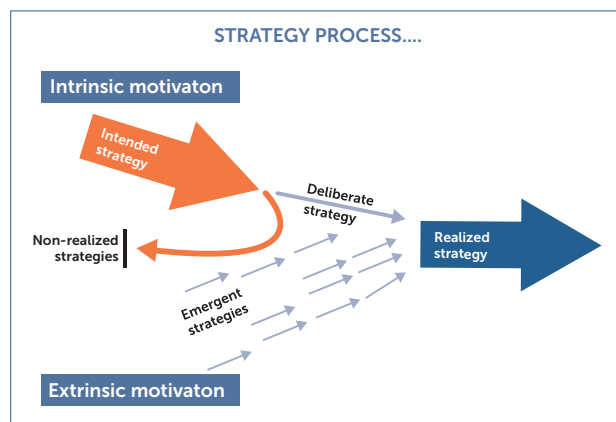


Figure 1.2 Intent and realization: aligning intrinsic and extrinsic motives

Source: based on Mintzberg

The interaction (and sometimes confrontation) of primary and secondary motivations defines actual attitudes.<sup>vi</sup> Four basic attitudes can thus be distinguished (Figure 1.1): inactive, re-active, active and pro-active.

- If intrinsic motivations are primarily tactical, nothing will happen; this is the *inactive* position in the constellation of motivations.
- If strategic motives prevail, and if they are hardly influenced by tactical considerations, the intended strategy can become the realized strategy on the basis of the original capabilities of the person or organization. This is the *active strategy*.
- If tactical considerations prevail in an otherwise extrinsically motivated individual or organization, a more *reactive* attitude can be anticipated.
- If intrinsic and extrinsic motives get combined, a different type of strategy advantages is established. This position can be dubbed as "*proactive*": It is about 'making things happen,' anticipating and preventing problems and seizing opportunities.<sup>vii</sup> This attitude (and its corresponding constellation of motivations) goes beyond the active attitude, which is primarily aimed at seizing opportunities for individuals or their organizations.

Ethical approaches to social psychology look at the confrontation between intention and realization in a slightly different fashion. The leading search is to explain why 'good people' sometimes do 'bad things'.<sup>viii</sup> An increasing number of researchers are consequently trying to search for the origins of unethical behavior in supposedly good people. This way of approaching sustainability issues became popular after large-scale fraud cases (Enron, Libor affair with Rabobank, Dieseltgate with Volkswagen) or when faced with the origins of the financial crisis. The frame thus takes up a more personal shape by considering why people can become their 'own worst enemy' when, for instance, making choices about long-term health issues.

However, by taking the sustainability issue one step further, beyond the compliance phase, the ethical approach needs broadening. The question should not just relate to making sure that 'good' or 'motivated' people don't do 'bad' things. An equally relevant challenge is to enable motivated people to do 'good' things – which turns out to be not that easy (see chapter 2) considering the manifold trade-offs that exist in sustainability issues. Equally important is the question under what circumstances 'bad' or 'unmotivated' people can do good things. Thinking of

questions about sustainability as transition challenges that require both motivated and unmotivated people provides a more complex challenge in which getting badly motivated people to do the right thing becomes equally important. This seems to be not so much an ethical problem, but an organizational and transitory problem as well. The transitioning challenge can consequently be portrayed as four dynamic arrows that - in a simple manner - define how people with different intentions can deal with the bad and good acts of others [...and themselves!].

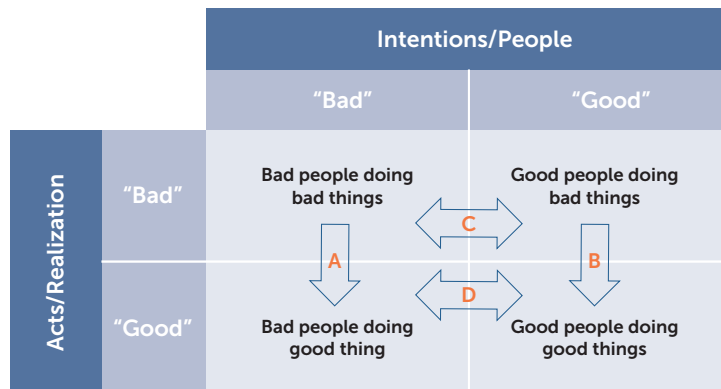


Figure 1.3 Combining bad and good intentions and acts

The A-Arrow stands for external control and discipline. The B-arrow mostly stands for a smarter organization of one's own intentions. The C-Arrow represents a reality in which people with good intentions reproach others for not being able to realize their ambitions. Sometimes rightfully so, due to the hindrance-power of unmotivated people, sometimes unjustly, because of superficial intentions from the 'good' people who are looking for an excuse for not being willing to implement their intentions. The D-Arrow presents the optimal (proactive) situation in which people with both good and bad intentions all work towards the realization of 'doing the right things right.'

We can now apply these basic insights to the three most relevant motivational dimensions of ICR: Individual motivations for sustainability (chapter 2), corporate motives to engage in sustainability or CSR in general (chapter 3) and corporate motives to becoming more or less international (chapter 4). Chapter 2 lays the

fundamental foundations for a behavioristic approach to motivations in which very basic insights from the literature will be introduced that will be applied throughout the whole book. The next chapters apply these behavioral foundations to organizations. Each chapter presents concrete tools to (a) map relevant motives, (b) define most common trade-offs in order to, (c) become aware of the gaps in constellations of motivation on (internationally) sustainability strategies and (d) define the motivational challenges (the troubles ahead) to move from one position to another.

# 2.

## PERSONAL MOTIVES



## IN THE CLOUD

"We are working on it, but it takes time."

"I really want to do it, but I can't do it on my own."

"I don't know what I want, because it is too complex."

"We can because we want."

"I have other priorities at the moment."

"It is a generational thing."

"Your mind is a powerful thing; when you fill it with positive thoughts, your life will start to change."



## ON THE GROUND

### KEY TRADE-OFFS:

- Willingness – Actual behavior
- Passive attitude – Active attitude
- Talking - Walking
- Rational decisions – Irrational decisions
- Pragmatic – Idealist
- Want – must
- Want – Really want
- I have to – We have to/must
- We can – We must
- Push factors – Pull factors
- Millennials – Baby Boomers
- Short term – Long term
- Pro-self – Pro-social



## 2.1 Introduction: What drives your personal sustainability attitude - can you trust yourself?

Why do you personally want to be sustainable? What withholds you from acting upon this ambition? Sustainable behavior, according to Cees Midden<sup>i</sup>, professor in human-technology interaction, is driven by the desire to reduce four basic uncertainties: (1) uncertainty on the urgency of the (sustainability) problem, (2) uncertainty on how to deal with the problem, (3) uncertainty on what one's own role and contribution should or could be and what the personal consequences are and (4) uncertainty on the fair distribution of contributions. This is a complex challenge. Most empirical evidence on the personal motivation of people to act sustainably shows the existence of a sizable gap between intention and realization. An overwhelming majority of people (often more than 85 percent) says that they want to be fair, sustainable and ethical. But in reality, when actual decisions have to be made and people are confronted with the consequences of their choices, less than 5 percent is able and willing to make this ambition real. "Walking the talk" proves to be difficult, especially when being sustainable involves making choices with short-term consequences such as higher costs or prices. Extrinsic motivation often prevails over intrinsic motivations and routines over conscientious decisions (partly as a result of weak intrinsic motivations).<sup>ii</sup>

A critical perspective:

*"Consumers should be consistent in their refusal to purchase non sustainable products."*

*"If you are a consumer and really wish to see fair trade between the West and the Third World you will have to say 'No' to certain products and 'No' to these unfair conditions."*

Jan Pronk, former minister of development, vice-chairman of UNCTAD  
MH Lecture 2011 'Power and Responsibility'

What defines this gap? Most of the research on personal motivations can be found in behavioral economics and social psychology for general issues. Behavioral ethics and consumer/marketing sciences focus on specific sustainability and integrity issues. These studies show for instance that personal attitudes towards sustainability issues are strongly influenced by the various identities people have

as a (1) citizen, (2) a consumer, (3) an entrepreneur or (4) an activist. Take for instance the consumer identity: Under what conditions are people willing to choose for more sustainable products? In the Netherlands, for example, more than 85 percent of all consumers say that they want to buy fair products, but in reality, they only buy a limited number of products under specific conditions (they can't, for example, because they are too expensive). Companies that rely on consumers for their sustainability strategies, therefore, face a hard bargain. As a rule, there is a 5 percent threshold. This is the share of the market with products that attracts consumers that are not just intrinsically motivated to buy sustainable products (whatever that might be), but that also have the financial capabilities and willingness to act upon that motivation. In concrete situations, most consumers still choose the cheapest option rather than the most sustainable. This outcome is based on a seemingly simple trade-off: If you don't have the money, your income is more important than fairness.

Part of the outcome of this trade-off also relates to the ambiguity on the very issue of 'sustainability' or 'fairness' (as is the case with "fair trade"-labels) and with choice processes in general. Faced with a trade-off between sustainability and taxation, for instance, many citizens choose for lower taxes – even if they understand that governments need an income to invest in public provisions that are necessary to enhance sustainability in the long run. There is growing evidence that particular generations – influenced by political, technological and economic circumstances in combination with upbringing – look differently at issues of sustainability. Generation Y, the millennials, are claimed to be more interested in sustainability than Generation X for instance (box #2). However, the number of millennials that are actually able and willing to walk this talk remains low. An important reason for this is that our society is governed by other generations. But another reason is related to the more fundamental problem of personal motivation.

### BOX 2. Generation Y challenges you!

The Seventh Max Havelaar lecture (2014) considered the extent to which personal motivations for sustainability are influenced by the generation people belong to. The conclusion: Generation Y – the new generation of so-called ‘millennials,’ the cohort of people born between 1982 and 2002 – has a number of distinctive characteristics, one of which is an interest in sustainability. There are lots of claims that this generation is making a difference, witnessing a large number of young leadership initiatives in the area of sustainability. It remains a question whether Generation Y, when faced with the actual trade-offs of walking the talk will be persistent and resilient enough to make the change. Generation Y is, nevertheless, trying to search for ‘entrepreneurial solutions’ for sustainability issues. Personal and corporate motivations – related to identities as citizen, consumer or entrepreneur – have been aligned in this quest. There are two routes to choose from: social entrepreneurs (working independently) and social *intra*-preneurs (working from within organizations). It was found that the entrepreneurs are more motivated by the opportunities of sustainability, whereas the *intrapreneurs* felt more motivated by the doom-scenarios that will materialize if we don’t enable major systemic change towards sustainable business practices. Whether Generation Y will drive the change towards more sustainability remains a point of debate.

The personal trigger role of social enterprise:

***“I don’t expect the entire economy to exist of social entrepreneurs, but I do think these new entrepreneurs are spearheading new innovative business models that can show us how to change sectors, how to change consumer patterns and how to work towards solving societal issues.”***

Willemijn Verloop, founder Warchild & Social Enterprise.NL  
MH Lecture 2014 ‘Generation Y challenges you’

The accompanying booklet of this lecture provides more detailed ideas and checklists on the leadership styles that are needed to make

the transition as well as results of the pioneering research done by Talitha Muuse (2014) on Millennials and sustainability: [http://www.maxhavelaarlecture.org/downloads/max\\_havelaar\\_lectures\\_2014\\_booklet.pdf](http://www.maxhavelaarlecture.org/downloads/max_havelaar_lectures_2014_booklet.pdf)

On the importance of personal motivation for systemic change:

***“The food system is definitely changing. I’m part of the change, you can be part of the change and together we will achieve that new system.”***

Joszi Smeets, Youth Food Movement  
MH Lecture 2014 ‘Generation Y challenges you’

Most studies come to the following conclusions:

- The gap between intention and realization in sustainability remains substantial: ethical statements are difficult to implement and work on consistently;
- Ambiguity in aligning various identities: It is difficult to combine all these identities. As a citizen, we can be explicit about sustainability, but as a taxpayer, we don’t want to pay extra money;
- Difficulty in prioritizing: Even with one identity it is difficult to take all trade-offs into account, pick a clear preference and make informed decisions.

## 2.2 Four basic attitudes

Even mapping and understanding your own *personal* motivation for sustainability is not easy. It depends on gaps, priorities, and circumstances. The basic framework for motivation as introduced in chapter 1 can help you understand this. Primary and secondary motivations can be translated into what people *want* – their intrinsic motivations for sustainability – or what they *have to (must) do* – which feeds into their extrinsic motivations. The more people know what they want, the more they will be able to shape their strategies on the basis of intrinsic motives – whatever these motives may be. If people don’t know what they want or are primarily motivated by what they don’t want, extrinsic motivations prevail

and social norms (must) take over. Social norms can be based on the culture of a country, but they can also be based on the occupational group that people belong to. A very important argument in ethical reasoning is, for instance, to not do any harm or to not do anything wrong. This is also referred to as the “negative duty” approach. The ‘do no harm’ principle forms the basis of the medical profession and many other codes of conduct for professional groups depart from comparable principles. However, in terms of motivation, it becomes clear that not doing harm might be important, but it does not provide any guidance as to what ‘doing good’ entails (see the model in Figure 1.3). The latter is referred to as a ‘positive duty’ approach.

Primary motivations are linked to social or group norms. If the group doesn’t have a lot of influence, the intrinsic motivations prevail. Secondary motivations are linked to what people want and can achieve (Figure 2.1). The more personal desire people have to follow through with personal motivations, the better the chance that they will actually be able to make it work. If people mainly do things because they have to (extrinsically motivated), they become reactive and ultimately might even lose the ability or the will to act (*can*); this is what happens with burn-outs. People no longer have control over the things they have to do, and this increases the possibility of depression. People will find it difficult to trust the pervasiveness of their own motives if they are externally imposed or triggered.

On involving Generation Y:

***“Maybe the best coalition that young leaders from Generation Y can create is not with their own generation, but with the still-active leaders of the Baby Boom Generation”***

Talitha Muuse, Social Entrepreneur,  
MHL Lecture 2014 ‘Generation Y Challenges you’

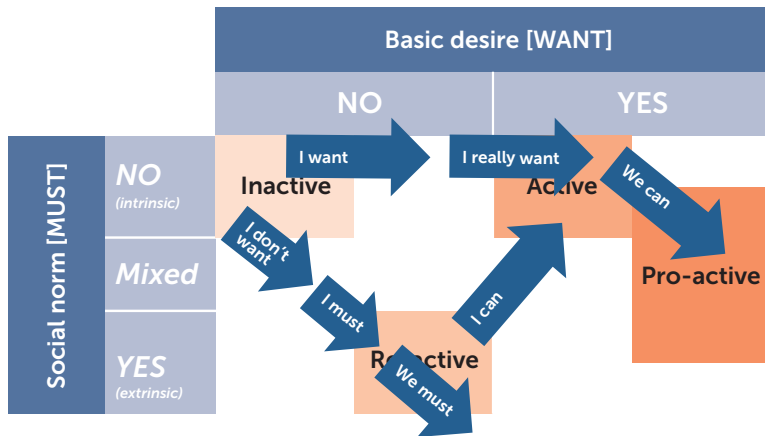


Figure 2.1 Personal motivations

For sustainability issues, four basic attitudes are the result of the interaction between “want” and “must” (Figure 2.1):

- **Inactive:** “I don’t have a personal desire, nor do I feel the social pressure to be engaged in sustainable activities.”
- **Reactive:** “I engage in sustainable activities when I am reminded or called out by others; when I can prevent penalties or negative opinions of others.”
- **Active:** “I am motivated to engage in sustainable activities because they are part of my perceived identity and strongly held beliefs (I try to); I am also motivated to engage in sustainable activities on a regular basis (I really want to).”
- **Proactive:** “I engage in sustainable activities as much as possible and encourage others to do the same in order to really address the cause of the sustainability issue.”

The basic attitude on sustainability issues can be checked by asking the following relatively simple questions (Checklist #1):

CHECKLIST #1: Your personal motivation for sustainability	
<p><b>GENERAL: When thinking about sustainability issues, I consider myself:</b></p> <p><input type="checkbox"/> Pragmatic  <input type="checkbox"/> Realistic  <input type="checkbox"/> Idealistic  <input type="checkbox"/> Practical-Idealist</p> <p><b>IDENTITIES:</b></p> <ul style="list-style-type: none"> <li>• As a sustainable consumer, I am : <input type="checkbox"/> Pragmatic <input type="checkbox"/> Realistic <input type="checkbox"/> Idealistic <input type="checkbox"/> Practical-Idealist</li> <li>• As a sustainable citizen, I am: <input type="checkbox"/> Pragmatic <input type="checkbox"/> Realistic <input type="checkbox"/> Idealistic <input type="checkbox"/> Practical-Idealist</li> <li>• As a sustainability activist, I am: <input type="checkbox"/> Pragmatic <input type="checkbox"/> Realistic <input type="checkbox"/> Idealistic <input type="checkbox"/> Practical-Idealist</li> <li>• As a sustainable entrepreneur, I am: <input type="checkbox"/> Pragmatic <input type="checkbox"/> Realistic <input type="checkbox"/> Idealistic <input type="checkbox"/> Practical-Idealist</li> </ul> <p><b>URGENCY:</b></p>	
STATEMENT	COMPLETELY DISAGREE ← → COMPLETELY AGREE
"If we don't act now we will face an ecological disaster."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"Inequality in income (and opportunities) in the world is unsustainable. It will lead to constant crises."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"I see a lot of opportunities in sustainability."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"The refugee crisis is the result of our bad management of the world's economy."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"Multinational corporations are primary responsible because of their tax evasion."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"Less growth in our economy can be solved by investing more in sustainability."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"A lack of international regulations is the core of the sustainability crisis."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"I trust companies to come up with appropriate solutions for sustainability issues."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"I trust civil society organizations to come up with appropriate solutions for sustainability issues."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"I only trust myself."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"I run the risk of losing my job because of a lack of progress in sustainability."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"The offshoring and outsourcing of jobs (as the result of globalization) is threatening to me as a person."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"If we don't act, the younger generations will have fewer opportunities than the generation that is currently in charge."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"The way we organize society is bad."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"The way I organize my life is far from optimal; I will probably not be able to prevent major physical and mental problems."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"The world is heading for disaster because of overpopulation."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
"Climate change will fundamentally alter our lives in a negative way."	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Other, ...	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
Other, ...	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

PERSONAL ATTITUDE TOWARDS SUSTAINABILITY				
	NEVER	WHEN REMINDED/ CALLED UPON	ON A REGULAR BASIS	I DO IT AS OFTEN AS POSSIBLE AND ENCOURAGE OTHERS TO DO LIKEWISE
I donate to charities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I buy food <i>because</i> it is organic	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I buy food <i>because</i> it is in season	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I buy food <i>because</i> it is locally sourced	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I buy products <i>because</i> they are Fairtrade	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I separate paper from other waste	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I separate glass from other waste	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I use 'green' electricity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I deliberately choose non-meat products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I use a certain mode of transport <i>because</i> it is better for the environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

The research that we have done with the help of these checklists showed that there is a large difference in the attitudes of the people that filled out the checklist. In many countries, either the inactive or reactive attitude prevails amongst people. An important factor in this is whether or not people consider themselves to be in charge of their own lives. Other important factors were economic (*ability* to pay), cultural, ideological and even emotional (*willingness* to pay). On the other hand, we see a limited but growing number of people with a more 'collaborative' (proactive) mindset that is not only willing to pay but also motivated to work with others on addressing sustainability issues. Column four in checklist #1 on personal attitudes applies in particular to ecological issues, where cost-efficient solutions are rapidly becoming available to make the trade-off less painful and the short-term payoff for a collaborative attitude higher. The varying degrees of perceived urgency on sustainability issues are also important drivers for your personal motivation, in particular, to say whether you are (initially) intrinsically or extrinsically motivated. Regarding urgency, you should ask yourself where you get your information from. Considerable biases exist in both negative and positive perceptions. This chapter will develop this argument further.



Checklist #1 also asks people to classify themselves as pragmatic/idealistic/realistic/practical-idealistic. This classification might seem strange, but in research on attitudes among company managers, we found that the way people see themselves in this way (as idealist or pragmatists) influences their attitude towards sustainability issues. Self-proclaimed 'idealists' choose an active approach, 'realists' a reactive approach, pragmatists are the least active, while the people that try to combine 'wanting to do something' with what they can do, see themselves as 'practical-idealists' have the most proactive profile.<sup>iii</sup>

### 2.3 Motivation as a dynamic process – Four transition routes

A particularly relevant conclusion in motivational research is that there are very few people with a *coherent attitude* towards most sustainability issues.<sup>iv</sup> This illustrates the general confusion in this area. It also illustrates that personal motivation is a dynamic process of work in progress whereby it is not easy to manage all trade-offs effectively – not in principle (what you want to do) nor in practice (what you can do). Capturing these dynamics therefore turns into an important precondition for effective progress in sustainability. Whether you are able to be more consistent and take on a more active approach towards sustainability depends on the dynamics of your motivation, which in turn are determined by how you move from one position to another. For instance, if you start off with an inactive sustainability attitude, is it realistic to expect to change yourself completely, rationally and autonomously on the basis of intrinsic motivations to an active attitude?

The irrational tendencies of people and decision-makers – and their inclination to rationalize steps that have already been taken – are part of a growing scientific tradition known as 'behavioral decision-making.'<sup>v</sup> It explains why people stick with a reactive mindset – even when they are faced with serious problems that might endanger their existence. Behavioral science also sheds more light on the conditions under which people and their leaders can become more (pro)active. Interesting findings in these studies are, for instance, that people are masters in self-deception: They find dozens of plausible-sounding reasons to explain why they are not doing anything. The tension between intent and realization is therefore not only influenced by normal problems of strategy implementation (Figure 1.2), but also by the perceptions of individuals who within the organization

or their own lives need to facilitate the transition to more active strategies. An important question is whether their motives, incentives, and decision-making can best be influenced by direct instructions, legislation, and enforcement or by so-called positive or negative ‘nudges’ – subtle reinforcements through indirect suggestions that refer to group behavior or stimulate more desirable behavior.<sup>vi</sup>

Consequently, an important argument is that many of the trade-offs that people and organizations face on sustainability issues are not necessarily moral choices. It is not for lack of wanting to do it, but they have an inability to make the change. They relate to very basic decision-making processes based on lacking information, weak motives and timely decision-making. Taking these caveats into account, could you still decide to move up your sustainability motivations if you want to change that? There are four transition routes, depending on your starting position, each with their own conditions, stipulations, and challenges (Figure 2.2):

- [A] The active/activating route,
- [B] The responsive/defensive route,
- [C] The capabilities route,
- [D] The collective/collaborative route.

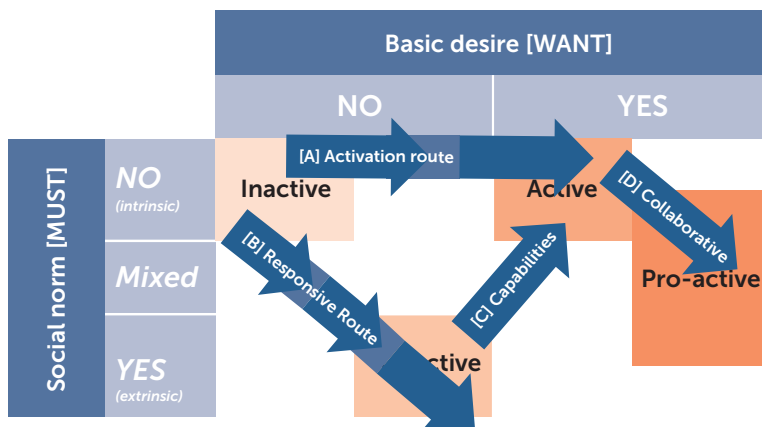


Figure 2.2 Four Transition Routes

### ROUTE [A] The active/activating route: Moving from inactive to active

The active route is related to a person's intrinsic motivation - what they (really) want - but also to a person's belief in their capacity to perform in ways that give them control over events that affect their lives if they become more active.<sup>vii</sup> This is also called *self-efficacy*. If the self-efficacy is low, this can be associated with lower motivation to succeed, limited ambition to take risks (and thus learn), take up problems actively and a greater willingness to attribute failure to personal inadequacies. This route is a development path. You have to believe in yourself, the (strategic) goal you set and you need to have the abilities to work for it.

The activation route faces a number of particular challenges:

- *The strategy gap*: There is a difference between superficial statements about what you 'want' and more normative and aspirational but difficult to put into practice statements on what you *really* want.<sup>viii</sup> The tipping point between wanting something and *really* wanting it defines the force of the strategic implementation effort.
- *Ambition gap*: A famous phrase for motivational approaches is to 'do your best' as a sign of intrinsic motivation. But it was found by Latham and Locke in their Goal Setting Theory that to "do your best" is not a good enough motivator.<sup>ix</sup>

Having specific and more difficult goals lead to a better performance than simply trying to do your best. Difficult and challenging goals increase the stakes, your effort, and commitment and they stimulate you to persist longer and choose more effective strategies. Even better, happiness research has found that pursuing challenging (but feasible) goals brings you in the state of flow that can be much more fulfilling.<sup>x</sup> Sustainability goals are clearly challenging, but if people are willing and able to set these goals, they prove rather resilient.

- *Status quo bias*: most people find it easier to do nothing when faced with complex problems than to change attitude. People give losing more value than winning. When faced with crises, leaders also tend to postpone key decisions – this is known as *decision-paralysis*. People are motivated more by a desire to prevent loss than they are by a desire to gain something (and take up related risks). The more systemic the change is, or the greater the prospect of doom is, the more people will suffer from this type of paralysis. Something

that is particularly relevant for this book: If the problem is international in nature (and further away in the minds of people) the status quo bias tends to be bigger.

- *Willingness gap*: Most sustainability studies equate the want-route with the question whether consumers/people are willing to pay more money for a more sustainable product. In Germany, for example, an experiment was conducted at the University of Bonn. Participants were, on average, willing to pay 30 percent more for ethically produced good instead of conventionally produced counterparts.<sup>xi</sup> What was interesting in this experiment, is that it was found that consumers perceived the taste of fair trade products as 'better' (whereas the chocolate they tasted were the same). Other studies with a slightly different set-up, for instance with fair trade coffee, had the complete opposite effect: people perceived fair trade coffee as tasting worse (even when the samples were reversed, and they actually tasted the non-fair trade coffee). So perceptions matter, but the direction they take in favor of a more active orientation towards sustainability issue is unclear. It is certain, however, that when we move from experiments to real-life situations, there will still be a great discrepancy between intent and realization from the side of consumers.

Understanding your own motivation: Food

*"Food – It is so important, we eat it every day. Where would we be without food? We eat without thinking, but we need to think about food, and that is what we are doing here. It starts with our own behavior. I don't know about you, but I have my good days, and I have my bad days. If I had to score myself, some days I'd have an 8 or even a 9, but I also have bad days when I score a 2 or a 3. I think it is important to recognize it is all about behavior and changing daily behavior. It is about filling our shopping baskets with the right products."*

Korrie Louwes, Alderman/deputy Mayor City of Rotterdam  
MH Lecture 2011 'fairtrade and climate change'

- *Choice stress and choice paralysis*: There is another – perhaps even more wicked - side to the paralyzing inclination of 'inaction' in sustainability issues: having *too many options*. People are programmed for scarcity but live in a

world of abundance<sup>xii</sup> and alternative choices. This is part of the origin of personal sustainability challenges such as obesity (too much food), addictions (alcohol, gambling, and tobacco). It lowers the will-power of people to actually do something about their own unsustainable behavior. Having to make stressful choices is associated with (1) choice paralysis, but also with (2) a constant feeling of inadequacy.<sup>xiii</sup>

- *Care paradox*: The problem with having too many options becomes particularly annoying if you do not just have a lot of options, but also care a lot about the issues (or person) for which you have to take action. The more we care, the more indecisive we become.<sup>xiv</sup> Uncommitted decisions often trump committed decisions (while tactics trump strategy).
- *Simplification challenge*: Related to the paralysis challenge, is the 'easy choice' problem. Faced with too many options, you start procrastinating, or you absorb yourself in routine activities and engage in 'lazy thinking' as it is called by behavioral economists. The latter attitude in particular slows down the transition to more active attitudes on sustainability; reframing the issue to a more simple case and then acting upon this frame. You don't have to make any difficult choices, and it is easier to (mindlessly) sustain an already chosen path than to change it completely.

Many of the personal decision-making processes around sustainability, therefore, do not suffer from a shortage of solutions, but from a shortage of 'open-mindedness' towards more sustainable approaches and the willingness to make informed choices.

#### ROUTE [B] The defensive/responsive route

Not everything in life is based on free will and voluntary action or on a clear idea of what you don't want. Everyone has to deal with duties, expectations, and responsibilities. A considerable share of personal needs (the lower levels of Maslow's pyramid of needs) is necessary in order to survive. There is no choice. Taking up responsibilities requires people to understand the consequences of their actions and the actions of others. The younger they are, the more acceptable it is for others (parents, teachers) to tell them what to do – thereby taking away part of the responsibility for making the right choice. This explains why most countries have compulsory education until a certain age, why children below a certain age

cannot vote, drive a car, get married, get a job or drink alcohol. The older people become, the more they are expected not only to make up their own mind but also to take responsibility for their own actions. Taking responsibility also requires them to understand the consequences of their actions. However, psychological research shows that this proves to be very difficult, even at a more advanced age. Obesity presents one of those topics: Can you trust yourself, even at the age of distinction, to make the right choices in your day-to-day eating habits? Genetic research shows that people are evolutionary 'programmed' for scarcity. If there is an abundance of something, it is very difficult to resist the external stimuli. There are a lot of so-called '*sinful goods*' that give instant gratification, but that can cause problems that only appear later in life. Short-term benefits, long-term costs. Sometimes people have to be protected against their own irresponsible behavior.

But how far can we take this? External stimuli are not necessarily a bad thing in complex decision-making processes where paralysis and stress are an integral part of the challenge. We found, for instance, in studying frontrunner behavior of companies and people that they only became aware of the discrepancy between what they 'wanted' and what they 'really wanted' (the active route) because of triggering events that were created by others or certain circumstances. The implementation gap that is related to having choice paralysis or optimistic intentions and being too fickle or naïve leads to a reactive stance because external influences prevail.

On the reactive route there consequently appear a number of additional challenges:

- *Denial*: People don't like to be called reactive - even if they are. They deny things, which leads to a lack of awareness and inappropriate (follow-up) actions. More importantly, denial feeds into the rationalizing (hindsight bias) tendency of people to link their reactive attitude to moral arguments. Critics call this window-dressing, but in reality, people will feel offended by this classification because they don't see themselves as reactive, but actually might see themselves as very active (considering circumstances).
- *The effect of the "extrinsic incentives bias"<sup>xxv</sup> increases*: People tend to attribute relatively more extrinsic incentives (related to situations) to others than to themselves. They are inclined to consider themselves more intrinsically motivated – even when this is clearly not the case. Denial is therefore not

only related to personal impulses but is also a part of social processes in which people tend to underestimate their own extrinsic motivations and overestimate their intrinsic motivations in relation to others. This can also lower the motivation to look for more collaborative solutions.

- *Doom creates bystanders*: In the sustainability discussion, people have a tendency to think up doom scenarios, in particular regarding climate change and other common issues that, arguably, will affect the survival of mankind. Particular ecological sustainability issues have been presented in doom-terms. From the 'Club of Rome' in 1972 that predicted the complete depletion of resources to the famous (2006) film-documentary on an 'inconvenient truth' for which former vice-president Gore won not only an Oscar but also the Nobel peace prize. Anno 2017, the latest doom scenario involves the so-called 6<sup>th</sup> mass extinction wave. This scenario is based on studies that reveal the extinction rate of a species in the 20th century that is up to a hundred times higher than it would have been without human impact. Scientists now warn that the bomb that is human population will create a new era of mass extinction that can be compared to the previous one (65 million years ago) where all dinosaurs went extinct. The difference, however, is that this one is man-made.<sup>xvi</sup>

These statements go beyond the 'I must' dimension to the 'we must' dimension (Figure 2.1). Over the past decades, it has been observed that this kind of doom-scenarios has become less effective as driver of personal motivations. Not because the message did not hold – there is ample evidence for the relevance of climate change, depletion of resources and the like. The low effects that doom scenarios have at the personal level can be witnessed from the relatively limited number of people and organizations that are motivated to (really) get out of an inactive mode. Negative frames on abstract issues for which collective efforts are needed have had a limited impact on many individuals. They were sometimes intellectually easy to deny (even when faced with overwhelming evidence), but they, more importantly, created a psychological effect that is known as the bystander effect. This effect basically influences people to do nothing, because either other people will take care of it or you cannot do anything about it on your own. Espen Stoknes (box #1) classifies this sentiment as 'apocalypse fatigue' when applied to global warming. But the fatigue applies to many other issues as well. Negative frames on short-term issues, for instance, the fear of immigrants

and the consequences of globalization, receive greater priority in the 'I don't want this' emotion of people.

- *The role of negative nudges*: Sustainability discussions always revolve around the question whether or not regulation or the threat of regulation is important. Regulation, sanctions, and fines are a form of negative nudges. They get consequently regularly be interpreted as an acceptable way to "redeem" improper behavior. This perverse logic can, for instance, apply to the use of climate compensation schemes that on the one hand limits a marginal area of unsustainable behavior, but on the other hand legitimizes the continuation of other, often more impactful, behavior.<sup>xvii</sup> In many developing countries abiding by the law, is already considered to be a sign of (pro)active behavior, because there are so many companies that don't abide by this minimal rule. In reality, this attitude should be considered at most as a reactive attitude.
- *Moral Self-licensing effect*: a reactive attitude can create quite a perverse incentive towards further change. This is called the self-licensing effect: by doing one (small) thing right people feel morally right to ignore the bigger picture. This lowers their willingness (want) to really pursue sustainability strategies in many other areas or support others that can help them in this endeavor.

#### ROUTE [C] The capability route: from reactive to active

Under the influence of the tension between what you really want and what you must, you have to become active. The bigger the gap between 'want' and 'must,' the greater the need for better-motivated choices and a better understanding of what you actually can achieve on the basis of your capabilities (*can*). This is the phase in which people have to prioritize and make some tough decisions on what trade-offs to address and what to ignore (for the moment). Decisions on the basis of routines or past-choices (also called 'path dependencies') need reconsideration. Choice experiments by Dan Ariely and colleagues show how people can be manipulated in their choices and how irrational their choices often are. People are not as in control of their own decisions as they think, because of three general gaps that are also extremely relevant to sustainability issues:<sup>xviii</sup>

- *Knowledge gap*: We don't know whether it is a big problem or a small (decreasing) problem that we are facing; we don't (want to) know what the



consequences are for not addressing this problem. This defines the MUST dimension (Figure 2.1) in which there is a danger of denial. Denial is linked to knowledge gaps if the issue is too broad. This applies to catch-all (hollow) categories like climate change or inequality.

- **Desirability gap:** We don't know what we REALLY WANT. What preferences do we have and why? According to Ariely "we have a gap between what we think is right to what we think we have." With sustainability issues, this desirability gap should be linked to the many different dimensions of sustainability and the related trade-offs that people face when trying to specify what they would like to focus on.
- **Action gap:** The size of the previous gaps defines how we do something about anything. It defines what we CAN do and how we (internally) align our capabilities with our preferences for specific trade-offs.

A number of particular challenges exist along the capability route:

- *Developing the right capabilities.* You have to ask yourself what it is that makes you good at something. Peter Drucker (2005), the most influential management guru of the past century, offers many tips on how we can learn to develop ourselves. Drucker also argues that you can only make real progress in your learning if you are able and willing to place yourself where you can make the greatest contribution to your organization and communities. This requires excelling in what you can do. His most important tip: A person can only perform from strength to the extent that you should largely ignore your weaknesses. This is a typical approach in current educational practices: Try to figure out what your (intellectual) strengths are as soon as possible and specialize in them. The problem with Drucker's advice, however, is that you might have acquired a number of strengths and skills because of extrinsic motivations. Why would you continue to build on them? Your strengths might furthermore not be linked to your personal ambitions and dreams. If you want to make a contribution to society, and we know that this is one of the strongest triggers for motivated and continuous learning, you certainly need to develop a minimum level of general basic skills to address problems effectively. Excellence can only be reached if you combine your strengths with what really motivates you. This sometimes implies that you also have to work on some weaknesses (in relation to your motivation). The advanced

route from in- or reactive to active therefore requires a serious investment in a large number of basic skills. The more you can link this to your intrinsic motivation, the more active and inspired you will become and stay!

- *Getting past no*: In 1981, Harvard scholars William Ury and Roger Fisher<sup>xx</sup> published their best-selling guide on negotiation entitled 'Getting to yes.' This book laid the foundation for reaching an agreement between two opposing parties – 'Without giving in' as the subtitle reads. It considered the conditions under which parties could strike a compromise between different interests. In two follow-up books, William Ury<sup>xx</sup> noted that getting to 'Yes' also implies overcoming the barriers towards collaboration - 'Getting Past No.' What you need are negotiating skills with people that don't want to compromise. Ury finalized the trilogy with a book on the basic skills and motivations necessary to move *beyond* the possible choice paralysis that is involved in yes-versus-no trade-offs – in a book entitled the "Power of a Positive No." The main lessons that can be drawn from all three books are that the most important obstacle to moving beyond a reactive attitude is not to say no on the basis of extrinsic motivations. This weakens the ability to say 'yes' to what people *really* want. Ury observes that people tend to say no on the basis of fear or feelings of guilt, which turns them into 'reaction machines'. What looks like a positive response then very often is based on intuition, anger or evasive behavior. This, in turn, creates sizable barriers to move 'beyond no' and 'get to yes.' Ury argues that the capability route – which he portrays as a tree – can only be channeled through a more powerful, but positive 'no' in order to come to a more resilient and proactive 'yes.' Positive yes and no attitudes in this sense are strongly related and feed into each other.
- *Defining what not to do is challenging*. The game theory research of Ury is further corroborated by motivational and psychological research in which it is argued that people need to (re)define what they want to cultivate in their lives and how to organize this in a more active manner. Coming from a reactive position, this also implies that people have to 'let go' of a number of more inadequate mind-sets. Brene Brown<sup>xxi</sup> presents an interesting personal checklist for this exercise (Table 2.1).

"DON'T": What you need to let go	"DO": What you need to cultivate
What people think	Authenticity
Perfectionism	Self-compassion
Numbing and powerlessness	Resilient spirit
Need for certainty	Intuition and trusting faith
Comparison	Creativity
Exhaustion as a status symbol and productivity as self-worth	Play and rest
Anxiety as a lifestyle	Calm and stillness
Self-doubt and 'supposed to'	Meaningful work
Being cool and 'always in control'	Laughter, song and dance

Table 2.1 Ten personal guideposts

Getting rid of bad habits is difficult to manage in the transition from reactive to active. As a result, rather than actively pursuing their goals, people can become passive, even lethargic. These are characteristics of a burn-out and fatigue. No matter how serious the problem is, it cannot be handled through negative statements. The only way out of this predicament is to think about what you really want instead. Not about what you want in the long run, but about what you can achieve in the short term, otherwise it is difficult to stay motivated. If you want to stop smoking, what positive stimulus are you going to give yourself to get on the right track again? The statement "I can do it if I want it (enough)" is not true if you start with a reactive mindset.

- *Group pressure (nudges) can be positive*: It is not necessarily bad to act upon socially – extrinsically motivated - desirable considerations (must). This is one of the most important lessons that can be learned from behavioral research. Positive behavior can be externally 'nudged' by linking individual behavior of people to the norm of the group.<sup>xxiii</sup> But evolutionary herding behavior can lead to positive as well as negative outcomes. It has been found by neuro-economic scientists that sanctions and obligations can actually undermine the motivation to act sustainably. The latter is particularly relevant if that motivation does already exist.
- *Benchmarking matters and dealing with Halo effects*: What is your reference point for measuring loss aversion: The reactive or inactive position (responding

tactically) or the active position (your will and positive social norm)? Strong preferences have been found to overcome inertia<sup>xxiii</sup> (or reactive reasoning). The problem with sustainability issues is that (a) not many people have a strong enough preference, (b) that there are too many related issues that make it difficult to define a particular preference (Salomon's judgements) and (c) there is a considerable disturbance in the change process, for instance because of active lobbying for a so-called counter-nudge. A solution sought by many is to simplify the reference point either through ethical reasoning (it is the right thing to do) or simplifying the issue (sustainability is all about ecology). In case these premises or simplifications turn out to be either false, naïve or short-sided (which is highly likely), actors can be caught up into choice paralysis or even denial. The challenge of bringing ICR to a higher level is, therefore, to come up with realistic preferences that have practical relevance in the short run and are linked to business models. Taking the so-called 'Halo effect' into account is relevant thereby: it relates to the inclination of people to consider that one positive (or negative) characteristics of another person or company probably is a sign of many more positive (or negative) characteristics. That is why a more solid understanding of all motives and characteristics is important to create relevant benchmarks and prevent unfounded halo effects from appearing.

- *Understanding the positive effect and preconditions of flow:* The capabilities trajectory can especially profit from insights from so-called 'positive' psychology. According to its founder, Mihaly Csikszentmihalyi, people find more pleasure and lasting satisfaction in activities that bring about a state of flow.<sup>xxiv</sup> They feel happiest when working on something that consumes their attention completely. People are fully focused, oblivious to what is happening elsewhere and time flies by. Flow is unrelated to income or intelligence. People experience flow when they are working on an interesting challenge that is within their reach (but not too easy) and requires a considerable level of skills. Half-hearted attempts reap comparable results as calculating (reactive) efforts. Activities that create a flow are intrinsically motivating and therefore valuable because they create a mood that provides a short-term goal in itself. The flow becomes self-perpetuating. Flow enables people to blossom and function optimally. This can explain why people feel happier when they are working in areas they are passionate about (their heart) making it relatively easy to concentrate on (inspired head) and help them to acquire

and practice all sorts of skills and capabilities that are needed. Happiness goes hand in hand with hard work, considerable discipline and consequently creates a greater feeling of achievement for more complex problems. The often feared 'discomfort zone' potentially presents the moment of great happiness – as long as people can work steadily on relevant problems, and without too many disturbances from extrinsic influences. The moment of ultimate happiness then arrives when they succeed to get out of this 'zone' with a higher degree of (active) competence and awareness.

- *The growing importance of specifying trade-offs and understanding Rebound effects.* In the stage of the transition between reactive and active in particular, the various dimensions of sustainability fight for priority. If people don't make a choice, they fall prey to decision-paralysis. Getting into a flow and reaping the benefits of positive nudges require (1) a proper assessment of the kind of sustainability trade-offs you are facing and (2) a prioritization of the issues (and trade-offs) that you would like to focus on immediately. But it also involves an understanding of the 'rebound effect' which is related to the moral self-licensing effect. The rebound effect implies that people compensate positive action with other negative attitudes. For instance: buying led-lamps, but leaving them on much longer than normal. Longer term goal-setting at this stage is detrimental to sustain positive energy to deal with sustainability issues in the short term.<sup>xv</sup> Checklist #2 provides a list of common sustainability issues and choices while challenging you to consider how to deal with specific trade-offs. The experience with this type of trade-off checklists is that people tend to define almost all issues as important, and – when confronted with specific trade-offs – choose the middle-ground, i.e., not give any preference. If this happens, the chance is pretty high that they just didn't want to think about it. We have to realize that in practice most people make choices that are based on routines, time-limitations, denial or ignorance. So, if you have time, reconsider your preferences. If, after close scrutiny, you still remain undecided, this is an indication that you'd better engage in an overall more active strategy. But it will also teach you as an entrepreneur that it is probably very difficult to count on 'rational choices' of consumers alone to decide for a more sustainable product on the basis of positive qualities of the product that you offer. A smarter approach is probably needed.

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CHECKLIST #2: Sustainability priorities and trade-offs								
[1] Personal issue priority matrix								
Consider the following list of issues and attribute degrees of importance to them. Next, try to rank your priorities. The issues that are extremely important should be amongst your prioritized issues, whereas the least important issues should be ranked lowest. Can you come up with a story as to why you have come to this priority ranking? Note: This ranking system has been used in other research as well, so you can compare your scores with that of the benchmark research.								
Personal issue priority matrix								
ISSUE	EXTREMELY UNIMPORTANT ← → EXTREMELY IMPORTANT							RANK?
Education	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
A clean environment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Emancipation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Availability of future resources	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Biodiversity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Equal distribution of wealth	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Tackling poverty	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Animal welfare	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Responsible fishing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Efficient use of water and energy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Human rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Fairtrade	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Combating child labor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Safety	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
A healthy diet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Tackling sexual harassment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Diversity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Privacy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Transparency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Living wage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Health	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Road safety	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Access to cheap energy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Property protection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
Other, ...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	



reflective thinking that is needed to move to a more active attitude. System 1 is not always appropriate to assess the depth (trade-offs) of contemporary challenges. As a result, it is often wrong. System 2, however, helps people to ponder on what is known and not known, but it is also lazy. It does not look for deeper knowledge but uses reflection to rationalize selfish choices or superficial judgments; it follows leaders that it admires (even when their arguments are false). They are impulsive, impatient and motivated by immediate gratification.<sup>xxvii</sup> To make the capabilities route successful, positive benchmarks of change have to be defined, but preferably by deep thinking (related to ultimate ambitions) rather than intuitive gratification (related to some measure of short-term 'progress').

#### ROUTE [D] The collective route: bringing it all (proactively) together

Reaching an active state as a person does not necessarily create a stable situation. This is particularly true for complex challenges like sustainability that entail a large number of trade-offs that are often not easy to integrate and implement. You might relapse to a reactive approach if circumstances force you to. At this stage, it, therefore, becomes even more important to sustain a personal motivation flow by involving others in your ambitions. This presents the essence of a proactive attitude. It helps to keep you on track by feeding into positive nudges, but it also makes you more effective because you always need others to implement positive and transformative ambitions. In the reactive phase, you needed others to help you mitigate your negative attitudes. In the collective route you move from an 'I can' to a 'we can' stage. If you look closely, involving others implies that you combine intrinsic and extrinsic motivations at the highest possible level of ambition. Most of the wicked problems that you face yourself require that kind of attitude: Dealing with unsustainable actions like addictions (smoking, eating, gambling, and drinking) require not only group support, but also group (social) control. Witness the formulas introduced by AA groups for instance. Most of the sustainability problems society is facing require a collaborative attitude. Nobody can solve systemic or collective problems on their own. Look, for instance, at the initiatives where groups of individuals get together in energy cooperatives to proactively implement really sustainable solutions that are both pragmatic (financially sustainable) and idealistic (ecological or socially sustainable).



This brings people into so-called *mixed-motivation games* in which they have to try to pool their resources, capabilities, and motivations to reach a common goal that can be sustainable beyond their short-term motivations and ambitions. Being aware of the importance of involving others is the starting point for this attitude. The more systemic the sustainability challenges are, the more individuals are required to pool efforts to come to sustainable solutions (chapter 3). This was also the fourth category in the checklist on sustainability mindsets (see checklist #1).

To further understand the logic of the collective route, a number of additional dimensions are relevant:

- *The limited effectiveness of nudging*: The psychological idea of nudging is based on implicit incentives in which group perceptions and pressure can help people become more active in areas of sustainability. The nudge idea has, however, also been criticized for being only relevant for relatively short-term and marginal behavioral changes, which might even take away the incentive to come up with longer-term systemic solutions. Pro-active attitudes and explicit collaboration efforts are needed to enhance real change. So for a more systemic change, nudges are less important and can even become counterproductive. People need to move on from a 'silent' to a 'real' collaboration.
- *Ethical confusion and the importance of paradoxical thinking*: Another important aspect of the proactive attitude is that it is based on a mixed-motives logic. In ethical reasoning, mixed-motives games are often considered to be less 'perfect' for individuals, because they tend to suggest compromising on the own (intrinsic) motives. Ethical theories speak of dilemmas and trade-offs. Dilemmas and trade-offs represent so-called non-cooperative games. Famous management guru Stephen Covey<sup>xxviii</sup> wrote about this kind of thinking as follows: Most conflicts are two-sided. The first alternative is 'my way'; the second alternative is 'your way'. This is a typical dilemma. Covey pleads for a third alternative, synergizing ('our way') as a higher and better way to resolve the conflict by accumulating ideas and solutions that create a different dimension to the problem, not a stronger or weaker compromise (trade-off). This is also known as 'paradoxical thinking' which implies a search for more innovative approaches. In management terms, this approach is also referred to as *ambidexterity* – the skill that allows you to use both sides of your body or brain in a productive interaction to come up with original, out-

of-the-box approaches. This implies that you do not compromise on your individual preferences and motivations, but look for novel combinations. A famous statement that summarizes the difference between non-co-operative and co-operative games by George Bernard Shaw reads as follows: *"If you have an apple and I have an apple, and we exchange apples then you and I will still each have one apple. But if you have an idea and I have an idea, and we exchange these ideas, then each of us will have two ideas."* Do you have a sufficiently 'out-of-the-box' mindset to facilitate this kind of reasoning? Co-creation processes in which a large number of divergent stakeholders look for a joint solution help with this kind of thinking and these decision-making processes.

- *The Bystander effect*: Sustainability challenges often deal with the provisions of public goods. Insufficient or skewed provision/creation of public goods turns them into 'public bads'. Public bads actually cover a large number of the sustainability issues for which individuals and companies are held accountable/responsible. This problem is also known as the 'tragedy of the commons' - a problem where everybody suffers, but nobody is motivated enough (able and willing) to act. This involves topics like depletion of resources, air pollution, and the 'plastic soup' in the world's oceans. At the personal level, this effect is also known as the bystander effect. A group of people sees a problem - a person is, for example, drowning in a pond with many people watching - but are less inclined to act the greater the group of bystanders is. People do not become a bystander for lack of concern (for the victim) but by ambiguity on who is able and going to take responsibility and initiative for dealing with the problem.
- *The free-rider effect*: In economics, the bystander effect is also referred to as the 'free rider effect.' This implies that people (and organizations) that potentially can benefit from resources, goods or services do not want to pay for them. This applies in particular to the provision of public or common goods like roads, infrastructure or education. The free-rider motivation is based on the expectation that others will pay for the common good. But the imminent danger of a lack of personal motivation is an under-provision of those goods and services, with the consequence that everybody will suffer. Insights from so-called 'public goods' and 'collective-action' games. Public good and 'collective action' games allow for more complexity in the interaction of peoples and motives in order to overcome these challenges. Altruistic and

egoistic motives need to be combined in order to lead to maximized total payoffs (or the prevention from underinvestment). Everybody contributes sufficiently to the public pool, while individuals are able and willing to reject monetary rewards that they consider to be unfair or not contributing to the common good.

- *Collaborative mindsets matter*: A proactive attitude for the mixed-motives games people engage in requires a so-called collaborative mindset.<sup>xxix</sup> According to Henri Mintzberg and Jonathan Gosling<sup>xxx</sup>, this involves an open attitude towards participative actions with others – whether they are people or organizations. Connectivity is a fundamental human motivation for positive and active interaction and involvement with other people (contributing to identify and develop mental health and well-being).<sup>xxxi</sup> A collaborative mindset is a precondition for proactive performance and solutions. The collaborative mindset aims for an exchange of information, adjustment of activities, sharing means, reinforcement of each other’s capacities to deal with problems and create a common goal.<sup>xxxii</sup> Most sustainability challenges require a joint effort that also requires specific types of management and leadership. The leadership literature talks about collaborative, integrative and even servant leadership in the context of great transformations that are needed for sustainable change. A collaborative mindset combines two types of motivations: Pro-social and pro-self.<sup>xxxiii</sup> Pro-social behavior is intended to benefit others and is often referred to as ‘altruism.’ It relates to questions of sharing and fairness but can be inspired by guilt, upbringing or other factors that are extrinsic. Pro-social motivations seem to be more aligned with longer-term sustainability issues than people with a pro-self mindset. Luckily, there is growing evidence that most people’s brains are more social than competitive and aim for “co-operation, living together in mutual dependencies in which love and friendship play an important role.”<sup>xxxiv</sup> It has also been acknowledged that collaboration in, for example, the area of technological innovation, complementary to competition, lies at the root of societal progress. The societal challenge is the organization of a competitive environment and how to link these processes to more sustainable business models. Checklist #3 enables a first assessment of your collaborative mindset.

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CHECKLIST #3: Do you have a collaborative mindset?								
The answers to the personal questions on sustainability issues from checklist #1 provide you with a first impression of your sustainability mindset and the degree to which you are looking for joint solutions. This provides a first indication of a more general collaborative mindset, which is aimed at establishing participative relationships with others to enhance better, more creative or more effective results. Your ability to profit from collaborations depends on the exact nature and resilience of this more basic mindset. The checklist below is based on general mindset research. Honest and intuitive answers to the (21) critical questions provide you with a first assessment of the degree to which you have a collaborative mindset.								
Critical questions on your mindset								
How important do you find it to...	EXTREMELY UNIMPORTANT ← → EXTREMELY IMPORTANT							SCORE?
	1	2	3	4	5	6	7	
... see the entire group as responsible	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... maintain harmony	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... be mutually dependent	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... take care of the group	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... be tolerant of complexity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... be open to other opinions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... build up trust amongst each other	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... share information	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... engage in joint activities	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... share the results of your efforts	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... aim for a mutual gain	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... collaborate ahead of competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... think outside of the box	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... engage others in your thinking	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... manage the relationships between people (rather than managing people)	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... listen rather than talk	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... learn rather than control	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... help establish structures, conditions, and attitudes through which things get done	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... share responsibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... acknowledge that you cannot do it alone	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
... understand the problem before looking into possible solutions	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	
	<b>Total Score:</b>							

**Interpreting the results**

First, take a look at the pattern that pops up. If you are all over the place, you lack consistency in your approach which might be due to personal characteristics, but also the circumstances under which you have developed this particular mindset. If you are more consistent in your approach then you either score all questions to the left of the scale (1-2) or the right of the scale (4-5). If you score consistently in the middle, you are at risk of getting stuck, or you faced difficulties in actually answering the questions, in which case you might want to have a closer look at your general attitude.

Now try to score your profile.

- A score above 90 implies an undisputed collaborative, pro-social mindset that is more into open learning loops
- A score below 25 shows a more pro-self, egocentric personality that is more into closed learning loops.

If you want to make a more detailed analysis, you can give some of these dimensions more weight. In partnerships, it is, for instance, extremely important to share the results and create joint 'ownership'. More than that, you should maintain harmony or 'think outside of the box.' With innovative partnerships, however, this sort of thinking should be valued higher. But it is very likely that many of these categories are related and mutually influence each other.

- *Virtuous versus vicious sustainability challenges*: The mindset influences the 'willpower' of people; how they move through the want-must-can sequence (Figure 2.1). Most research stresses that the 'willpower' of people, as well as the influence of their passion on specific topics, is essentially myopic. Short-term considerations are more important than long-term considerations. That applies to rewards as well as penalties/loss and, in particular, to sustainability issues that are related to so-called "vice-goods" like fatty and sugary foods (feeding obesity) and other risky behavior that has short-term gains, but long-term losses. We have also seen that even for these issues, collective action might be advisable. Will-power and collaborative mind-sets are even more important for the provision of public or 'virtuous' goods like pensions and health insurance schemes that need short-term investment (implying short-term loss perception and free-rider motivation) for longer-term gains.<sup>xxxv</sup> The strategic consideration of collective choices at this stage moves from short-term to long-term. To create long-term effects, partnerships and other organizational forms are needed. The essence of partnerships is that participants not only seek their own goals but try to create shared value in the longer run, for which they need to hold each other accountable in the short-run.

## 2.4 Conclusions: What drives personal sustainability motivations?

In many respects, the personal road towards sustainability presents an emotional and motivational rollercoaster filled with considerable barriers to change:

- Intrinsic motivations are essentially fickle because of several reasons: irrationalities abound, complex trade-offs exist, primary motives are often weak and influenced by a large number of biases, or in case they are strong they they can even lead to choice paralysis;
- Effective change processes, therefore, require that people combine extrinsic and intrinsic stimuli and understand how they interact promptly. People need others to make the change, keep them on track (either as a control group or as co-creators and synthesizers of change process) and as a source for reinforcement of their motivations.
- The role of behavioral (extrinsic) nudges changes every transition phase. More active approaches can indeed be stimulated by positive nudges (concerning group behavior and stimulus for herding). In the reactive route, however, this nudge can also act as a barrier to further change and create perverse incentives to be satisfied with relatively low ambitions. Proactive attitudes cannot be based on nudging alone, they require explicit collaboration in which intrinsic and extrinsic motives have to be combined. The same applies to decision-making processes: the more active and proactive people want to become, the more decision-making should be intended and aimed at dealing with a large number of trade-offs.
- Finally, these basic observations denounce much of the normative thinking that surrounds sustainability issues: ethically 'superior' approaches do not exist nor represent an ultimate ambition of sustainability. There does not exist an 'ethical high ground' for dealing with complex decision-making challenges, no sharp dilemmas, nor are 'intrinsic motivations' the only valid ones. Rather, this chapter argued that it is highly probable that a proactive attitude towards sustainability requires a fundamentally 'mixed-motives' game, in which one has to take all motives seriously in order to search for a sufficient synthesis - not as a compromise, but as an effort to create new pragmatic combinations of thought; not as a dilemma, but as an invitation for 'out-of-the-box' (paradoxical) thinking.

# 3.

## ENTREPRENEURIAL MOTIVES

## IN THE CLOUD

"They only do it (invest in sustainability) because they have to."

"We want to be sustainable, but we can't."

"I am proud to be part of a company that has an exciting ambition (to be climate neutral by 2020) before we even knew how to achieve that."

"Does it pay to be sustainable?"

"Let's keep it simple."

"Go for the easy way out."

"Climate change is a symptom of the linear economy."

"Does it make sense to invest in sustainability, even if it does not pay in the short run?"

"Sustainability is primarily window-dressing."

"Want to know a b\*\*llshit term? It is 'sustainability'!"

## ON THE GROUND

### KEY TRADE-OFFS:

- Intended strategies – Emergent strategies
- Ecology/Social - Economy
- Push – Pull factors
- Tactic – Strategic
- Liability – Responsibility
- Corporate social *responsiveness* – Corporate *societal* responsibility
- Risk – Opportunity
- Negative – Positive reputation
- Internal – External alignment
- Confrontation - Cooperation
- Negative (fiduciary) duty – Positive duty



### 3.1 Introduction: What drives the general CSR ambitions of companies?

Why would companies and their leaders have an intrinsic motivation to become sustainable? What defines their CSR ambitions? More tempting even: what actually *is* 'CSR'? The main challenge that this chapter addresses is to distinguish the 'cloud' (narratives) from the 'ground' (trade-offs) around the discourse on sustainability strategies of companies. The vague reference to 'CSR' ambitions that is used in popular discourse does not help. But fortunately, this discourse can be navigated along more constructive routes. Corporate motivations for sustainability display comparable logics and mechanisms as individual motivations (chapter 2). Considerable gaps thereby exist between strategic intent (sometimes covered by explicit visions and mission) and strategic realization. Many companies 'talk' about sustainability, probably even 'belief' in its importance, but a much smaller percentage has been able to do something about it effectively ('walk'). How fickle are corporate motives when it comes to being or becoming sustainable? And even more important: how can they move from one position to another?

Most of the research on sustainability motivations of companies can be found in the strategic management literature, organization literature and 'business and society management'-literature.<sup>1</sup> This kind of research adopts motivational concepts like 'passive-active' (strategic management), 'window-dressing' and 'norms and values' (Business & society literature). There is also a new breed of literature on 'sense-making' in organizations, which refers to the process that individuals and organizations need to have to understand novel, unexpected or confusing events.<sup>11</sup> CSR is a prime target for organizational sense-making.

The motivation of a company to engage in sustainability/CSR is contingent on the strategic vision of its leadership. In essence, this boils down to the *business case* for sustainability/CSR. A business case captures the reasoning, the logic, and justification for initiating a project or task. It defines – either formally or informally – the business need and the basic reasoning (motivation) behind a strategy. As such, the business case faces the same kind of trade-offs and gaps as defined in chapter two for individuals. What defines the [four] basic attitudes towards sustainability, (2) how do you move from one position to another and (3) what type of basic sustainability trade-offs does the business case have to deal with? A proper business case also considers the option of *doing nothing* and includes the costs and risks of inactivity.

The leading question for companies therefore seems quite straightforward: Does it pay to become sustainable? But the answer is less straightforward. Two types of motivation can lead companies (Figure 3.1):

1. Primary motivations relate to the measure of societal responsiveness. Is the organization internally or externally oriented when it comes to societal issues? Is the company guided by self-reflection and direct business interests or is it influenced by external voices and stakeholder pressure?
2. Secondary motivations relate to the strategic or tactical *attitude* to societal issues. Two relevant poles are thereby whether or not a company is largely motivated by liability and risk considerations or considers sustainability questions as responsibility and opportunities.

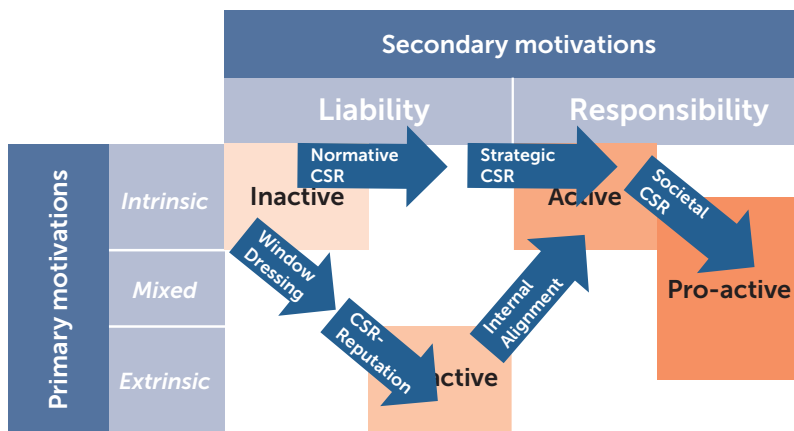


Figure 3.1 Corporate sustainability motives

The societal responsiveness of companies is guided by (1) their images and (intrinsic) motivations, in particular with regards to the corporate leadership, employees and funders and (2) by external influences, in particular of external stakeholders (shaping extrinsic motivations). Intrinsic motivations for sustainability can be normative (very often related to the individual norms of the company leadership) and strategic. Whereas sustainability as a norm might trigger the first step towards higher levels of awareness, making it work requires an understanding of the strategic value of sustainability. Otherwise, the company will not develop

sufficient capabilities for a sustained effort in sustainability. The extrinsic orientation of companies depends on the way in which corporate leaders view other interested parties as motivation for sustainability. External parties can be seen as a benefit or a burden. The more stakeholders are viewed negatively; the more companies tend to think and act in terms of liabilities and risk-management. The more external stakeholders are seen as a positive prerequisite for change, the more managers tend to think of sustainability strategies as responsibilities and opportunities. This basic distinction is particularly important in practice. Large businesses with glossy brochures give the impression that they take their responsibilities seriously, but if pressure from external stakeholders defensively motivates their promises, their credibility is limited among their employees as well as with other stakeholders. A critical perspective on the actual motives for companies to become sustainable then is granted – a not implemented reactive strategy is bound to relapse in window-dressing. Even if this is not the intention of the corporate leadership. The opinions of stakeholders color a company's thoughts and actions on sustainability, sometimes driving them to react, sometimes enabling them to become proactive.

A better understanding of the actual drivers of companies presents a serious intellectual and managerial dilemma. Mainstream economic literature presupposes that the prime motivation of companies is to "maximize profits" and that thus the business case for sustainability can only be based on profit considerations. Milton Friedman's famous saying 'the business of business is business' is often quoted to argue that companies should not even deal with sustainability/CSR issues because it takes them away from their primary purpose and duty towards shareholders, which is – so it is habitually argued – maximizing profits.<sup>iii</sup> This discussion, however, is seriously flawed. Profits are not an aim, but a means. They are necessary, but not sufficient for the long-term financial sustainability of companies. Secondly, successfully managing a company requires richer sources of motivation than profits alone. Chapter 4 (and part two) will further elaborate on this point by looking at the central role in business models of the so-called 'value proposition' of companies.

The interaction between primary and secondary motivations consequently creates four typical attitudes and business cases for sustainability - each with their own logic and positive rationale:

1. *Inactive; the classic business case*: Sustainability as a direct motivation for concrete, quantifiable financial profit in particular through *lower costs* (which can be achieved in many different ways, from raising standards among employees to environmental savings). The CSR acronym in this argument implies *Corporate Self Responsibility*.
2. *Reactive; the defensive business case*: Sustainability as a means of avoiding financial loss (e.g., by building up and protecting the company's reputation or by avoiding more strict legislation) or safeguarding one's reputation. CSR stands for *Corporate Social Responsiveness*.
3. *Active; the strategic business case*: Sustainability is integral to long-term competitive position and survival strategies (reducing dependence on non-renewable resources, low wage labor and directing product development towards societal challenges). Here the CSR acronym gets its most well-known connotation: *Corporate Social Responsibility*.
4. *Proactive; the systemic business case (also known as the 'new economy' business case)*: Sustainability is a quest for new synergistic value creation, instilling a positive attitude to learning and adaptation, innovation, risk and opportunity management in a complex, dynamic environment, introducing new earnings models, advancing system transitions and forming partnerships. Now CSR is better known as '*Corporate Societal (or Sustainable) Responsibility*'.

Any change strategy starts with an approximate understanding of where your organization stands at the moment regarding intrinsic and extrinsic motivation. Checklist #4 presents an ultra-quick scan for this exercise.

CHECKLIST #4: Assessing your organization's basic sustainability position			
YOUR ORGANIZATION'S SUSTAINABILITY ATTITUDE: THE BUSINESS CASE FOR SUSTAINABILITY			
<b>Intrinsic motivation</b>			
1. Does your organization initiate activities to lower the negative sustainability impact or increase the positive sustainability impact of the organization?			
<input type="checkbox"/> A Yes	<input type="checkbox"/> B Mostly	<input type="checkbox"/> C Partly	<input type="checkbox"/> D No
2. Do you hold the government primarily responsible for sustainability or inclusiveness?			
<input type="checkbox"/> A Yes	<input type="checkbox"/> B Mostly	<input type="checkbox"/> C Partly	<input type="checkbox"/> D No
3. Do the employees have a responsibility in their dealings with sustainability issues?			
<input type="checkbox"/> A Yes	<input type="checkbox"/> B Mostly	<input type="checkbox"/> C Partly	<input type="checkbox"/> D No
4. Do you see a clear business case for inclusive growth?			
<input type="checkbox"/> A Yes	<input type="checkbox"/> B Mostly	<input type="checkbox"/> C Partly	<input type="checkbox"/> D No
<b>Responsiveness/extrinsic motivations</b>			
5. Does your organization respond to demands of (external) stakeholders to engage in dialogues on inclusiveness and sustainability?			
<input type="checkbox"/> A Yes	<input type="checkbox"/> B Mostly	<input type="checkbox"/> C Partly	<input type="checkbox"/> D No
6. Does your organization regularly <u>initiate</u> dialogues with (external) stakeholders?			
<input type="checkbox"/> A Yes	<input type="checkbox"/> B Mostly	<input type="checkbox"/> C Partly	<input type="checkbox"/> D No
7. Does your organization also discuss more difficult and controversial issues with external stakeholders?			
<input type="checkbox"/> A Yes	<input type="checkbox"/> B Mostly	<input type="checkbox"/> C Partly	<input type="checkbox"/> D No
8. Do you try to align your strategy with stakeholders to further your sustainability strategy?			
<input type="checkbox"/> A Yes	<input type="checkbox"/> B Mostly	<input type="checkbox"/> C Partly	<input type="checkbox"/> D No
<b>Scores</b>			
Every time you answered A, you get 30 points; B's get 20 points, C's get 10 points. D-answers do not receive points. Total your scores:			
<input type="checkbox"/> x 30=	<input type="checkbox"/> x 20=	<input type="checkbox"/> x 10=	<input type="checkbox"/> x 0=
<i>Source: first questionnaire developed by DHV/Royal Haskoning (Van Tilburg et al., 2013)</i>			
<b>Using the scores of this tool</b>			
The scores, as collected by this checklist, provide a first assessment (an intuitive zero measurement) of the initial position of your organization. It should primarily be used as a means to further discuss the actual practice of your organization. Your score:			
<ul style="list-style-type: none"> <li>• <i>Less than 30 points?</i> You are at the beginning of having a sustainable organization. You are largely <b>inactive</b>.</li> <li>• <i>Between 30 and 80 points?</i> You have made the first steps towards sustainability, but are probably able to make bigger steps. You are mostly <b>reactive</b>.</li> <li>• <i>Between 80 and 160 points?</i> You are well underway <b>out of the reactive phase</b> of sustainability.</li> <li>• <i>160 points or more?</i> Your organization takes a <b>(pro)active</b> stance in sustainability. Your biggest problem will now be to organize internal and external alignment with stakeholders.</li> </ul>			

### 3.2 The context of sustainability challenges

Often, so-called trigger events create awareness with company leaders – but also employees - to consider changing their business model. The trigger event can be intrinsic and based on a change-of-heart of the corporate leadership. But most of the time extrinsic triggers prompt the biggest change. Not all trigger events, however, require a complete turn-around of the business model of a company. We can distinguish between three types of trigger events which require different responses as can be found in corporate reputation research<sup>iv</sup> (Table 3.1)<sup>v</sup>: Incidents, structural events, and systemic events.

- **Incidents** create a serious short-term reputation problem for a company. They can be addressed by relatively reactive strategies depending on the degree of responsibility of the individual company. A not safe product (glass in a food product) or a fraudulent individual employee can often be counted as incidents. If the incident is clearly the responsibility of the company, the only way to address the issue is through complete recall. Denial only increases the reputational damage. Recalling a product or firing an employee can, when communicated correctly, restore trust in the company. If the incident is beyond the responsibility of the company – for instance, due to suppliers producing unsafe products or being responsible for an industrial disaster like oil spills – the reputational damage can be comparable but more difficult to address. Companies that adopt a reactive approach – for instance by denying responsibility run the risk of greater damages than if they try to compensate, recall or clean up (as with oil spills). The third type of incident is even more difficult to address: If it is created by others in the same sector, but affects the credibility of the whole sector – as is the case with diseases in the food chain. In this case, the whole sector (often together with the government as the guardian of public health) needs to take rather radical actions. In the case of the mad cow disease occurrence, for instance, even non-affected farms were asked to dispose of healthy animals to reduce risk, but also to restore trust in the whole sector. The more regular such incidents appear, the more it becomes a structural or systemic problem of food safety.
- **Structural events** create a longer-term reputation effect for companies. Cases related to the long-term negative effects of a particular production method (e.g., polluting industries) or of a particular product (addiction in individual cases) or endemic fraud in specific sectors relate to a weak motivation of companies to address these negative effects. It creates, on average, a rather

poor reputation and cannot be solved by incidental (temporary) action. Companies can either ignore these effects – but that implies that they will always be susceptible to low levels of trust – or can take strategic action for which their business model needs to change. In polluting industries, for instance, a reactive approach has been to look for ‘end-of-pipeline’ solutions. Increasingly, however, regulation in many countries has stepped-up – under the influence of popular pressure – which motivated many companies to look for more structural solutions in their business model to *prevent* pollution and waste.

- **Systemic events** are related to the way the whole industry or value chain is organized. External stakeholders can create the trigger event, or it can be self-induced. Many of the social problems that appear as the result of systemic problems in the supply chains of companies (like child labor and poor working circumstances) are addressed by critical NGOs. They turn it into an *issue*, even though many people probably are already aware of this problem. The action creates a trigger. This trigger can be reinforced by a widely published disaster, such as the 2013 Rana Plaza case where a garment factory in Bangladesh, a supplier to a large number of clothing chains, collapsed and caused the death of more than 1,000 people. If the NGOs can make it clear that this is not an incident but a systemic or structural problem, the motivation to do something about it increases. Individual companies, however, are often not able – even if they are morally motivated – to effectively deal with the issue because it is part of a bigger system (in which companies compete with low prices). This means that the whole sector needs to take action and change its business model. Individual codes of conduct prove relatively inadequate for systemic problems.

A long series of consecutive crises clearly hints at a systemic problem. Systemic crises can for instance be witnessed in the financial sector (with more than 500 crises since the turn of the century) or the food industry (with recurring public health issues related to intensive livestock farming or systemic waste problems). Dealing with these problems always starts with accepting their systemic nature and essentially requires a very pro-active attitude. This is particularly difficult for so-called Incumbents, companies that helped create the system that is in crisis. Governments are often asked to help out, but they are also often part of the systemic problem – not in the least because incumbents have ‘captured’ governments through lobbying and

financial support. Systemic trigger events require all parties to get involved, they present common pool problems, but are also particularly susceptible to choice paralysis – even if there is positive motivation to change or negative realization that the system is unsustainable (see chapter 2).

Nature of event	Examples	Lines of response
<b>Incident</b> (related to own business model); own responsibility	Technical problems in cars (that might apply to many cars); glass in one baby food bottle	Complete recall action; no change in business model
<b>Incident</b> in supply chain; not own responsibility	Supplier provides wrong (unsafe) equipment; oil spill	Supplier code of conduct; recall; compensation payment
<b>Incident</b> (created by others in the same sector)	Mad cow disease	Whole branch and government take (radical) action
<b>Structural</b> (related to own business model)	Pollution; addictive product (cigarettes, alcohol)	End-of pipeline or prevention; business model change
<b>Systemic problems</b> , action of external stakeholders (created trigger)	Created trigger events: child labour, human right violations in the supply chain	Code of conduct for the whole sector; adaptation in business models
<b>Systemic crisis</b> , own action	Financial crisis, Waste; Food system; plastic soup	All societal parties: common pool problem; fundamental change in business model/value proposition

Table 3.1 Distinctive Nature of Trigger Events

### 3.3 Four pathways to deal with sustainability trade-offs

ROUTE [A] The activation route: The business of business can be sustainable

In the classic business case for sustainability, there is no trade-off between sustainability and profitability. Sustainability efforts in this phase lower in particular costs and thus increase profit margins. There is an increasing number of management areas in which this trend is becoming true. In a surprising number of business areas, the implementation of ‘green’ principles in production processes for instance seriously lower the costs.<sup>vi</sup> The business case then is relatively simple. Sustainability turns into ‘business as usual’ and not applying these principles by managers will be a sign of poor management, without any moral connotations or sustainability claims. If management portrays cost-reduction motives as an indication of active sustainability strategies they are actually ‘greenwashing’ – sometimes even without realizing it. Take for example the largest company in the world, the American retailer Walmart (turnover of around \$ 500 billion in 2015). A couple of years ago, the management found out that requesting its truck drivers



to switch off their engines during breaks, resulted in annual cost reductions of up to one billion dollars. As a consequence, profit margins rose immediately. In this case, it was perhaps even more remarkable that the management reaped the benefits of this easy solution (also known as 'low hanging fruit') so late. It has been suggested that part of the explanation can be found in the mindset of corporate management that did not want to be associated with 'soft' management areas like ecology. Pressure by external stakeholders was, in this case, necessary to trigger a change, even if the business case was quite obvious and there were no signs of a 'frontrunner' status at all. Nowadays, many companies have figured out that having grass on their roof can seriously lower energy costs. What looks like a very 'active' attitude can consequently be considered an act of a relatively inactive approach – just a sign of smart operational management, corporate *self* responsibility – and certainly not a sign of great (societal) responsibility.

The inactive business case for sustainability consequently triggers a number of motivational challenges that influence the ability and willingness of companies to become more active:

- *Selection bias*: The inactive business case is momentarily limited to a small number of sustainability issues – in particular, ecology topics for which cost reduction is easy to assess. It can also feed into the perverse incentive – referred to as moral self-licensing (section 2.3) – of 'doing something' but abstaining from more integrated efforts. The easier it becomes from a business case point of view to 'walk the talk' in ecological issues, the lower the incentive becomes to face other (more complex) trade-offs in social areas.
- *Segmentation fallacies*: Another problem with the inactive business case is that the segments of customers that are willing to pay extra for the 'sustainability' claim are still relatively small in most areas. This reinforces a relatively inactive attitude if the basic motivation for companies is to reap short-term profits on the basis of existing demand. The transition to a more active approach requires investment. Companies that successfully developed a 'niche' in some areas of sustainability can take away the incentive to follow-through and make their efforts a mainstream part of their core-activities and consequently strategic. This so-called 'crowding out' effect can be internal (the rest of the company become inactive), but also sectoral or societal.

- *The low hanging fruit dilemma*: Faced with complex trade-offs and great complexity in general, people tend to either get paralyzed or look for the easy way out, while also legitimizing this with ethical norms. Applying already cost-reducing technologies is an easy way out. It lowers the incentives for more fundamental change and feeds into a variety of gaps that were discussed in the previous section.

#### ROUTE [B] The reactive route: The business of business is reputable

The stakeholder literature on the drivers of corporate responsibilities puts a lot of emphasis on the external pressure of powerful groups in society that triggers corporate leaders to become more sustainable. Following this logic, companies engage in CSR/Sustainability for tactical reasons, primarily motivated because of anticipated reputational effects and the threat of sanctions and regulation. Bonini and Swartz<sup>vii</sup> interviewed 40 companies that are already pursuing sustainability agendas. The majority of these companies (90%) indicated that they were triggered by external events such as a jump in the price of commodities and consumer pressure. Other reasons to incorporate sustainability were a reputational risk (26%) or long-term risks to their business (more than 50%); 15% of the companies pointed at avoiding regulatory problems and eliminating operational risks. Avoiding liability can lead to window-dressing (a company trying to look more favorable without actually doing something). Window-dressing then represents a state of 'denial' of the importance of the issue and can consequently lead to a relapse into 'inactivity' as soon as the external pressure disappears.

There is also a much more straightforward business case linked to a defensive attitude for sustainability. It is based on the finding that the success of companies (measured as profits or as a value on the stock market) strongly depends on such external dimensions as (1) trustworthiness and (2) reputation. Companies with a famous brand, or in a specific service like banking know that their market value to a large extent depends on the goodwill that they achieve with their financiers, customers or in the media. Some companies, like Coca-Cola, use goodwill even as a major part of their profit-loss statements. Sustainability efforts are becoming increasingly important to get access to money, because investors and banks are taking sustainability more seriously. This was already the case with some leading pension funds, due to their interests in longer term reward for both their members and society. But the trend of sustainable investment received even greater effect

when in 2017, Larry Fink, the CEO of Blackrock, the world's largest asset owner, announced that they will screen their investment portfolio (aimed at the largest firms in the world) in particular at long-term value creation and corporate purpose towards sustainability. Investment funds are looking for long-term returns on their investment and have analyzed that (1) some areas of sustainability are particularly promising, but also (2) because in particular in the area of non-renewable resources (ecology) their risks are mounting as well.

Furthermore, it has been found in reputation research that a good reputation in sustainability areas helps to attract motivated employees with lower demands for bonuses or high income perse. According to the International Chamber of Commerce (2015), sustainability strategies increase employee loyalty and enhance policies and decision-making. Moreover, these strategies create operational efficiency by reducing costs and waste, attract top talent and create a long-term legacy.<sup>viii</sup> It can help make a business more productive and resilient. Companies with a good reputation on sustainability ambitions, prove more resilient during crises, because of a more committed workforce. Another finding has been that during crises, companies that did invest in sustainability or tried to lower the risks of damages (like oil spills or human rights violations) by making serious efforts in safety measures, have been able to lower the costs that they experienced due to liability claims. Good intentions – when properly framed and communicated – in many countries can lead to lower damages when brought to court. If intentions are only based on extrinsic considerations, the resulting business model will be more fragile than if these motives can be aligned with internal considerations. When they are tactical and limited to marginal activities or departments (such as the externally oriented communications department or the philanthropy foundation), they are of a different nature than when they are strategic and related to the core motivations of companies.

The reactive route for companies presents a number of challenges:

- *Context matters.* In the United States, for instance, CSR is largely understood to be a 'responsive' rather than a 'responsible' business.<sup>ix</sup> This attitude can often be attributed to the legal environment in which American companies have to develop sustainability strategies: the American claim culture makes it difficult to admit (past) wrongdoing and consequently makes it difficult to learn from mistakes and move to a more active attitude. The problem with

the resulting reactive attitude is that it triggers largely tactical behavior from the perspective of liability; with this attitude, companies rarely fully grasp the opportunities offered by sustainable enterprises. In many developing countries even 'abiding by the law' is considered to be a sign of great corporate responsibility - which it actually is not (see chapter 4).

- *Risk aversion and loss provide a dominant incentive.* From general motivation research, we learn that (potential) loss provides a much stronger trigger for action than (potential) gain. So the reactive route (of what we don't want) is often more dominant than the active route (what we want and what we aspire to gain).
- *Legitimacy considerations become overly defensive.* So-called institutional motives influence the reactive route. Companies need to gain legitimacy due to a changing environment, which creates external pressures that are not necessarily related to their strategy.<sup>x</sup> Legitimacy can, therefore, be defined as "a generalized perception or assumption that the actions of an entity are desirable, proper or appropriate within some socially constructed system of norms, values, beliefs, and definitions."<sup>xi</sup> Legitimacy theories argue that the action of companies are strongly biased towards defending one's position through reporting and transparency. The analytical and strategic, therefore, is that the institutional setting is taken for granted and legitimacy is mainly treated in terms of trust and reputation towards existing primary stakeholders. The biggest worry for management is consequently is a loss of legitimacy. The urge for legitimacy is particularly strong with mining companies that are often operating under difficult (hostile) conditions where they have to defend themselves against local communities that adopt a 'not in my backyard' (NIMBY) stance. In the interaction with local communities, companies need to gain a 'license to operate'.<sup>xii</sup> But dynamic corporate transition strategies also require gaining legitimacy. Companies that want to get out of the reactive route, not only have to think about their 'license to operate', but also work on their 'license to experiment' in order to follow-through in a more active route in which new institutional arrangements – and new sources of legitimacy – are created.
- *Stakeholder pressure is often one-sided.* A sizable literature has been written on the influence of stakeholder pressure on the motivations of corporate leaders to become more sustainable. One dilemma related to stakeholder pressure is that stakeholders need to involve the media and apply negative

frames in order to get the message across. This reinforces the ‘do not harm’ motivation of companies in those areas for which the media can be mobilized. But it also provides perverse incentives (see section 2.3) for all those trade-offs that are more difficult to address. The defensive business case, thus, gets influenced by ‘lazy thinking’ that is primarily aimed at satisfying the perceptions of stakeholders – depending on the force with which they make the point. Companies can fall victim to what Dan Ariely has called the desirability gap. A more active approach for specific issues is not deemed necessary because of lacking knowledge or lacking pressure to change. As a consequence the reactive business case for sustainability can be quite persistent.

- *Don't be a sucker*: Window-dressing is not per definition a bad thing. It can be a rational response to societal pressure if the company is held responsible for something beyond its powers or responsibilities. In ethical literature, this is called the ‘sucker’ effect: that companies or people take responsibility for an issue that they are not directly involved in. They act according to the so-called ‘categorical imperative’ (as ‘good citizens’ for instance).<sup>xiii</sup> The problem related to this mechanism is that it takes away incentives for other actors to take up responsibility for issues that they should consider (partly) of their making. This is not a theoretical issue. Considerable expectation gaps exist between what companies ‘should’ do and what one can expect from them to do. These gaps are highly context and issue dependent (see also chapter 4) and feed into a bystanders-effect. Checklist #5 helps you further.

#### CHECKLIST #5: How to identify window dressing?

Checking on the phenomenon of window-dressing – also referred to as blue-washing, white-washing or green-washing depending on the nature of the issue involved – is important to assess your attitude, but also the attitude of others. Window-dressing is usually understood as a deliberate action inspired by a reactive mindset. That might or might not be true. As already suggested: People (including entrepreneurs) tend to deceive themselves and each other with good intentions or hindsight biases. Even when window-dressing is done intentionally, it can provide a stimulus for multiplication effects, as a stepping stone towards real change. Motives, even ill-founded ones, can turn into new realities. It is up to the circumstances whether window-dressing should be considered to be a step towards real change or a defensive move to bar change. Dagmar van den Brule developed a relatively simple technique to check yourself and others on whether you are window dressing. Two techniques are integrated:

[1] The *compliance likelihood* framework that can be applied to the actual codes of conduct that organizations have developed analyzes the specificity and compliance components of the code. It measures the ‘probability that firms will conform to codes either proclaimed by them or developed by other actors and that these claims will, in fact, be translated into responsible behavior and action.’<sup>xv</sup>

[2] The *implementation likelihood* framework that can be applied to the kind of external sustainability reporting organizations, has been developed based on the likelihood that its contents have indeed been implemented within an organization’s reports, can be analyzed for four criteria: focus, organization, performance, and monitoring.<sup>xv</sup>

Download the document: <http://www.ib-sm.org/Challenge14WindowDressing.pdf>

- *Denial*: Companies, like people, don't like to be called reactive - even if they are. Denial leads to a lack of awareness and inappropriate (follow-up) actions. More importantly, denial feeds into the tendency corporations have to rationalize and link their reactive attitude to moral arguments. Don't you trust our intentions? If companies choose the easy way out, their denial can be based on a knowledge gap that is the source of the reputational problem. The reactive motivation proves relatively fickle because the issue is bound to reappear.
- *A correct understanding of the issue*: Is it sufficient to approach the issue with a reactive risk-oriented approach? If the issue represents an "incident" (see 3.2), a reactive approach can be appropriate. But the more an incident hints at structural or even systemic origins, the more companies need to become more active in their motives to prevent the issue (and the alleged 'incidents') from recurring.
- *The materiality dilemma*: In the classic research of Bansal and Roth on corporate motivations for (ecological) sustainability, the so-called 'issue salience' was shown to influence corporate *responsiveness*.<sup>xvi</sup> Later on, this idea was further operationalized with regards to the materiality of the issue. Issue identification techniques are aimed at defining their materiality i.e. their importance for the company.<sup>xvii</sup>

The archetypal materiality matrix (Figure 3.2) confronts the importance of issues for stakeholders at the Y-axis (which identifies those topics that the company is supposed to 'talk' about) with the importance of these issues to the company on the X-axis (which identifies how important it is to 'walk'). The materiality matrix then consists of at least four quadrants that present combinations of relative importance. The top right quadrant of a materiality matrix chart contains issues that are not only significant to the reporting company but are also issues that the reporting company's stakeholders care deeply about. The Global Reporting Initiative (GRI) advises companies to spend the bulk of their report (talk) about how they are addressing these issues. The technique introduced by GRI is to establish the relevant topics first and then to define what aspects to consider material. This step is then used to plot the influence of these aspects on stakeholder decisions along the vertical axis, and at the horizontal axis, the significance of the economic, environmental and social impacts is assessed.

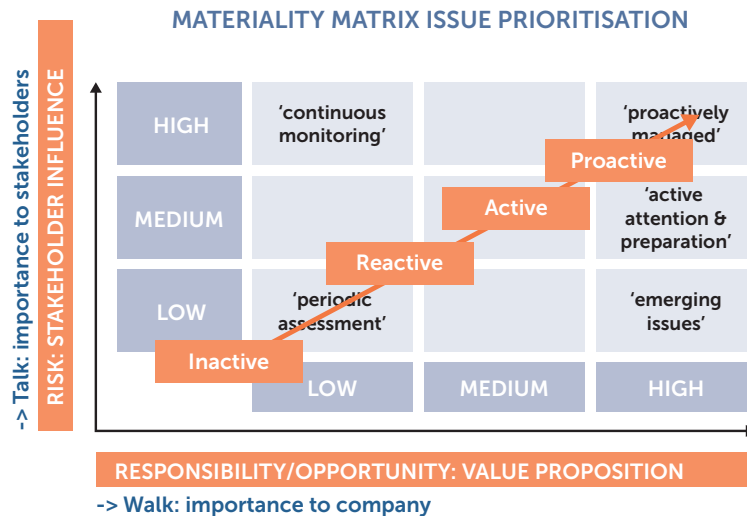


Figure 3.2 Materiality approach: from responsive/threat based technique to opportunity seeking technique

The materiality matrix as introduced by GRI builds on a long-standing practice of companies in the area of "issues management" in which they drew issue-priority matrixes in order to position issues in terms of issue importance (the x-axis) and 'likelihood of occurrence' (the y-axis)<sup>xviii</sup>. Many companies originally used this tool internally to map stakeholders and issues. This tool was largely used as a risk management strategy, to anticipate where in particular the greatest operational risks could be anticipated. In later phases, companies started to include issue priority matrixes in their sustainability reporting. Sustainability reporting is considered an effective channel of communicating CSR efforts, but a major risk is that companies only publish what management deems relevant or how they interpret and frame stakeholders concerns. By using materiality assessment primarily as a reactive tool to assess risk, companies lower the strategic importance of the tool to assess opportunities. This attitude is further reinforced because the materiality matrix is mostly accumulated through consultation with a selected group of (friendly) stakeholders that are not necessarily the most critical or important ones. Moreover, there is often a difference between

the public matrix and the one for internal use. The scales change over time, often in reaction to incidents. The selection process for stakeholders is often ad-hoc, skewed and not really transparent. Participants have the impression that, in many instances, most important topics are pre-determined by the company (with some limited input from stakeholders) while stakeholders are chosen based on how company-friendly they are and whether they are willing to think with the company. Even then, we see that stated priorities by companies change every year. This is a further indication of the relatively reactive nature of the exercise. So, what appears to be a top priority during one year (listed on the upper right quadrant), is not necessarily a strategic priority in the long run. Using the matrix for strategic purposes and to identify opportunities rather than threats can, therefore, be flawed.

- *The coding dilemma*: Many companies have introduced 'codes of conduct' to make sure that employees act responsibly. However, the problem with codes is that they almost always specify what employees should not do. Codes are a control instrument in the 'must' category (chapter 2). The popular belief is that the more specific a code is, the easier it is to control the behavior of people and to prevent them from doing wrong. However, studies in the United States, where the codebook of many companies is very extensive in order to prevent liability suits for malpractice, indicate that it is not that easy. More detailed codes were found to motivate employees to try to evade these codes (Escape motives, see chapter 4).<sup>xix</sup> More general codes that defined basic duties, but also explain the general philosophy behind those duties have been more effective. More research needs to be done on this subject, though. The coding dilemma also applies to supplier codes: Strict codes are very difficult to enforce and relatively easy to evade. They are always part of transition strategies. Companies in any case cannot rely on them as a positive stimulus to do the right thing and go beyond control relationships.
- *Discouraged employees effect*: Companies can choose the easy way out (low hanging fruit) for reputational reasons, but if they do not make their sustainability efforts more core business (coupled with internal alignment), the motivational effect on employees will wither away. The willingness of employees to work longer hours for a lower income for the company will disappear as soon as this ambition proves to be superficial/window dressing.
- *False reliance*: The reputation effect has been considered an important external check and even a stimulus for companies to engage in sustainability.



However, reputation only affects a particular type of companies. Mainly big, publicly-listed companies are affected, because of their reputation in shareholder markets, and in particular by 'naming and shaming' campaigns of critical stakeholders. This can create perverse incentives (see above). A large number of companies are not that susceptible to the effects of reputation at all: this applies in particular to smaller and medium-sized enterprises, Business-to-Business firms, and family-owned enterprises.<sup>xx</sup> For these companies, the motivation to be sustainability has to come much more from intrinsic motivations, from bigger companies in their supply chains or from government regulations.

### **BOX 3: Managing the transition to a Truly Value Creating Economy**

The sixth Max Havelaar lecture (2013) concentrated on how to 'mainstream' sustainability in corporate business models. One challenge is to take the whole value chain into account and to make sure that positive as well as negative externalities that are created by the particular organization of economies are included in the business model of companies. Three intervention angles can thereby be distinguished:

- Initiatives that try to prevent a race to the bottom; this is where we see fairtrade initiatives such as Utz Certified or Max Havelaar that – amongst others through labelling towards consumers - try to enable producers at the bottom of the value chain to have a better bargaining position or fixed minimum prices that should help them not to sink below a bottom level that is under subsistence. One of the problems with this strategy is that it is not yet mainstream, and has a relatively low penetration ratio in many global commodity chains.

On the value proposition of banks:

***"You cannot make money with money"  
"It is the entrepreneur who creates the value, not the bank."***

Peter Blom, CEO Triodos Bank  
MH Lecture 2013 'True Pricing'

- Initiatives that try to stimulate a race to the top in which companies are stimulated to show their commitment to sustainability by becoming transparent on the costs of the whole supply chain. Some of the company benchmarks like Access to Medicine or the 'Behind the Brands' campaign of Oxfam in the food industry, share the philosophy that by making the business models of companies more transparent, they can stimulate a positive competition between companies. A recent initiative in this area goes deeper and maps out the negative externalities of the whole value chain and thus enables companies to communicate the 'true price' of their products. One of the problems with this angle is that it is really difficult to assess

the 'true price' of a product. Furthermore, it is not clear how the intervention will work out when companies actually adopt the proposed technique. Can it become mainstream?

- Initiatives that look at the facilitating, financial, dimension of the whole value chain and see to what extent banks and other financiers can support the creation of fair value with all participants in the value chain. This angle requires a return to the original function of the financial sector (based on its theoretical roots as specified in financial intermediation theory). However, the transition towards different practices of the banking sector proves very difficult, even in the present era where a financial crisis has clearly shown deficiencies in the system. Fair banks still occupy a niche in the present banking system. So what are the odds that they can become mainstream as well?

On externalities and internalization:

*"It is possible to measure, trace and verify the externalities of our production system."*

*"The costs of preventing externalities are much lower than the externalities themselves."*

*"If we are to have a prosperous future, we need to internalize externalities, and if we want to internalize externalities, we need true pricing. There is no alternative."*

*"The current pricing system only provides incentives to make 10% of our activities circular; with true pricing 100% can be made circular."*

Adrian de Groot-Ruiz, Executive Director True Price  
MH Lecture 2013 'True Pricing'

ROUTE [C] The capabilities (active) route: the business of business is creating sustainable value

The development of capabilities is important to move from sustainability as a norm to sustainability as a strategy or from a reactive to an active attitude. While the inactive attitude for sustainability creates a business case for process innovation,

the active attitude triggers product innovation as well as process innovation in the areas of social and economic sustainability. There are two ways to move towards an active business case: an activation and a defensive route. The first route that is primarily based on intrinsic motivations is walked by social enterprises. The other route is prevalent amongst corporations that are strongly influenced by reputation effects and in which (initially) extrinsic motivation prevailed. Each route to be successful requires the company to build up capabilities that go beyond tactical, normative and liability considerations. This is necessary to overcome the gap between strategic intent and realization. To organize these capabilities strategically requires a considerable internal alignment of activities and some tough decisions on trade-offs.

Social entrepreneurs, in particular, are motivated by a strong intrinsic ambition to have an impact on a variety of social and ecological causes. Social enterprises are impact-driven, but they need profits to create the financial conditions to serve this aim. A major problem with social enterprises is the so-called 'valley of death': Many social enterprises have no initial problems in getting started but face major continuity problems later on due to a lack of financial resources or sufficient scaling. The most successful social enterprises in the world – the Body Shop and Ben and Jerry's – adopted successful entry strategies in oligopolistic markets. However, they never surpassed the 5% market share threshold. Their most important contribution has therefore been to prove the viability of an active business case. Their appeal was largely related to a selection of issues and a clear segmentation of willing-to-pay customers. But they experienced major problems in addressing other trade-offs regarding social and economic issues, in particular.

Many leaders of big corporations adopted primarily ethical reasoning to explain their interest in sustainability issues. There are many examples of company leaders that, when asked why they were motivated to aim at sustainability, answered that it was 'the right thing to do'. This statement suggests that their motives were intrinsic, but positive norms often get mixed up with negative norms: In case the prime motivation is not to do harm, companies enter the reactive/defensive route. The above statement, for instance, was made by the CEO of Mattel in 2007. He made this statement after a major scandal concerning working conditions in Chinese plants. In practice, the normative statement becomes a sign of reactive rationalization rather than the input for an active, strategic approach. With (only)

normative statements of big companies, it was found that the gap between intention and realization remained quite big. Especially for big companies, it takes time to make the change for the whole business model. For most big complex companies, ethical motivations alone to become sustainable, therefore, prove relatively fickle. So, despite clear ethical statements, in 2016 - ten years after the scandal - Mattel was still confronted with abuse allegations in their Chinese factories.

The capabilities route knows specific challenges:

- *Selection bias*. Big frontrunner companies that invest in sustainability have mostly been focusing on ecological sustainability because it can be largely achieved by internal (alignment) practices. All the other areas (social, economic) are much more difficult to implement. Many large companies have furthermore focused their philanthropy activities on social activities that are unrelated to their core business. CSR and core activities should be linked, because otherwise, companies can never reap strategic advantages of their CSR efforts, only tactical (reputational) advantages. There are many cases of misalignment in which companies really thought they were active in CSR, but organized and motivated it as philanthropy and so did not use it in their core activities (see below for more examples).
- *Good practices cannot be copied*. Successful social enterprises often serve a niche market. In the literature, they are often portrayed as examples for larger enterprises to emulate. This proves difficult because larger enterprises look for mainstream consumers, not niche markets. They face different challenges – in particular related to scale and internationalization (chapter 4). Consequently, the following effects can apply: (1) Excuses for not developing their own sustainability strategies (crowding out effect), (2) when taking over (e.g. Ben and Jerry's by Unilever and The Body Shop by L'Oreal), learning from the social entrepreneur's experience becomes part of an internal power battle. Furthermore, the most successful social enterprises often limit themselves to a specific area, which leaves many of the remaining trade-offs open.
- *Trust gap*: Even if corporate leaders are serious about their normative motives to engage in sustainability, they face an absolute trust gap. The 2014 Edelman Trust Barometer<sup>xxi</sup> shows that only 25% of general public respondents around the world trust business leaders to address (sustainability) issues correctly.

An even lower percentage trusts them to “tell the truth and make ethical and moral decisions.” Comparable research in the Globescan/Sustainability leader’s survey found that the trust in NGOs to do the right thing is much higher.

- *A large number of internal tipping points needs to be mastered.* In the literature on transition more than 70 tipping points have been identified that need to be addressed if larger companies want to take the active route and integrate the activities of different departments. A detailed account of these tipping points can be read in the book “Managing the transition to a sustainable enterprise” (Van Tulder et al., 2014). The key argument regarding the business case for sustainability can thereby be summarized as follows: The transition from an inactive via a reactive to a more active approach can be achieved if the key financial tipping mechanism is understood as moving from a narrow to a broad investment model: from handling cost reduction and reputation loss – aimed at limiting declining financial performance – to reaping strategic and societal advantages – aimed at increasing longer term financial performance (Figure 3.3). The financial business case for sustainability, thus, looks like an ordinary investment function which is related to various stages of motivation. What initially looks like a ‘drain’ on corporate financial performance (stage 1) become a positive return (stage 3) once the

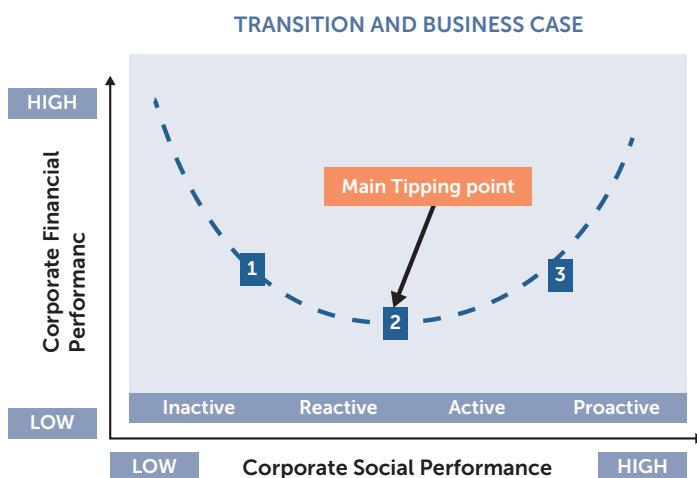


Figure 3.3 Transition stages and general business case for sustainability

financial tipping point (stage 2) is surpassed. There is growing evidence that the investment curve for most sustainability issues actually looks this way. It also implies that corporate leaders should take the transition stage of the company into account, in order to figure out what type of business case argument should be applied: limiting cost and reputation loss (stage 1-2), gaining strategic advantages (stage 2-3), solving systemic problems (stage 3). The metrics changes per stage. Chapter 7 provides more detailed qualitative metrics to map motives along these transition trajectories.

- *Facing relevant trade-offs.* Faced with a sizable list of internal tipping points, it is easy to see that many companies become susceptible to choice paralysis, lazy thinking, etc. – even if the intentions of the leaders are sincere. Lazy thinking, for instance, appears when the transition is portrayed as a ‘win-win’. Win-win is a very dominant frame applied by sustainability fans. But, faced with a large number of trade-offs, it will be very unlikely that everyone will win and that all choices can be diligently and well-founded at the same time. There are tough trade-offs to be considered. The internal alignment challenge for corporate leaders become consequently how to involve in particular internal stakeholders (employees) in strategic discussions and often painful transition processes. Checklist #6 provides the topics on which these trade-offs need to be defined. Previous research shows that many (Dutch) frontrunner organizations are still relatively stuck in the middle, i.e., find it difficult to decide how to deal with these trade-offs. If this transition is not managed well, there will be a relapse into reactive thinking.

Getting all the Motives Right:  
 Driving International Corporate Responsibility (ICR) to the Next Level

CHECKLIST #6 Managerial Trade-offs								
General managerial trade-offs								
	MOST IMPORTANT		EQUALLY IMPORTANT		MOST IMPORTANT			
	←—————→							
Shareholder value	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Stakeholder value
Existing demand	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Latent demand (needs)
Economy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Ecology
Intellectual property protection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Innovation for societal needs
CSR as philanthropy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	CSR as integrated strategy
Transactional leadership	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Thought/transformational leadership
Efficiency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Ethics
HRM: employees as cost	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	HRM: employees as assets
Purchases on price primarily	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Purchases on sustainability (and price)
Closed innovation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Open innovation
Bonus culture	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Fair wages
Finance as aim	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Finance as means
Profits	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Societal value
Short-term orientation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Longer term orientation
Customer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Employee
Owner	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Customer
Supplier	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Customer
Responsibility	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Liability
Improving efficiency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Creating good working conditions for staff
General reputation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Sustainability implementation
Ecological sustainability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Social sustainability
Specific Sustainability trade-offs								
Price	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Quality
Affordable meat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Animal welfare
Economy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Ecology



Intellectual property protection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Responsible innovation
Price	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Sustainability
Low taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Fair taxes
Efficiency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Ethics
Low wages	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Living wage
Free trade	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Fair trade
Bonuses	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Fair wages
Shareholders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Stakeholders
Privacy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Security/safety
Wage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Leisure
Emancipation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tradition
Animal rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Human rights
Social security	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Low taxes
Well-being	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Welfare
Low prices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Fair prices
Taste	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Health
Health	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Wealth
Freedom of choice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Sustainable choice
Jobs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Living wage
Wage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Empowerment
Cheap food	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Biodiversity
Cheap fuel	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Access to energy
Freedom of choice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Responsibility
Minimum wage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Maximum wage
Externalization of costs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Sharing of costs/benefits
Cheap products	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Preventing child labor

- *The crowding-out paradox*: It has been found that a good CSR reputation attracts more intrinsically-motivated employees. They are more committed, more productive and, in times of crisis, more loyal to the company. Personal and organizational motivations can be aligned, but with a particular twist. In order to speed up the transition to a more integrated approach, managers

might e.g. want to link financial bonuses (and Key Performance Indicators) to individual performances in the area of sustainability. But here, the crowding-out theory<sup>xxii</sup> shows that this gesture might have a negative effect on the intrinsic motivation of employees, as it attracts the wrong type of employee that is not interested in making the change to higher levels of sustainability and/or is not willing to deal with serious trade-offs. A related problem is that employees also have often fickle intrinsic motivations (cf. section 1.2), which makes it particularly difficult for management to identify and support internal change agents.

- *Using positive perception gaps:* In frontrunner companies in the Netherlands, for many sustainability issues, we found that employees are often more motivated to take an active stance than the company. We asked 2500 key employees from Dutch frontrunner companies the following three questions on 20 issues: (1) What *is* my company doing; (2) What *should* my company do and (3) What *can* my company do? The difference between these three dimensions was called the *perception gap*. This gap also creates an implementation gap. The greater the perception gaps between the three aspects are, the greater internal tension becomes. We found that the smallest perception gap (6.3%) existed on the topic of safety. Employees have high expectations, but also consider those expectations to be met by the company. Another relatively small perception gap existed for a clean environment (15.9%). A low perception gap exists also for the topic of animal welfare (16.5%). But now at an opposite level: Employees believe that their organizations do not need to do much for animal welfare. The greatest perception gaps exist in four areas: Transparency (30.2%), fair trade (29.7%), combating child labor (28.9%) and tackling poverty (26.2%).

So one can conclude from this type of perception (and motivation) research that the greatest potential for change towards a more active attitude lies in these latter areas. Employees are intrinsically motivated to advance these issues farther than their companies are presently doing. Corporate leaders can expect support from their employees when they start implementing more active policies? One major proviso needs to be made, though. In chapter 2, it has already been argued that the personal intentions of employees can be fickle, in particular when faced with many different trade-offs and a lack of control over their activities. There are examples of frontrunner firms where employees were nevertheless frustrated by the transition in practice,

even after they stated they wanted things to change. Checklist #7 help leaders to overcome these internal motivational barriers. They indicate a lack of 'collaborative mindset' at both organizational and individual levels. The collective mindset of employees is not only related to their motives (as elaborated on in chapter 2) but linked to some basic organizational activities.

<b>CHECKLIST #7: The "collaborative mindset of your organisation"</b>
<p>These exemplary questions can be asked to employees in order to find out what type of strategies they are motivated by. It does not cover all dimensions of corporate sustainability, but that is not the aim of this checklist. We intend to find out what type of approach on sustainability issues prevails in your company: (1) An inactive attitude, (2) a reactive attitude, (3) an active attitude or (4) a proactive attitude. It is possible to give multiple answers to a question. This also helps you to define the degree of coherence on various issues. In combination with checklist #4 and #6, this defines not only perception gaps on what the company should or could do, but it also provide you with information on the preferred approach (individual, collaborative). This inventory provides you with information on the capabilities and motives that are prevalent in your organization and which can either help or hinder you from making transitions.</p>
<p><b>ENVIRONMENT</b></p> <p><b>1. Waste management</b></p> <ul style="list-style-type: none"> <li>○ There should be no policy in place towards waste management</li> <li>○ There should be a policy in place with a few measures to reduce waste, for example by using less packaging material</li> <li>○ Packaging material and resources should be actively recycled</li> <li>○ The cradle-to-cradle principle (closing the supply chain loop) should be actively developed and implemented, where necessary cooperation with other organizations should take place</li> <li>○ No opinion</li> </ul> <p><b>2. Saving energy and using renewable energy sources</b></p> <ul style="list-style-type: none"> <li>○ No policy need to be in place to save energy</li> <li>○ Environmental policy should be primarily aimed at cost reduction</li> <li>○ There should be a policy to save energy - in response to tightened regulation.</li> <li>○ There should be a quest for technological solutions for the reduction of energy</li> <li>○ Measures to save energy AND reduce greenhouse gases should be in place.</li> <li>○ When it comes to the implementation of environmental policy, we should cooperate with stakeholders such as NGOs, government, and other companies</li> <li>○ No opinion</li> </ul> <p><b>3. Saving water</b></p> <ul style="list-style-type: none"> <li>○ There should be no policy in place to save water saving, except if it is to reduce costs.</li> <li>○ There should be a policy to save water - in response to tightened regulation.</li> <li>○ There should be a quest for technological solutions for water usage</li> <li>○ There must be cooperation with stakeholders, such as NGOs, government, and other companies to choose and implement the water saving solutions</li> <li>○ No opinion</li> </ul> <p><b>4. Stakeholder involvement in the development of the environmental and social strategy</b></p> <ul style="list-style-type: none"> <li>○ Regular and organized contact with stakeholders is not necessary; information should be released only on external demand</li> <li>○ A discussion with external parties in the environmental and social fields should take place</li> <li>○ A public dialogue on environmental and social issues should take place, and there should be clear codes of conduct agreed upon by stakeholders on these issues</li> <li>○ An interactive dialogue with stakeholders should take place; strategies on how to deal with these issues should be developed in close collaboration with stakeholders</li> <li>○ No opinion</li> </ul> <p><b>SOCIAL</b></p> <p><b>5. Working conditions</b></p> <ul style="list-style-type: none"> <li>○ We should pay no attention to the work-life balance or workload</li> <li>○ The main focus should be on good primary labor conditions (wages and working hours)</li> <li>○ An internal policy should be in place regarding optimal work-life balance</li> </ul>

- Employees should be stimulated to design and operationalize their work-life balance
- A new social contract with trade-unions is necessary for a proper work-life balance
- No opinion

**6. Training and development**

- There should be only limited investment in training; this is mainly the responsibility of employees
- Only basic vocational training should be provided - or training as part of major restructuring operations
- Training courses should systematically be provided, using only internal trainers
- Training courses should systematically be provided - external trainers should be part of the training mix
- No opinion

**7. Volunteer work**

- Volunteer work should be the choice of the employee – the company has nothing to do with it
- Company premises should be made available outside working hours for local community activities of employees
- It should be part of the company's policy that employees are involved with local communities
- Employees should be actively stimulated to support the local community with corporate means
- No opinion

**8. Health (e.g., in the catering of the canteen)**

- Health should not be seen as a primary responsibility of the organization
- The company has no responsibility but should line up with other initiatives in favor of healthy choices
- The company should take responsibility and offer healthy food
- There should be an active engagement and dialogue with civil society organizations and suppliers to increase the nutritional value and improve the availability of healthy food
- No opinion

**9. Governance**

- Self-regulations are always preferred
- The corporate strategy should be aimed at a "level playing field" regarding sustainability, which requires some minimum governance standards
- The company should actively come up with own standards and try to get them accepted by other players
- In collaboration with other stakeholders, the company should formulate new governance arrangements and implement them
- No opinion

**10. Purchasing ...**

- Should be done based on price
- Should be done based on price and quality
- Should be done based on fair prices and high quality
- Should be done based on shared responsibility; quality standards and prices should be developed in cooperation with the suppliers
- No opinion

**11. Labor conditions in value chain**

- Product sourcing should be based on price and fitness for purpose - labor conditions should not be considered
- Minimum standards for labor conditions should be set for suppliers; the law should be obeyed
- Suppliers should be selected based on their approach to working conditions and fair pay
- We should be actively involved in developing widely applicable international norms of good working conditions
- No opinion

**12. (International) Human rights**

- The procurement policy should be based solely on price and availability – human rights should not be taken into consideration
- Human rights should be respected by abiding by international rules, but suppliers are primarily responsible for their implementation. Suppliers should abide by minimum regulation on human rights; violation of these rights should lead to direct sanctions
- The company should develop its own code of conduct on human rights because of lacking international standards
- We need an active involvement in the common design of codes and standards for the whole branch. Cooperation with other stakeholders should be favored.
- No opinion

- Dealing with negative perception gaps*: Whilst frontrunner companies might experience the dilemma of positive perception gaps, other firms (non-frontrunners and SMEs) that want to walk the active route will probably be more susceptible to the opposite mechanism: employees are less motivated to drive sustainability efforts (use checklist #7 for this purpose). In both scenarios there is a need to make the trade-offs more transparent and the choices more aligned/internally shared. Both scenarios define leadership challenges, which can be measured in particular by the way leadership deals with most internal organizational trade-offs *at the same time*. A company leader that aims at sustainability in the marketing strategy, but requires its purchasing managers to only buy-in on the lowest cost basis (without any reference to sustainability) creates an internal credibility gap, which in turn will seriously hamper the motivation of employees to collaborate. Internal alignment requires capability development, which proves particularly challenging in rapidly changing circumstances.
- The technology trap*: Many companies choose the easy way out of the many transition dilemmas through a focus on technological solutions. So-called “End-of-pipeline” technologies are adopted (to reduce local pollution levels for instance) and are reactively motivated to lower negative externalities. But they also lower the motivation for more fundamental (preventive) and active solutions in which the organizational (polluting industry) or the social problem (lacking technology) is addressed. Take for instance the introduction of aquaculture fisheries to address the systemic problem of sustainable fisheries. The technology can potentially solve the strategic problem of depleting the world’s oceans, but takes away the incentive of the fishery industry to do something about the systemic pollution of the oceans. Furthermore, it has been found that with the introduction of many technologies – certainly as an effort to deal with systemic sustainability challenges (section 3.2) - unintended consequences can create additional problems. With aquaculture, fishing, and other forms of intense animal farming for instance health issues appear, because of an increased use of antibiotics. Another example: energy provision through nuclear energy created immense (unintended) safety and storage problems. Taking intended and unintended consequences into account requires a deeper motivation for dealing with long-term solutions to existing sustainability problems. The Economist (10 February 2018) calls this ‘techno solutionism’ in which ‘techies’ have the

naïve belief systemic that problems in health, education and so on can be solved with whatever technology is in vogue. Nowadays this is for instance 'blockchain' technology. The Economist argues "deep change generally requires co-operation with governments and social mobilization", in other words: the collaboration route (route [D]).

- *The labeling dilemma*: Companies that chose for the active route have increasingly tried to inform their customers (and stakeholders) of their good intentions. An important part of this has been focused on developing consumer labels so as to move beyond what governments have defined as minimum (legal) requirements. For some products, governments around the world have introduced negative labels or warnings. This applies in particular for products that create a clear public health-issue such as alcohol or tobacco.<sup>xxiii</sup> The number of countries that have introduced regulations requiring pictorial warnings on tobacco packages is increasing. Pictorial approaches (rather than written warnings) seem to have a great impact on the choice behavior of consumers. This has an important motivational dimension: The packages have always been an important venue for creating positive associations with a product. Graphic pictures replace positive associations with negative associations. In this case, the 'sinful good' dilemma (in which the long-term costs have been denied and the short-term benefits exaggerated) can be brought to the attention of the consumer. When we link this with high prices (through taxation), the choice for consumers becomes easier not to start this unsustainable habit. Whether it positively affects the willingness of people that are already smoking or drinking (the want-track, see chapter 2), however, is still open for debate.

In many areas, positive labels complement lacking government initiatives. Fair trade or ecologic issues like recycling and waste management have pioneered with labels to inform clients of their intentions. Governments around the world find it difficult to define a minimum practice or to establish a level playing field on which companies can then develop their business model. This is why companies have increasingly been introducing positive labels themselves. But the effectiveness of these labeling activities to free the active route for companies is not without major motivational and (negative) perception hick-ups. Firstly, positive labels often trigger negative associations with average consumers: They are perceived as belonging to a mediocre quality product (compared to the non-labeled products), have higher prices and are aimed



for consumers to distinguish between the serious and the less serious labels is high. So, labels can even stall progress, not in the least because the issues that the company addresses have to be brought back to one-dimensional decision-processes. Experiments that addressed more difficult trade-offs for consumers, for instance linking ecological issues with animal welfare, have yet failed.

- *Leadership challenges intensify*: The active road seriously complicates the skills and capabilities needed to lead a company. Transactional leadership needs to turn into transformational leadership. Companies move from single and simple goals to multiple, more complex goals. Sustainability challenges and their trade-offs create a particular problem for companies by having to focus on more than one goal. Mainstream economists often argue that companies should not focus on multiple-goals at the same time, but only one goal at a time<sup>xxv</sup> - in this case maximizing or optimizing the profits - to safeguard the continuity of the company and the value for its stake/ shareholders. Companies are usually very competent in creating a hierarchy of goals. But what hierarchy should be adopted along the capabilities route? In the active phase, profit optimization can still be a leading motivation, but it needs to be coupled to a clear inside-out ambition in which the leadership (1) starts to manage the basis of societal impact measures such as social return on investment and (2) checks whether this does lead to a negative image with mostly primary stakeholders. Other literature refers to a new psychology for sustainability leadership. Worldviews of leaders, in particular, shape their actions towards higher degrees of sustainability. Steve Schein<sup>xxvi</sup> refers to this as the post-conventional stage. While pre-conventional worldviews are associated with impulsive, opportunistic and lower levels of psychological maturity (i.e., the inactive attitude), conventional stages have been characterized by conformance with social conventions (i.e., the reactive approach). Post-conventional stages are characterized by reframing problems with a deeper understanding of context, interdependence of systems, and a greater awareness of environmental and social implications over longer time-frames<sup>xxvii</sup> (in short: the more active attitude).
- *The incumbent's curse<sup>xxviii</sup> becomes strong*: Incumbent companies are those established companies that often occupy a dominant position in a particular sector. This also implies that they have a vested interest in the old



way of doing business, have great difficulties in changing, and are therefore more inclined to bar change towards higher levels of sustainability – even if their leadership is convinced that this is needed. Research on the so-called ‘incumbent’s curse’ has shown that this has been an important factor as to why so many seemingly big and powerful companies, in the end, might even disappear for lack of adaptation to new realities. Incumbents fail to adapt in particular because of inability – related to lacking motivation – to master new competencies and routines, but also through what is called cognitive locks,<sup>xxx</sup> and the embeddedness of incumbents within an established industry network that does not properly value the new technologies and societal ambitions. Incumbents will try to block change on vested interests and are motivated, therefore by a status quo bias. This poses a particular challenge to the leaders of these companies that want to make the change. Evidence on how incumbents sometimes succeed in facing and shaping radical transitions shows that they can do this in particular by investing in internal capabilities and assets by developing a proactive vision on where to go to. Transformational incumbents redeploy and leverage their innovative capabilities in the new technological and market domains linked to particular sustainability issues.<sup>xxx</sup>

Key corporate approaches to facilitate the transition to greater sustainability:

*“Four key questions shed light on whether companies and big corporations are serious about maximizing their impact on development:*

- *Are we measuring the impacts different ways of working can have on development and on poor people?*
- *Are we taking a long-term view for our business?*
- *What are we doing specifically on the issue of labor standards – wages, health and safety, working hours – to ensure that jobs are also good jobs?*
- *What are we doing together as an industry?*

Giles Bolton, Head Ethical Trading Policy Tesco  
MH Lecture 2008 ‘Partnerships for Development’

- *Using stakeholder pressure appropriately:* This might sound strange, but not all corporate leaders are against naming-and-shaming-campaigns of critical stakeholders. Employees might not be fully motivated to make the change – leading to a negative perception gap. So, some leaders have been using external pressure to trigger internal change. A sense of urgency can be very useful. Managers with an active motivation to trigger change (operating in a reactive company) have been known to give the following statement: "If there are no critical stakeholders, I will invent them." This attitude obviously presents a delicate transition process. It motivates employees to act upon a sense of urgency and enemy thinking towards certain stakeholders that in a next transition stage should be reframed as an opportunity to cooperate perhaps with the same stakeholders.
- *Developing a 'richer' value proposition becomes mandatory:* Part of the concrete leadership challenge is to identify not only the nature of the trigger event (see above), but also to link it to its own value proposition. Where did it go wrong and what would be a more engaging proposition? For instance, during the 2007 financial crisis, it became clear that banks and their employees did not really understand what products they were offering. This applied for instance to the risks that bankers took with so-called 'futures' and 'sub-prime mortgages'. Making money with money turned out to be a rather poor value proposition. Financial intermediation – the basis of the financial sector – in essence is aimed at supporting the value creation of others. Many systems banks had clearly forgotten this. In the aftermath of the financial crisis, many banks started to reinvent themselves in this respect (see box #3). Pharmaceutical companies that are only interested in patent protection rather than developing new products (to enhance health) face a similar challenge. Banks and 'Big pharma' present examples of relatively poor value propositions. This problem – a fortiori – relates to alcohol, tobacco and fatty food companies that aim their marketing campaigns at young kids and consequently contribute to an addiction to bad habits - at an age at which kids or adolescents cannot be considered able to make responsible choices. In some countries, this corporate strategy is prohibited by law, but not in all, and it is certainly not always sufficiently maintained.

Basic characteristics of a poor value proposition are that it is: instrumental, simplistic, managerial, risk averse, quantitative and easy to measure; and only on the interest of the company. "Being first", 'maximize profits' or 'being the biggest' in various forms belong to this category. In the case of the banks,

they even became too big to fail, which created a particularly vicious problem for the rest of society once it turned out that these banks had been taking too much risk (the so-called ‘moral hazard’ problem). Size and profitability are valid *means* for the financial and competitive sustainability of a company but do not represent an independent measure of the kind of ‘value’ the company aims to produce. They provide a ‘poor’ motive for companies. The same applies to negatively formulated value propositions like ‘don’t be evil’ (Google) or ‘don’t violate privacy’ (WhatsApp). Negatively formulated intentions are in practice difficult to sustain (see chapter 2). Both companies faced practical problems with implementing their value proposition: At entry of the Chinese market, Google was asked to abide to Chinese censorship practice and was thus confronted with the moral problem that ‘evil’ in a Chinese context can differ from ‘evil’ in an American context. WhatsApp modified its commitment on the privacy of its subscribers after it was taken over by Facebook. Managers of the company that strongly believed in the protection of the customers consequently left. So, one of the most specific leadership challenges, in the capabilities phase, thus relates to inventing more inspiring and ‘richer’ value propositions that can also withstand the short-term pressure from external stake/share-holders. Table 3.2 provides examples of poor and rich value propositions per functional area of management.

	“Poor value proposition”	“Rich value proposition”
<b>General characteristics</b>	Instrumental, simplistic, managerial, risk averse, quantitative, easy to measure; company oriented only; don’t do harm	Resilient, inspirational, entrepreneurial, risk taking; qualitative, societal orientation (also)
<b>Cost of ‘doing nothing’</b>	The costs and risk of inactivity are not considered	Cost and risks of inactivity are part of the business case
<b>Marketing</b>	Sell as much as possible; customer is ‘king’; demand orientation	Sell consumer value; support latent demand; need orientation
<b>Finance</b>	Profit maximization; cost minimizing; increase (short-term) shareholder value (biggest return on investment)	Enable the financial means for a company to thrive; creating increased societal value (social return on investment)
<b>Purchasing/supply chain</b>	Purchase as cheap and as flexible as possible (no commitment to suppliers)	Empower suppliers (for instance through innovation) to contribute to your value creation process
<b>HRM</b>	Produce with the least number of people the highest possible output	Organize an inspired and committed staff
<b>Strategic management</b>	Being the biggest, the first	Being innovative, creating the most value for society, solving particular societal problems

Table 3.2 From poor to rich value propositions

- *Applying value theory requires an upgraded CANVAS model:* The Business CANVAS model has been a popular visual and strategic template for business model development.<sup>xxxii</sup> It specifies the basic activities of a company around its value proposition. Towards customers, it's about designing value (customer relations, channels, and segments), towards its suppliers, it's about creating value (resources, activities, and partners) as well as the financial bottom line of the business model (the net effect of cost structure and revenue streams). It has turned into a powerful tool for assisting firms to align their activities by illustrating potential trade-offs in different functional areas of management. But thinking in terms of sustainable business models requires an upgrade of the original CANVAS model: moving from only a profit purpose to also include a social and environmental purpose – which implies that the value proposition is broadened. The financial account of this CANVAS Plus then needs to include also so-called positive and 'negative externalities' of the business model. An upgrade model (Figure 3.5) defines this as environmental and social costs and benefits. A successful (sustainable) business model achieves not only a positive net-value in terms of profits, but also in terms of social and ecological added value. This implies that companies are not only capturing value but also sharing value through which they can increase their impact on sustainability questions. This can be achieved in many ways. The business model thinking regarding CANVAS Plus<sup>xxxiii</sup> models has progressed since then to include for instance separate – and more detailed business models for social enterprises or inclusive business models. Chapter 7 will illustrate what type of indicators can be used to check further how the intentions of this model can be operationalized in various functional areas of management.

#### ROUTE [D] The collaborative route: co-creating shared value

The collaborative or proactive route defines CSR as corporate societal/sustainable responsibility. It takes the whole system (impact) into account and defines societal challenges as the most important motive for companies to implement sustainability strategies. The motivation then moves from one aimed at creating a competitive advantage for the company to one aimed at solving societal challenges. This approach involves a changing attitude towards stakeholders.

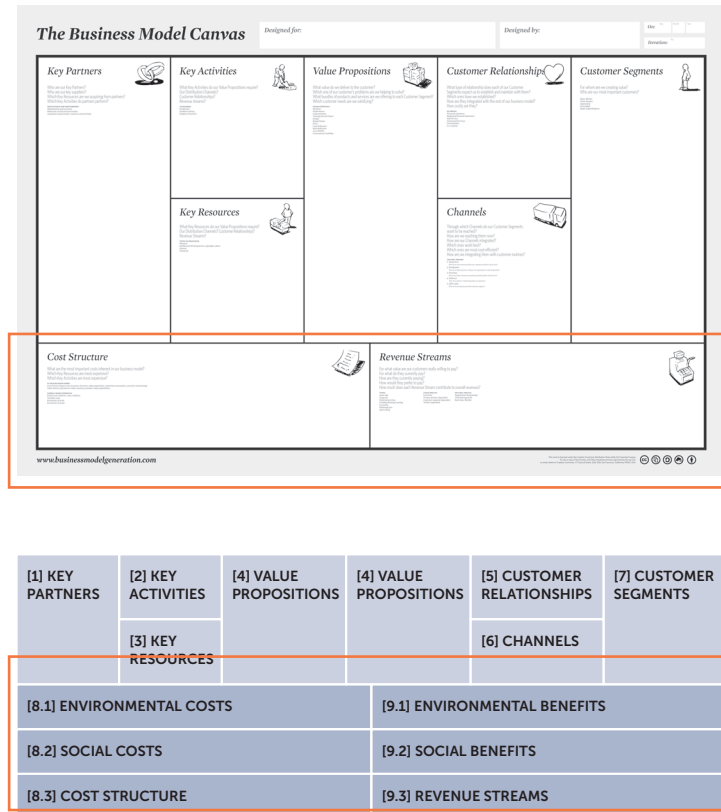


Figure 3.5 Traditional to upgraded CANVAS model

They are not considered external but are part of co-creation strategies for which all participants require a collaborative mindset. Companies that are motivated by this strategy have analyzed that the systematic problems that they face are sizable and unsustainable (i.e., will lead to crises and other unpredictable effects); the systemic problems they face in their sector, cannot be solved by them alone. They might, however, benefit from an initial competitive advantage if they create new business models aimed at addressing systemic issues. In all cases, this implies that companies have to collectively make sense and get stakeholders involved in a way that goes beyond stakeholder dialogues and the like. Stakeholders have to become co-designers of new systems. The basic philosophy for companies of this approach is that by being first to help shape the new system, they can

reap the first-comer advantage by anticipating the internal changes required to profit from new developments fully, but also because they will have a more than average influence on the actual outcome of these processes. They try to change the rules of the game without knowing exactly what these rules will look like. The game becomes a mixed-motive game.

The collaborative route also poses some distinct challenges:

- *Stakeholder motives are equally important*: A critical condition for stakeholders to enable the proactive route is to move from a confrontational to a cooperative attitude in which the motives and ambitions of stakeholders have to be taken into account as well. Win-win approaches are thereby rather superficial, as is the idea of shared value creation if these approaches are not linked to solid processes in which important stakeholders – primary as well as secondary, constructive as well as critical stakeholders – are included one way or another.
- *Collaborate or collude*: In many countries, competition and anti-trust policies make it difficult for companies to collaborate. The dominant rationale for these policies is that companies have to compete, not collaborate. If they do the latter, they might be motivated to abuse their power – collude and create cartels that are not in the best interest of consumers. But the problem with anti-trust/competition policy regulation is that the interests of consumers in most cases are equated with low prices. The immediate interests of consumers are thus very narrowly defined. Companies that want to drive sustainability to the next level through collaboration have to make clear that they collaborate and not collude. One way of approaching this is by making sure that the prime motive is not to disturb competition, but to enhance it by creating a new market for more sustainable products. This is also known as *pre-competitive* or even *pro-competitive* collaboration. It requires a more sophisticated value proposition that looks at the whole environment in which groups of companies have to operate. For competition policy authorities this often requires a greater understanding of the real motives of companies to collaborate – often also requiring new regulatory frameworks that facilitate this.
- *Capture/adverse selection dilemma*: The more companies need to collaborate with other organizations – many of which are not primary stakeholders – the more the motivations of these other organizations become important for

the success of the strategy. But many collaborative ventures of companies have been designed to lobby regulators for initiating stricter (environmental) laws. In 2015, for instance, it was found that many companies that officially communicated their commitment (and motivation) to take action against climate change, at the same time were allying with lobby organizations that were arguing against a more active government in this area.<sup>xxxiii</sup> This ambiguous position is characteristic of a mixed motives game in action, partly as the result of ambiguous motivations with the companies themselves. Part of this dilemma relates also to another challenge: the problem of adverse selection. To enhance the legitimacy and power of a group of stakeholders, the size of the group can be very important. But creating coalitions contains the risk that some participants have different (and often defensive) motives. Especially in big alliances not all participants are motivated to contribute at all. They just want to sit at the table to safeguard their own (short-term) interests. Adverse selection then implies that the collaborative initiative will be seriously hampered or even frustrated. Enabling coalitions in this way often requires that the initial bar will be set very low. Adverse selection in practice implies that it will be extremely difficult to make the next step, not in the least because it has never been the intention of some participants to enable this. Getting a coalition of (willing) organizations with the right motives is therefore vital, as well as the willingness to contribute to a shared vision.

- *Setting up a proper portfolio of cross-sector partnerships*: The more you want and need to collaborate with others, the more it becomes important to align motives. We call this 'strategic alignment'. In the literature on partnering,<sup>xxxiv</sup> James Austin and May Seitanidi<sup>xxxv</sup> introduced a collaboration continuum to identify the degree of engagement in partnerships. They identified four nodes on a continuum that define increasing intensities and ambitions for partnerships: Philanthropic → transactional → integrative → transformational. Their collaboration continuum provides a way to look at collaborations as dynamic phenomena. No stage is a discrete point, but every node represents a higher level of commitment. Collaboration projects are always multifaceted, so some characteristics may be closer to one reference stage while other traits are closer to another. The continuum does not imply that being transformational is necessarily better than being in a philanthropic relationship. It all depends on the goals and the expectations of the partners. The continuum defines the degree to which the intentions for partnership can

be considered more or less strategic: Philanthropic partnerships are usually relatively ad-hoc; transformational partnerships are inevitably strategic. The continuum provides a practical tool for organizations to assess their own and their partner's strategic intention for the partnership (Table 3.3).

 <p style="text-align: center;">Ad-hoc</p> <p style="text-align: center;">Strategic</p>	<b>Philanthropic</b>	Are involved in providing welfare to society through charitable giving, such as the sponsoring of sports clubs and donating to charity organizations. Resources often flow in one direction: from the business to the CSO. The transferred resource mainly helps the CSO in pursuing its mission and goals, but it involves a low degree of commitment and links with the core activities of the organization.
	<b>Transactional</b>	The rationale for transactional partnerships is improving the profitability of market share from a business perspective. Examples are bottom of the pyramid-initiatives. Other examples are marketing campaigns whereby consumers buy a product of which a certain percentage of the profit goes to charities.
	<b>Integrative</b>	The focus lies on balancing the interests of the organizations involved by actively using their core competencies. For instance, a partnership between an advocacy organization and businesses that focus on certification programs in order to sustain their commodity chains.
	<b>Transformational</b>	Interact with all relevant stakeholders in order to respond to all partners' needs and resources equally. Aimed at systems change, which can lead to disruptive social innovation and new organizational forms.

Source: based on Austin and Seitanidi, 2012

Table 3.3 Partnership continuum

The question of strategic alignment then is whether both parties have the same understanding of their partnership and have comparable degrees of engagement and motivation. Philanthropic relations, for instance, require much less commitment to the partnership than integrative or transformational relationships. As long as both parties share the same ambition, the partnership can be a great success. For partnerships that involve less engagement, the termination of the partnership is not necessarily a bad thing, as long as each party understands it is temporary and philanthropic. But the success of transformational partnerships is dependent upon the long-term engagement of both parties. Strategic alignment appears when the collaborative parties have the same intention for the partnership. Strategic misalignment appears when these intentions differ and are either not understood or not communicated.



- *Timing challenge*: Co-creation and other processes of collaboration imply a fundamental change of attitude of the company and stakeholders. The critics that are fundamentally suspicious of the intentions of companies to walk the talk suggests that companies are more strongly motivated through external pressure and naming and shaming. This, however, can lead to overly defensive attitudes. If the motivation of companies is intrinsic and active, naming and shaming can feed into negative perceptions and stall progress within companies. So, there are considerable timing challenges: A cooperative strategy started too early may lead to low targets and less willingness to make tough choices. Ending a confrontational strategy too late may lead to frustration with the company willing to take the lead.
- *Trust gap*: A Globescan sustainability leadership survey (2014) showed that perceptions of performance and potential for leadership are still misaligned all around the world. Both national governments and the private sector are expected to be spearheading the sustainable development agenda, but their performance continues to be viewed as poor (with governments even poorer than companies). Conversely, while NGOs, social entrepreneurs, and academics are not expected to be the core drivers of progress on sustainable development, their performance is rated high by experts. In contrast to 2012, when experts saw the UN as an organization that should lead but at the same time was thought to be performing poorly compared to other actors, new initiatives like the successful introduction of the Sustainable Development Goals (SDGs) in 2015 now place the UN among those best positioned to lead the agenda. Multi-sectoral partnerships and collaborations in this overview are considered to create the best combination of performance and leadership. However, indicative of their mixed-motives game: They compensate for the trust gap of government and private and of the performance gap of NGOs, but don't create superior performance in the perception of the respondents. So the potential of partnerships is acknowledged, but there are still doubts about their actual performance and what they can achieve. One relevant argument is that partnerships can take away some of the responsibilities (crowding-out) of particular governments to deliver public goods for which they are particularly well positioned and funded (through tax payer's money).
- *The fiduciary duty broadens*: The trust gap is also related to the way managers of corporations act in the interest and the benefit of others. This is referred to as the fiduciary duty of a company. There exist a narrow and

a broad interpretation of fiduciary duty. The fiduciary duty of a company is often legally and more narrowly embedded in national governance laws. These are related to the so-called 'agency' relationship between a capital provider (shareholder, member, donor – also referred to as the 'principal') and the manager of an organization. Trust is then based on a *negative duty* approach, i.e., that the manager will not engage in insider trading, legal malpractice or fraud. Fiduciary duties often informally support the legitimacy of companies. If companies do not act in the interests of their customers – by selling unhealthy products, or cheating – fiduciary duty gets breached. However, strict regulation often goes at the expense of entrepreneurship. Fiduciary duty can also be elaborated in a broader sense: not only include the relationship with direct stakeholders but with society as a whole. To move from a narrow to a broader interpretation of the fiduciary duty of companies involves leadership and a reframing of the company goals towards a more *positive duty* and responsibility approach. If handled well, a positive duty approach that searches for structural approaches has higher chances to deal with the triple 'trust gap' that companies face (see the preface) than a negative duty approach which looks at sustainability issues as incidents that have to be repaired.

- *Internalization challenge*: The more companies collaborate with external stakeholders, and the more this becomes a mixed-motives strategy, the more challenging it is to align this strategy with the internal organization of a company. Studies show that addressing sustainability/societal challenges can seriously increase the innovation strategy of a company and enhance the motivation of employees. But only if the external alignment is internally linked to core activities and core personnel. Otherwise, collaboration is not sufficiently internalized and thus runs the risk of becoming an isolated activity that will be of limited relevance for the company's long-term business case. Sufficient internalization proves a vital requirement for continued strategic motivation. Management research has already shown the importance of this factor for strategic alliances between companies, nowadays cross-sector collaborative research shows that this is even more important when firms and NGOs or governments try to walk the collaborative route.<sup>xxxvi</sup>
- *The long haul leadership challenge*: People and organizations are immediately motivated by crises, but if the crisis is systemic, they need long trajectories of change and sustained motivation with complex trade-offs that can only be

addressed, but not solved – certainly not in the short run. A proactive attitude requires a long-term perspective. For publicly listed companies with planning horizons of the next quarter (or at most three years which is the average time CEOs are in charge of a companies in Europe), this is not an easy task. The same, however, applies to the other societal actors with which a company has to collaborate. Governments, for instance, face often not more than four-year planning horizons.

About mainstreaming:

*“Ultimately the decision is to appeal to the mainstream target group instead of focusing on the niche market. [...] Dare to make the consumer’s choice for him.”*

Sjaak de Korte, CEO Plus Supermarkets  
MH Lecture 2011 ‘Power and Responsibility’

Dealing with systemic problems in a positive frame – which is the basic challenge of the pro-active phase - also requires a more open mindset and more open-ended approaches. The motivation ‘we must’ – based on doom scenarios – is not sufficient anymore to get other pro-active actors around the table. An increasing number of future-oriented business groups have this attitude. The World Business Council for Sustainable Development (WBCSD), for instance, set an agenda for 2030 with ambitions for which partnerships are not a luxury but a requirement. There is a growing awareness that the biggest (systemic) sustainability challenges are ‘wicked’; there are no set solutions (so no clear roadmaps), many ways of approaching the issue, which always requires the involvement of a large variety of societal stakeholders. *Wicked problems* address all trade-offs, but search for a synthesis rather than a pragmatic solution. Proactively dealing with wicked problems requires open-minded approaches and a different type of leadership.<sup>xxxvii</sup> In the management literature, this type of leadership is defined as transformational. It has alternately also been referred to as ‘thought leadership’ (stressing the importance of out-of-the-box thinking corporate leaders), “ambidextrous leadership” (stressing the importance of paradoxical thinking), or ‘connected

leadership' (stressing the importance of leaders that can link up with societal groups',<sup>xxxviii</sup> The collaborative route requires a different type of framing and materiality (chapter 5) which is best-served by a proactive business model. Taking these elements into account is vital to overcoming the societal 'trust gap' that corporate leaders still suffer from.

- *From a CANVAS Plus to a CANVAS partnering model:* with the introduction of partnerships and coalitions as an important factor in the operationalization of pro-active intentions, the business model CANVAS requires a few additional specifications. In the original CANVAS model, partnering is only related to partnerships in the supply chain, so between companies (intra-sectoral). Pro-active business models, require in particular cross-sector partnerships, i.e., in particular between firms, NGOs, and governments. The Partnerships Resource Centre, in collaboration with BOP Inc. Lab and the Rebel group, developed a complementary CANVAS model that includes more indicators on how to include relevant dimensions of partnering: an assessment of impact, questions on the governance structure of the various partnerships the company has and a specification of beneficiaries, rather than customers only. The latter were identified in the CANVAS Plus model (Figure 5.3) regarding negative/positive social and ecological externalities.<sup>xxxix</sup>

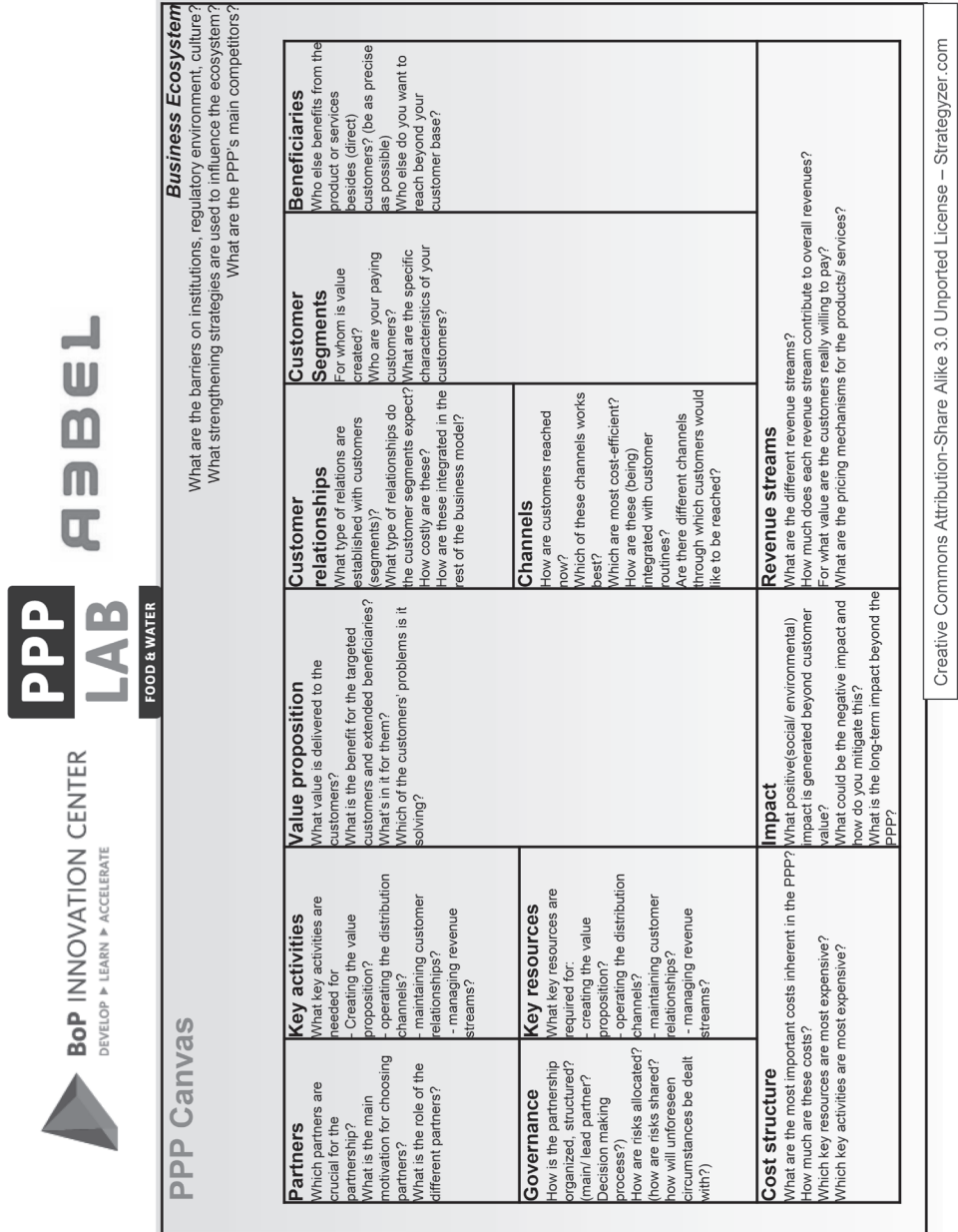


Figure 3.6 Partnering canvas model

- *Opening up to new business models*: Corporate leaders in the collaborative stage depart from the notion of co-creation and circularity. The extent to which these new principles can be implemented in innovative new business models, depends not only on practicalities but also on the ability and willingness of corporate leaders to look at their business model as part of a whole 'ecosystem'. These business models often combine a shared value ambition in the value proposition, co-creation and open-innovation at the supply side combined with 'co-consumption' at the demand side. From an 'I'-economy to a 'We'-economy.<sup>xi</sup> The success of these business models, therefore, depends to a large extent on the type of collaboration they can create and whether they can create new institutions (rules of the game, implicit or explicit) in support of these new initiatives. Often new laws are needed to make these initiatives succeed.

### 3.4 Conclusion: Reiterating the importance of understanding motives

This chapter further illustrated how fickle the motivations of corporations and entrepreneurs for sustainability can be. Companies are not necessarily unwilling (or even 'bad'). There exist many motivational tipping points that are not easy to master. We identified a large number of semi-rational considerations and barriers that influence particular change trajectories:

- Intrinsic motivations are misguided by the search for profit maximization. Profit maximization is only the bleakest form of what motivates entrepreneurs. We saw that there are four distinct business cases for sustainability, each with their logic and rational. All lead to financial sustainability, but the road towards this goal is different. All the personal motivation problems that were discussed in chapter 2 also apply to entrepreneurs: Difficulty in dealing with trade-offs, status-quo biases, mixing up moral and strategic motives, a poor understanding of positive motives as trigger for change (rather than urgency related motives) and the importance of group leadership.
- The dynamics of the change processes towards higher levels of sustainability require an understanding of the extrinsic and intrinsic motives of *all participants*. Companies also need others to make the change, keep each other on track (either as a control group, or as co-creators and synthesizers of change-processes), and as a source for reinforcement of their motivations.

But perverse incentives exist as well. For instance through adverse selection processes and continued adverse relationships, when more cooperation would be helpful.

- The role of behavioral (extrinsic) nudges changes per transition phase. Positive and negative nudges are not only important for a person, but also for companies – much more often than legal provisions. Law provides the level playing field and the minimum standards on which companies can further build their more entrepreneurial (risky) strategies towards higher levels of sustainability. But this only applies to moving beyond a reactive approach. Beyond this stage of transition, it becomes more challenging to narrowly define the actual business case for sustainability. On the other hand, we also found that CSR transition trajectories takes the shape of an ‘ordinary’ investment curve. Getting into the right curve involves leadership. The innovative and scaling potential of companies materializes along the capabilities and collaborative route. Many of the sustainability trade-offs that exist can only be systematically addressed with sufficient internal and external alignment.
- The important role of mixed-motives has been further illustrated in this chapter. Partnering processes are not a luxury but a necessity when it comes to proactive approaches and joint solutions to wicked sustainability problems. It is thereby more important to define the participants, and the direction of the road organizations engage themselves with than to define the KPIs, the exact aims and deliverables. Paradoxically, the pro-active approach for sustainability looks ‘softer’ than the active sustainability approach that is only aimed at the creation of a competitive advantage for the firm, rather than to solve the societal issue. The latter truly requires a collaborative mindset (chapter 2 provided a personal checklist #3).

Getting all the Motives Right:  
Driving International Corporate Responsibility (ICR) to the Next Level



# 4.

## INTERNATIONALIZATION MOTIVES



## IN THE CLOUD

"I really want to do it, but I can't do it on my own."

"In our sector we compete on the basis of prices, so our margins are limited."

"The international environment is so volatile, that we wait-and-see."

"If our customers want to have an iPhone (even when it is not sustainably sourced) we have to sell them an iPhone."

"My sphere of influence is limited."

"Trust us: We have a global ambition to do good."

"We are a global leader in sustainability."

"We need a license to operate"

"We try to be good corporate citizens."

"We always adapt to local regulation"

"CSR is primarily a risk management strategy"

"Build your own dreams, or someone else will hire you to build theirs."



## ON THE GROUND

### KEY TRADE-OFFS:

- Intended – Emergent strategy
- Ecology-Social-Economy
- Tactic/operational – Strategic
- Liability – Responsibility
- Risk – Opportunity
- National - International
- Home – Host regulation/stakeholders
- Convergence - Divergence
- Global - Local
- Exploitation - Exploration
- Top-down – Bottom-up
- Standardization - Adaptation
- Efficiency – Equity
- Global value chain – Local value chain
- Rights – Duties

#### 4.1 Introduction: what drives the international ambitions of your company?

Asked about what motivates them, a small company from Silicon-Valley with no international activities, replied "world domination!" General Electric, the most international company in the world has an equally global, but more constructive mission statement 'to invent the next industrial era, to build, move, power and cure the world'. How can we value these two statements vis-à-vis the challenge of sustainability? Do greater degrees of internationalization stimulate companies to adopt sustainable management practices or is it the other way around? Do specific business models adopted by international companies make it easier to implement sustainability strategies? Is the transition to higher levels of sustainability easier for internationally motivated companies than for nationally operating companies? How effective are naming and shaming campaigns in driving companies to higher levels of international sustainability? Answering these questions is not easy. It requires a more solid understanding of the basic motives to engage in international activities in the first place. In a complex world, internationalization decisions present a complex combination of intrinsic and extrinsic, and of tactical and strategic motives.

On the role of multinational enterprises:

*"I truly believe that the modern (multinational) corporation is the most effective organizational form ever created by humanity."  
"A manager cannot operate completely cut off from the rest of the world. A manager in a modern corporation operates in a global network of communication."*

Prof. George Yip, Dean RSM  
MH Lecture 2011 'Power and Responsibility'

Past decisions on internationalization thereby strongly influence the context for engaging in corporate responsibility in the present. This is called path dependency, which can have serious strategic and tactical consequences even for companies that aim at changing their strategies. Small and medium-sized enterprises (SMEs) in developed countries are thereby increasingly embedded in international value chains. The success of their business model is partly dependent on far away suppliers often operating under not very sustainable circumstances. SMEs

are powerless to influence the course of events in these chains. Multinational Enterprises (MNEs) on the other hand often organize international value chains themselves and thus have more control over their own primary and secondary motivations. Does it make a difference?

The international dimension adds complexity to the discourse on sustainability. Most cases of societal discontent and moral outrage that were quoted in the preface have a strong international dimension. But, as already stated there, a relatively unsophisticated discourse on international corporate responsibilities (ICR) might not do justice to the intricacies of the international environment. There are risks but also opportunities for companies to drive ICR to higher levels provided they can select the right motives and can deal with the complexities of the international environment. So, what happens if we wish to upgrade the four business cases for CSR (chapter 3) to an international level (ICR)?

This chapter aims at creating a more sophisticated perspective on the international dimension of CSR. First, we examine the three dimensions that influence the international strategies of companies:

- **Primary motives:** Get a more realistic understanding of the primary motives (intrinsic – extrinsic – mixed) for internationalization (section 4.2)
- **Secondary motives:** Explore how the combination of primary and secondary motives (tactic and strategic) creates four different business cases for internationalization (section 4.3).
- **Dynamics:** Create a realistic picture of international trends in regulation and global governance gaps that define the context in which companies must operate and that define the risks and opportunities for international CSR ambitions (section 4.4).

The second aim of this chapter is to delineate what these conditions imply for companies that want to move beyond national regulation and drive their international CSR strategies forward. Section 4.5 defines the basic concepts that are relevant for understanding the international preconditions for successful transitions: making the global governance gap into an opportunity space, trading-off rights, risks, duties and responsibilities, and managing various dimensions of distance.

The third part of this chapter considers the additional (international) motivational barriers that need to be considered if companies want to make the transition to

higher levels of sustainability. Section 4.6 discusses each of the four transition pathways that have guided the discussion about personal and entrepreneurial motivations in chapters 2 and 3, but now for the international dimension of corporate engagement.

#### 4.2 Three primary motives for internationalization

Most research on the international motivations of companies has been conducted by international business and strategic management scholars.<sup>ii</sup> Mainstream research in these domains concentrates on rational and efficiency-driven motives such as market-seeking (i.e., for consumer products) or resources-seeking motives (e.g., for mining industries). They represent primary, intrinsic motivations. But – like in other areas of management – companies in the real world are also guided by extrinsic and mixed motives – even if these are not explicit (Table 4.1).<sup>iii</sup> These three types of motives represent the ‘strategy tripod’<sup>iv</sup>: a resource-based view drives intrinsic motives, an industry-based view drives mixed motives, and an institution-based view drives the extrinsic motives. Getting all the motives right requires gaining more insight in the basic logic of each of these motivations –

Primary Motivation	Approach	Internationalization motive
<i>Intrinsic</i>	Efficiency approaches; resource based-view	<input type="checkbox"/> Market-seeking <input type="checkbox"/> Efficiency-seeking <input type="checkbox"/> Resources-seeking <input type="checkbox"/> (strategic) asset-seeking
<i>Mixed</i>	Competitiveness and positioning in sector; co-evolution	<input type="checkbox"/> Sector: Bandwagon effects e.g. in country selection; follow the client; risk minimizing <input type="checkbox"/> Monopoly/Oligopoly effects; follow the competitor
<i>Extrinsic</i>	Stakeholder approach; institutions-based view; corporate citizenship	<input type="checkbox"/> Home: Escape motives from home country; strategic extension of home country <input type="checkbox"/> Host: High/low barriers to entry

Table 4.1 Three motivational clusters for internationalization

**Intrinsic motives** refer to the efficiency gains that can be achieved by being an internationally operating enterprise. These can be achieved through trade where imports and exports are primarily used to exploit tactical advantages in and from

the home base. Tactical advantages include cost and market access advantages. Export-related advantages are based on products that can be sold abroad. The intrinsic motivation of most corporate leaders for internationalization is to reach as many markets at the lowest transaction costs possible. But internationalization can also be linked to the search for knowledge and assets as well as resources. In the international business literature, asset-seeking and resource-seeking motives are also considered primary motives for internationalization. If companies also want to exploit the strategic advantages (besides the tactical advantages), they will opt for a more global presence and try to sell or source their products on an international scale. They will *internalize* markets across borders, explore the resources and transfer them elsewhere. They will try to coordinate the asset-specific or firm-specific advantages of locations that are normally unrelated (e.g., research institutions) and gain efficiency through the integration of closed markets around the world (e.g., labor markets).

**Extrinsic motives** refer to home and host country considerations in the motivation to go abroad. Companies move abroad to *diversify* against the risks and uncertainties of the domestic business cycle.<sup>v</sup> Companies can also be triggered to leave their home country for more (perceived) negative reasons such as strained labor relations or high taxes due to strict environmental regulations. These are also known as the escape response to home country institutional restraints.<sup>vi</sup> In practice, companies also use the threat to leave as an active bargaining chip to influence the domestic institutional setting. Threats to move abroad in pursuit of lower wages or taxation might lead to more modest wages/taxes at home, which could even prevent the firm from moving abroad all together. The home country also has a more psychological (extrinsic) effect on motivations. Its institutional environment provides the cognitive, normative, and cultural frame of reference or mindset of senior managers. They decide on internationalization strategies, and their mindset strongly influences whether the company is responsive to local pressure and demands of the host country.<sup>vii</sup>

Strategic decisions and motivations are also affected by the policies of the host country. Host country policies provide the logical flip-side of escape motives. For example, environmental or industrial flight from the home base is only feasible if pollution havens in the host base are available. Escaping high taxes or inimical labor relations often implies a move towards tax-free zones and tax havens with

company-friendly labor relations. Host country policies also include regulatory barriers, such as voluntary export restraints, tariffs, discriminatory tax arrangements, or local content regulation. Perceived barriers can play a decisive role in the extrinsic motivations of managers, which can be witnessed by the growing relevance of the Corruption *Perception* Index for international corporations. Companies are also confronted with *changing* host and home country regimes. This creates a degree of external turbulence and concomitantly adds managerial complexity in assessing the right portfolio of countries.<sup>viii</sup> Volatility can affect the motivations to go or not go abroad because it creates uncertainty beyond the normal sphere of influence of a company.

*Mixed motives* have largely been referred to as the sector dynamics of internationalization. These motives have also been dubbed as *sector intrinsic motives*.<sup>ix</sup> Internationalization processes obviously differ from sector to sector. A mining company operating in a country without these resources is per definition forced to seek resources abroad. A pharmaceutical company that invests in new medicines probably needs bigger markets than the home market to produce at sufficient scale to reap a return on its investments. Sector dynamics, however, also include strong psychological effects – also known as bandwagon or herding effects. Bandwagon or herding effects are particularly relevant for oligopolistic sectors, where a limited number of big firms dominate the landscape and consequently closely monitor and copy each other's behavior. These effects can range from the adoption of product portfolios or corporate value propositions to the choice for a country. For example, choosing China as the chief recipient of Foreign Direct Investment (FDI) in the 1990s initially revealed a major bandwagon effect. No big firms wanted to be left behind, although few managers could predict whether the investment would be profitable. In game theory, this is also referred to as the *minimal regrets option*, which implies that – caught in a small numbers game - CEOs seek to minimize their worst case regret. It defines a rational explanation for why firms in an oligopolistic market might be affected by bounded rationality. Sector effects also explain why 'follow the client' motives are particularly important for explaining internationalization in the banking industry and for component suppliers in specific value chains with one dominant leading company. Follow the client, however, represents a very different motivational logic than market seeking: it is aimed at the continuation of a relationship across borders, which is not necessarily intrinsically motivated nor based on markets.

Filling out checklist #8 allows us to weigh the basic motives for internationalization and to determine the type of general business case a company envisages.

CHECKLIST #8: Basic motivation for internationalization				
Fill out this checklist, first, by looking at each motive intuitively. Try not to judge yourself. There is no ethical or normative judgment involved. Then, try to rank each of these motives relative to each other. Finally, compare the three sources of your international motivations to define whether – on average – intrinsic, extrinsic or mixed motives are important.				
Basic motivation for internationalization	EXTREMELY UNIMPORTANT	← →	EXTREMELY IMPORTANT	RANK?
<b>1. INTRINSIC</b>				
I look for the lowest wages available	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I want to sell in as many countries as possible	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I acquire my resources wherever available	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I search for the fastest growing markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I search for cheapest possible inputs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I aim at reaching scale for international markets	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I aim at standardizing my product range	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I aim at trading products as much as possible	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I look for knowledge around the world	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I have a solution for global sustainability problems	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I need to protect my intellectual property rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
<b>2. EXTRINSIC</b>				
I want to improve my reputation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I have philanthropic reasons to internationalize	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I get subsidies for products and services that I offer	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I want to be first in specific countries	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I am triggered by host country (local content) rules	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
The bureaucratic burden in the Netherlands is high	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I want to avoid high taxes in the Netherlands	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I want to avoid specific laws and rules in the Netherlands	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
I need to adapt to local tastes and preferences	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Stakeholders ask me to engage in citizenship	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>



3. MIXED		
I need to follow my clients	<input type="checkbox"/>	<input type="checkbox"/>
Internationalization is important risk diversification	<input type="checkbox"/>	<input type="checkbox"/>
I follow competitors in new markets	<input type="checkbox"/>	<input type="checkbox"/>
I need to improve my value chain	<input type="checkbox"/>	<input type="checkbox"/>
The domestic market is saturated and stagnant	<input type="checkbox"/>	<input type="checkbox"/>
I need strategic alliances with competitors	<input type="checkbox"/>	<input type="checkbox"/>
Local supply chains are important for my business	<input type="checkbox"/>	<input type="checkbox"/>
I need to be first in the host market	<input type="checkbox"/>	<input type="checkbox"/>
I reached overcapacity in the domestic market	<input type="checkbox"/>	<input type="checkbox"/>

On European ambitions:

*“If we are going to get to 2050 with the smart, sustainable, inclusive society in Europe, things have to change across all kinds of different institutions, systems and societies. Generation Y can make a difference”*

Simon Pickard, director general of ABIS,  
7th MHL Lecture Generation Y challenges you!

### 4.3 Four business cases for international responsibility: combining primary and secondary motives

Primary internationalization motives relate to the degree to which companies want to become responsive to external influences and local circumstances. Secondary motives deal with tactical or strategic considerations, in which tactics relate to the short-term risks that companies need to manage when going abroad. Strategic motivations relate to the long-term opportunities when companies decide to go international. When combined, these motives define the direction of the internationalization ambitions and the business case of companies. Secondary motives are often, but not exclusively, related to sector-specific motivations (Figure 4.1).

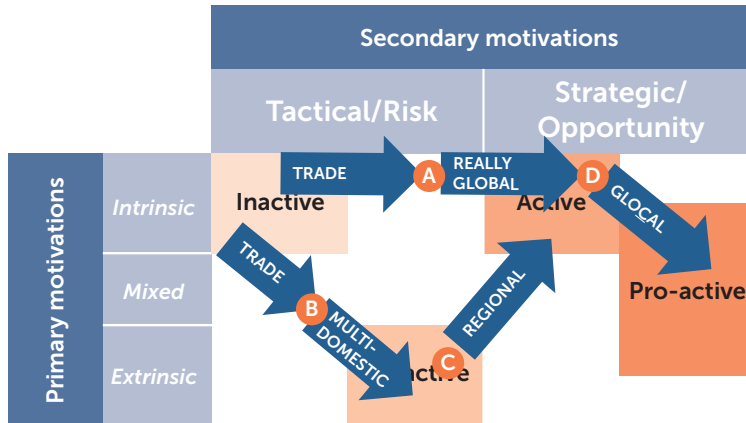


Figure 4.1 Internationalization motives

Combining primary and secondary motivations creates four archetypal business cases for internationalization:

- **Inactive business case: The trading company.** The trading company engages in trade (sourcing and exports) primarily for efficiency reasons but it is relatively uncommitted or opportunistic. The more local presence needed to safeguard an export position in a target market, the more the company needs to consider extrinsic motivations. The intrinsic motivation of these companies leads to market-seeking (sales) and efficiency-seeking (low wages for imports) behavior. Trading firms are intensely opportunity-driven. They move quickly, seeking opportunities and markets wherever they appear, and they try to sell the same product (often for niche markets). Trading companies are tactically oriented. They respond quickly to changes in competitor behavior when searching for market opportunities at home or abroad. SMEs that exclusively produce for local markets act as opportunity-seeking traders in importing components and materials from cheap sources around the world.
- **Reactive business case: The multi-domestic company.** Extrinsic considerations motivate companies to adopt a multi-domestic model. The multi-domestic company adapts and customizes products and services to cater for specific tastes or to abide to host country regulation. Companies are often forced to take a multi-domestic approach due to local content regulation, which stipulates that they can only do business in a country if they source locally.

Trade is not hindered or not allowed, which prompts the company to set up activities in other countries. However, multi-domestic business models require decentralized business processes, also known as the matrix model, which lowers efficiency. Multi-domestic companies often operate in more heavily regulated markets such as utilities (telecommunications, water, electricity) that always require local presence.

On the complexities of globalization:

*“There is the story of three bakers who lived next door to each other in the same street. The first one put a big sign on his store saying: Best Baker in the Country. The second baker thought about this for a few days and then put a big sign on his store saying: Best Baker in the World. The third baker was really nervous at first, but after a few days he erected a big sign which read: Best Baker in the Street.”*

*“Typically, in the Netherlands we have a tradition of viewing companies as partnerships of stakeholders.”*

Prof. Alexander Rinnooy Kan  
Chair SER, MH lecture 2007 “Poverty and Business”

- **Active business case: The global company.** The global company relies strongly on internal competencies and has a strong motivation to be recognized as a global leader. The business case is consequently based on standardized products, which the company sell across the world in as many markets as possible. This requires strong brands for which customers or recipients are willing to accommodate their demand. Coca-Cola, Nike, and McDonald’s are examples of companies that have successfully implemented this strategy. The global firm is the logical extension of the trading model, but its intrinsic motivation is more complex. It actively tries to create new markets, looking for the cheapest production sites (which may be in other countries) and seeks resources and assets wherever they are available to achieve a lasting competitive advantage – by reaping efficiency benefits through internalization in a world filled with market inefficiencies. Global companies are also easily recognizable because of their clear corporate brand. All products and services bear the same name. These capabilities can make them very efficient and

extremely competitive. But it also makes stakeholders more critical of their (global) intentions, even if these are benign. A major challenge of a global strategy is that the effort to standardize products, services, and production processes around the world also requires standardized markets (and tastes). Many companies that have tried to develop an integrated global strategy have had to abandon it because host countries were unreceptive to standardized products or because external stakeholders created barriers to entry.

- **Proactive business case: The *glocal* or transnational company.** The transnational company combines global integration and local responsiveness. It needs to be more selective towards the markets it operates in than a global company. The transnational firm has considerable sunk costs in the countries where it operates, but less so than the multi-domestic company, which also has more coordination problems. Since transnational companies are committed to achieving a long-term competitive advantage in a country, they will actively engage with local stakeholders, allowing them to influence strategy specifics, resulting in a co-created approach. A transnational strategy requires efficient management capacity, coordination, and financial strength and is more suitable for large multinationals than for small firms. The proactive involvement of stakeholders makes the transnational firm a typically cooperative species, in which value-adding strategies are often rephrased in creating shared value.

Each of these four basic internationalization attitudes can be linked to a different international CSR (ICR) strategy – which creates four archetypical ICR acronyms:

- The trading case of ICR = *Indifferent* Corporate Responsibility
- The multi-domestic case of ICR = International Corporate *Responsiveness*
- Global ICR case: ICR = International Corporate *Responsibility*
- The transnational/*glocal* case: ICR = International *Community* Responsibility

#### 4.4 Increasing dynamics and volatility: Doing business in a VUCA world

There are good reasons why companies are reluctant to internationalize. The national policy context provides a relatively predictable environment in which companies feel comfortable in deciding what business case to adopt over longer periods of time. The international policy context creates a sizable governance

gap, and one that has been rapidly changing. The preface of this book quoted the US Military College that characterizes the environment in which national (and corporate) strategies are developed as a VUCA world. The abbreviation stands for Volatile, Uncertain, Complex, and Ambiguous. Companies are increasingly confronted with an unpredictable global environment. The preface defined three international contexts dimensions that companies should consider: divergent and changing (volatile) laws, combined with an international arena in which no laws, guidelines, or voluntary initiatives exist.

What trends in international regulation require consideration? Waves of privatization, liberalization, and deregulation have alternated with periods of reregulation and institutional volatility. In the 1990s an era of globalization was proclaimed. But this era turned out to be more regional, less stable, and less positive than many of its protagonists had anticipated. Since then, regulatory turbulence and uncertainty have increased under the influence of five international policy trends: a multipolar world, reregulation, stalling trade, investment regimes, and complex regionalization routes (Figure 4.2). All these trends have consequences for corporate internationalization and ICR strategies in general and for European/Dutch companies in specific.

Historic high-lights	1989: Fall of the Berlin Wall	<ul style="list-style-type: none"> <li>• Gulf war;</li> <li>• Germany reunited</li> <li>• South Africa: Apartheid repealed</li> <li>• Rio Treaty</li> </ul>		G8 created	Battle of Seattle	9/11/01: Twin Towers 10/7/2001: Afghanistan; MDGs	2003: Iraq 2005: Kyoto protocol enters into force 2005: G8 Gleneagles	First G20 summit	Occupy movement	Arab Spring	Start refugee crisis; Ukraine-SDGs conflict (UN);	2015: Paris (COP 21); SDGs (UN);	Trump administration;			
	FDI regulation				MAI terminated	OECD Guidelines on MNEs				OECD Guidelines (2nd ed.)	2011: Ruggie Principles endorsed	2013: start TTIP negotiation	Termination TTIP			
Financial regulation	Basel I		Peso crisis	Asia crisis	Rubel crisis	Repeal of Glass Steagall Act	SEC Proposes voluntary regulatory	Basel II	Sub-prime mortgage crisis;	Lehman Brother bank-rupt	Basel III; Currency crisis	Euro crisis; BRIC bank	Eur. Bank union			
Trade			Start WTO	HK returns to Chinese rule		Start 'millennium Round'	China Member of WTO	Saudi Arabia member of WTO				Russia member of WTO	Failure Doha round	TTP finalized, but failed?	Japan-EU treaty	
Regional integration																
	1988	1990	1992	1994	1996	1998	2000	2002	2004	2006	2008	2010	2012	2014	2016	2017
Era of privatization							Era of reregulation									
Era of liberalization/deregulation													Era of regionalism/nationalism			

Figure 4.2 An increasingly complex and volatile international context

- *From bipolar to multipolar*: The global political system is moving towards a multi-polar constellation. After the fall of the Berlin Wall in 1989, the global political system moved from a bi-polar constellation, dominated by two superpowers (The United States and the Soviet Union) to one dominated by a single superpower. The leading position of the United States has, however, been negatively affected by at least two developments. In order to sustain a dominant position, the United States resorted to military interventions in a growing number of conflicts, starting with the Persian Gulf War (1990) and followed by many related conflicts. The economic capacity and political willingness required to proactively address conflicts around the world has slowly eroded – mainly due to budgetary restrictions. After the 9/11 terrorist attack in 2001, the US government continued to engage in major military actions in Afghanistan and Iraq, but the rather reactive stance towards the Arab spring in 2011 exemplifies the country's new position as a seriously diminished superpower. The leading position of the United States has also increasingly been challenged by China - particularly in the political arena. In 2008, the first G20 summit was held. It included many countries that were previously considered developing nations. In 2009, the G20 group announced that it would replace the G8 as the main economic council of wealthy nations. In 2013, the BRICS Bank was founded as an alternative to the IMF and the World Bank, two Bretton Woods institutes that are traditionally dominated by developed countries. The five founding members of the BRICS bank included Brazil, Russia, India, China, and South-Africa. These trends highlight a slow but steady governance change toward a multi-polar political system. The role of the EU and individual countries like the Netherlands in these developments has been ambiguous at best. Many Dutch MNEs therefore also face this ambiguity.
- *From deregulation to reregulation*: Regulatory reforms at the national level have become characterized by *substantial ambiguity*. The 1980s and 1990s heralded an era of privatization and deregulation in many countries, but economic liberalization was not always accompanied by privatization. For instance, in the liberalized gas and electricity markets of the EU, most energy companies (such as Eneco in the Netherlands, EDF in France, and Vattenfall in Sweden) remained partly or wholly state-owned. At the beginning of the 21<sup>st</sup> century, some countries also started to consider reregulation mainly

because deregulated industries often did not deliver on their promises. This happened in the banking sector – arguably one of the more globalized sectors in the world, at least as far as corporate and investment banking are concerned. Following a long series of crises (starting with the Peso crisis and the Asian currency crisis in 1996/7), international pressure mounted to introduce more stringent regulation of international financial transactions, in line with the 1988 Basel Accord. The 2004 Basel II Accord proved ineffective and was relatively quickly replaced by more stringent rules in 2011 (Basel III), following the financial crisis that started in 2007/8. The contamination of the entire financial sector ultimately spread from a (subprime) mortgage crisis in the US to a currency crisis and a full-fledged Eurozone crisis – with Greece as one of the main victims. The effects for European MNEs – especially those that were active in both the northern and southern regions of the EU as part of their regionalization strategy – were difficult to predict.

- *From free trade to bounded trade:* The spread of global trade has stalled and its direction has become fragmented. In 1995, the World Trade Organization (WTO) was established. As of December 2017, the WTO had 164 members<sup>x</sup> representing more than 90% of global trade and GDP. Important new entrants were China (2001), Saudi Arabia (2005), and Russia (2012), which implies that all large economies in the world have committed to abide by the basic rules of the WTO and accept arbitration on trade disputes by an independent panel. But the supranational powers of the WTO and its limited mandate focus only on free trade rather than on fair trade. This triggered protest by global civil society movements. The 1999 Seattle WTO protests, also known as the Battle of Seattle, heralded the start of a global protest movement of citizens acting against deregulation and liberalization trends. These groups are organized as International Non-Governmental Organizations (INGOs) and have been a constant factor in international negotiations around debt relief (G8 – Gleneagles), environment (Kyoto Protocol and the 2015 Paris Agreement), investment treaties, and the development of guidelines on ethical behavior of companies (OECD Guidelines, UN Ruggie Principles). Paradoxically, many WTO member countries also inhibited further progress in making the WTO more relevant to development purposes. A discussion on this issue started in the 2001 Doha Development Round but has not led to a productive outcome. The controversy centers around major issues such as agriculture, services,



tariff barriers, and non-tariff barriers (primarily because of regulation). The global economic crisis reinforced nationalistic policies and led to new and informal, non-tariff barriers to trade. Dutch MNEs are facing such barriers within their home turf – the European market. Within Europe, there has been a tendency towards economic nationalism – linked with populist sentiments – that may well affect future intra-European convergence plans. This also applies to the Schengen Agreement – which created a borderless zone of 26 European countries, covering a population of 400 million people – but is now increasingly challenged. The recent refugee crisis as well as Brexit has put the Schengen agreement under increasing pressure.

Slow negotiations under the Doha Round also prompted two major regional trade and investment initiatives. [a] The *Trans-Pacific Partnership* (TPP) is a trade agreement among 12 Pacific Rim countries that was signed in February 2016 after seven years of negotiation. It explicitly leaves out China as a trade partner. [b] *The Transatlantic Trade and Investment Partnership* (TTIP) between the EU and the United States for which negotiations started in 2013. Both treaties create opportunities and threats for companies, but both are remained controversial because of different regulation on sustainability issues such as (minimum) wages, food safety regulation, or fair taxes. Two different approaches to CSR are here at stake: (1) the European *precautionary principle* which aim at minimizing risk versus (2) the American principle of *substantial equivalence*, which aims at maximizing innovation and at less interference in the operation of markets<sup>xi</sup>. In practice, the European approach has set a higher governing bar on many sustainability issues compared to the American approach. The risk related to a trade treaty between two opposing models – as argued by many opponents – is that the treaty will lead to a race to the bottom, in which treaty parties accept the lowest common denominator on sustainability issues, rather than aiming for the highest denominator. On the other hand, it has also been argued that a compromise between the US and Europe could create a more effective barrier towards a race to the bottom on a global scale than would be the case without the agreement.

Arguably the most controversial element of both agreements is the Investor-State Dispute Settlement (ISDS) mechanism. This mechanism grants investors the right to sue foreign governments for treaty violations. Environmental

groups, as well as scholars in Europe (for TTIP) and in the United States (for TTP), have criticized the ISDS provisions of the TPP for interfering with the ability of governments to prevent public harm and protect rights in several areas in which the most advanced economies created minimum legal provisions in public welfare, e.g., protecting labor rights and the environment. In 2017 The Trump administration unilaterally terminated both treaties – but the regulatory challenge remains, also for companies that are positively motivated to leverage their influence to raise the bar for sustainability also in the host countries where they invest. The US is currently thinking about renegotiating its regional agreement with Mexico and Canada (Nafta). The EU responded by speeding up other trade agreements (with Canada and Japan), but in almost all negotiations, sustainability, as well as dispute settlement issues, have largely been left for future considerations. So, whatever the outcome of all these developments will be, companies will continue to face prolonged ambiguity in the conditions under which they can internationalize and manage the portfolio of countries with which they do business. The operational risks that are related to trade as the dominant business model are increasing.

- *From simple to mixed investment regime:* The international investment regime of the last 25 years has become a mixed bag of often countervailing, bilateral developments. At a global level, a Multilateral Agreement on Investment (MAI), based on ideas of the deregulation era, was considered in the 1990s but was officially rejected in 1998. At the same time, the OECD member countries successfully negotiated guidelines for MNEs (and upgraded these guidelines in 2011). These voluntary guidelines come with a system of National Contact Points, which amount to some level of formal regulation. Whereas multilateral investment regulation failed, the number of bilateral investment treaties in the 1990s increased fivefold, namely from 385 in 1989 to 2,265 in 2003, according to overview of UNCTAD (United Nations Centre on Trade Aid and Development). Since 2006, this number further increased to over 2,500 treaties. Especially the emerging market MNEs from China, Brazil, and India make use of this channel as an institutional safeguard to protect their investments in countries associated with institutional voids and governance risks. The trend towards bilateralism has been accompanied

by a relative reversal of the 1990 trend toward generalized investment liberalization and promotion. Host countries still engage in investment promotion and liberalization, but a slow increase in the number and intensity of non-tariff barriers and restrictive investment policies can also be witnessed.<sup>xiii</sup> In general terms, the investment regime has become less restrictive in developing countries (especially in Asian nations) and more restrictive in developed countries and a few Latin American countries (such as Argentina). Further developments in the finalization of TTIP and the ratification of TPP will influence the shape of the international investment regime, especially for companies with their home based in developed countries.

- *From simple to more complex regional integration*: Regional integration represents a less demanding institutional context than globalization. But the present shape of regionalization adds complexity as well. For many decades, regions around the world have tried to create free trade agreements in various shapes and sizes, from an early integration effort in the 1960s among the ASEAN countries, via NAFTA (North America), SADC (South Africa) and Mercosur (South America) in the 1990s, towards regional integration agreements in Africa that are stimulated by the EU to enable WTO exemption. Most of these agreements have merely created free trade areas. They are typically relatively weak in terms of institutional integration but create relatively stable environments in which to locate investments. The most dynamic and most promising region favoring cross-border business has arguably been the EU. At the same time, the EU has also been rather unpredictable. Long periods of institutional uncertainty on the precise geographic reach of the region, the functioning of its institutions, and the power of its regulatory agencies has made the Union a relatively volatile home region to work from. In response many leading European MNEs have become actively engaged in shaping the institutions of the EU over the years: the creation of the internal market (1992), the European Monetary Union (2001) and various other measures have largely been initiated by representatives of leading European companies. It helped them to restructure their operations from a multi-domestic business model to a regionally focus, which allowed them to achieve scale economies and a competitive advantage on the basis of a more integrated European production and distribution platform. But European MNEs have had to deal

with considerable institutional uncertainty.<sup>xiii</sup> This is further illustrated by the 2016 Brexit but also – in perhaps less dramatic shape – by growing problems created by the *Visegrad* countries (Poland, Hungary, Czech Republic, and Slovakia) to align with European institutional rules.

In sum, what looked like a clear trend towards globalization in the 1990s and early 2000s is now much more volatile, fragmented and insecure. Companies are confronted with a VUCA world and face immediate context challenges: balancing regulation and deregulation trends, dealing with regional, national and global trends at the same time, including trends in investment assessments, monitoring expected and unexpected actions of governments and of increasingly vocal NGOs and choosing whether to adopt a reactive or a proactive strategy vis-à-vis primary as well as secondary stakeholders. What is particularly salient in this context is that all these challenges now facing internationally operating companies are occurring *simultaneously* and should therefore be addressed in an integrative way. International entrepreneurship is about seizing opportunities while managing risks. Risk evasion has long been the preferred approach for many firms when dealing with international sustainability issues. But can the institutional void that exists on a global scale also create opportunities? The next section will consider this question.

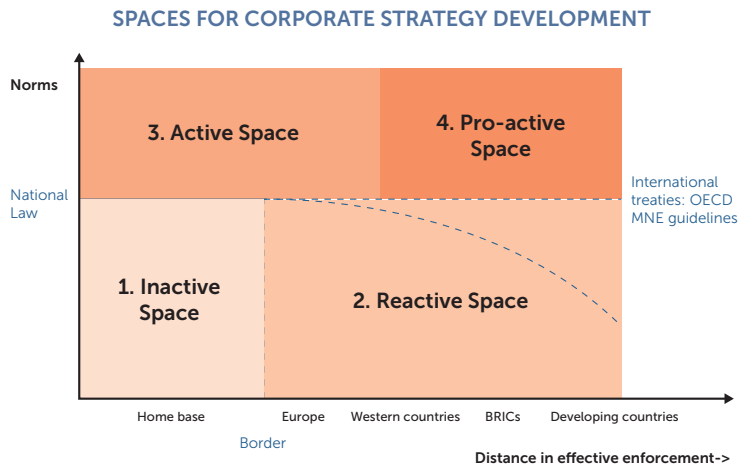
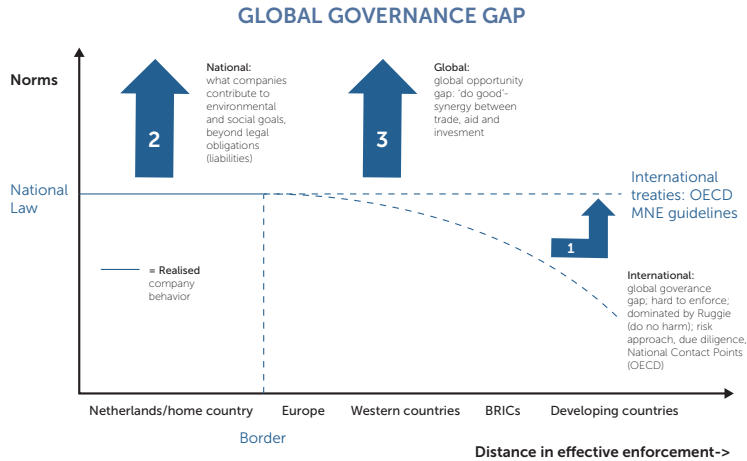
#### 4.5 Searching for an international opportunity space

Most of the internationally accepted regulations that provide companies with a (normative) governance framework to work with have been voluntary. These include the Organisation for Economic Collaboration and Development (OECD) guidelines on corporate responsibility, the UN Guiding Principles on Business and Human Rights (UNGPs), and the International Labor Office (ILO) conventions on labor rights. The actual enforcement of these principles depends on the strategies of companies, the willingness of governments to support these principles in their national regulation and the strength of societal groups to lobby for them. Under the influence of this volatile environment, companies face three types of global governance gaps for initiating sustainability activities<sup>xiv</sup>:

- *A jurisdictional gap* between the increasing need for global governance in many areas - such as health - and the lack of authority with the power or jurisdiction to act.
- *An incentive gap*: between the need for international cooperation and the motivation to undertake it. Due to the ambiguous status of globalization the incentive gap is widening again because impetus for countries to cooperate has come under pressure.
- *A participation gap* refers to the fact that international cooperation remains the affair of governments primarily, leaving civil society groups on the fringes of policy-making. On the other hand, globalization of communication has facilitated the development of global civil society movements.

These governance gaps define three types of action spaces for companies that want to move beyond national regulation (Figure 4.2):

- (1) A reactive international space in which companies (also) abide by voluntary international regulation as agreed upon through international treaties such as the OECD Guidelines as agreed by the United Nations on international business and human rights. Most of these rules are accepted by many UN member states and reinforce principles such as do no harm.
- (2) A more active space beyond legal and moral obligations in their home as well as (some) host bases. This applies to companies that aim at expanding their national sustainability practices around the world and do good.
- (3) A proactive space in which companies search for new combinations and see global governance gaps as an opportunity to define international strategies beyond voluntary and national regulation.



Source: based on internal document Ministry of Foreign Affairs, the Netherlands

Figure 4.3 Global Governance Gap and Global Spaces

#### Rights versus Responsibilities?

Operating in each space involves different tactical and strategic motivations. The proactive space provides what Thomas Donaldson and Thomas Dunfee refer to as the 'moral free space' for internationally operating companies.<sup>xv</sup> Their social contract theory includes hyper norms, in which companies might go beyond

what has been agreed upon by governments in laws and international treaties to achieve a competitive advantage. International norms always represent a compromise or have a voluntary status that is difficult to implement. In the reactive space, companies deal with negative duties as elaborated in many of the international treaties, but most specifically in the Universal Declaration of Human Rights (UDHR). An approach based on rights at an international level, however, has proven to be a rather fickle motivational base for a more active approach. A more positive duties-approach addresses the real governance gap. International organizations have only recently been able (or willing) to formulate positive duties. They also require a different motivational basis – one that is not based on potential sanctions and do no harm principles but based on voluntary multi-stakeholder involvement and 'do good' principles.

The rights-approach has been accepted through the adoption of various versions of the UDHR (first version in 1948). Since its original acceptance, around 300 (additional) human rights have been identified and partially endorsed in separate treaties by countries. But this rights-based approach has had a limited effect on the life of people.<sup>xvi</sup> It is difficult to enforce rights in an internationally competitive environment. Besides, the rights-approach (and negative duty) is closely related to western philosophy (mainly based on the work of Immanuel Kant) which is not universally accepted and which represents only one part of the human motivational spectrum (see chapter 2).

A responsibilities-and-duties approach has not officially been embraced by governments around the world in any way comparable to the UDHR. This governance gap is partly filled with interesting – more informal - initiatives. In 1999, a group of opinion leaders under the auspices of UNESCO introduced a draft Declaration of Human Duties and Responsibilities (DHDR), which was not endorsed. So these principles belong to the moral free space. The selection of the most important principles in these two lists (Table 4.2) shows the difference between a rights-based approach in which negative duties prevail and a responsibilities-based approach in which positive duties are explored. The rights-approach is related to the reactive motives of persons, companies, and countries, whereas the responsibilities-approach is related to both active and proactive motives.

NEGATIVE: Universal declaration of Human Rights - 1948	POSITIVE: Universal Declaration of Human Responsibilities and Duties - 1999
<ol style="list-style-type: none"> <li>1. We Are All Born Free &amp; Equal.</li> <li>2. Don't Discriminate.</li> <li>3. The Right to Life.</li> <li>4. No Slavery.</li> <li>5. No Torture.</li> <li>6. You Have Rights No Matter Where You Go.</li> <li>7. We're All Equal Before the Law.</li> <li>8. Your Human Rights Are Protected by Law.</li> <li>9. No Unfair Detainment.</li> <li>10. The Right to Trial.</li> <li>11. We're Always Innocent Till Proven Guilty.</li> <li>12. The Right to Privacy.</li> <li>13. Freedom to Move.</li> <li>14. The Right to Seek a Safe Place to Live.</li> <li>15. Right to a Nationality.</li> </ol>	<ol style="list-style-type: none"> <li>1. Treat all people in a humane way.</li> <li>2. Strive for dignity and self-esteem of others.</li> <li>3. Promote good, avoid evil in all things.</li> <li>4. What you do not wish to be done to yourself, do not do to others.</li> <li>5. Respect life</li> <li>6. Act in a peaceful, non-violent way.</li> <li>7. Protect the air, water and soil of the earth for the sake of present inhabitants and future generations</li> <li>8. Behave with integrity, honesty and fairness.</li> <li>9. Make serious efforts to overcome poverty, malnutrition, ignorance, and inequality.</li> <li>10. Develop talents through diligent endeavor;</li> <li>11. Use property and wealth [...] for the advancement of the human race.</li> <li>12. The freedom of the media [...] must be used with responsibility and discretion.</li> <li>13. Representatives of religions have a special responsibility to avoid expressions of prejudice and acts of discrimination toward those of different beliefs.</li> <li>14. All men and all women have a responsibility to show respect to one another</li> <li>15. In all its cultural and religious varieties, marriage requires love, loyalty and forgiveness and should aim at guaranteeing security and mutual support.</li> </ol>

Table 4.2 70 years of global principles

Internationally operating companies need to decide what type of principles to adopt for their operations and whether they consider rights and responsibilities a trade-off, a dilemma, or something different. If they see them as an opportunity, they are proactively motivated and will effectively align them with initiatives that define ICR as a responsibility and a positive duty. If they see them as risk management, they will probably only be concerned with the liabilities and rights covered by laws, international treaties, and voluntary guidelines. Combinations of rights and responsibilities can be linked to the four business cases for ICR that all reveal a different attitude towards global governance gaps: indifferent (traders), responsive (multi-domestic), globally, or glocally responsible (section 4.2).

#### Convergence versus divergence<sup>xvii</sup>

The degree of policy convergence and divergence between national governments determines the extent to which the international space is open, non-regulated, or ambiguous. Countries often compete on regulation to provide incentives for



companies to invest in them or trade with them. If countries converge to the lowest denominator on sustainability issues, this creates a race to the bottom, which tends to reinforce reactive ICR strategies. The Financial Times Lexicon defines a race to the bottom as “the situation in which companies and countries try to compete by cutting wages and living standards for workers, and the production of goods is moved to the place where the wages are lowest, and the workers have the fewest rights.” The fear for a race to the bottom has also materialized for issues such as ecology (creation of pollution havens), taxation (tax havens), and general labor rights .

If countries adopt higher standards of sustainability, they can stimulate a race to the top in support of more active ICR strategies. International initiatives can stimulate convergence between countries. Table 4.3 lists key initiatives. They rarely include supranational rules. The only real exceptions are the WTO and provisions in bilateral investment and trade treaties that give supranational powers to arbitrators. Most international governance is therefore susceptible to negotiation and voluntary agreements. Voluntary agreements can create level playing fields or function as a positive nudge for companies to support these initiatives to change the rules of the game and embrace higher ambitions for sustainability.

Initiatives aimed at preventing a ‘race to the bottom’	Initiatives aimed at stimulating a ‘race to the top’
OECD Guidelines on Multinationals (2011) UN Ruggie Principles on International Business and human rights (2011) PARIS Climate agreement (2015) OECD: Base Erosion and Profit Shifting (BEPS) project (2016)	ISO 26000 (2010) GRI: G3, GR4 (2014) Sustainable Development Goals (SDGs) (2015)

Table 4.3 Key International initiatives since 2010 and their behavioral aims

What has been the results of these approaches? Most international initiatives aimed at preventing a race to the bottom have been only relatively successful. They primarily support or trigger reactive approaches. These initiatives include the OECD Guidelines on multinational enterprises (with National Contact Points as complaint mechanism), taxation initiatives by the OECD (the BEPS initiative) and the UNGP principles on international business and human rights. Governments

have initiated most of these initiatives and implementation is at best considered patchy.<sup>xviii</sup> An example of the problematic effects of initiatives that try to prevent a race to the bottom in core areas of corporate internationalization strategies are the international efforts on coordinating tax rates. According to World Bank data, corporate taxes globally have decreased from 54% in 2005 to 41% in 2016.<sup>xix</sup> Whether this rate is the 'bottom' is open for debate. One consequence is, however, that many governments are now confronted with a seriously eroded tax base to sufficiently invest in public goods. The OECD BEPs initiative concentrates on tax avoidance strategies that exploit gaps and mismatches in tax rules to artificially shift profits to low or no-tax locations, so-called transfer-price manipulation. But this practice only explains part of the race to the bottom. The tax basis of developing countries is lower than that of developed countries, whereas they are in greater need of investment in public infrastructure. Tax erosion has not stopped – even though an increasing number of companies have even stated that is not in their interest either (e.g. because weak administration and poor infrastructure make it more difficult to 'do business' in a country).

More recently the global governance gap has been approached through multi-stakeholder initiatives by representatives from civil society, firms, and governments. These initiatives are arguably the only way to fill the active/proactive part of the global governance gap. No country in the world has accepted any form of strict regulation in this space. Most of the initiatives such as the ISO 26000 guidelines (which specifies how to implement sustainable business models) are voluntary. Some of the initiatives not only build on multi-stakeholder approaches, but also set specific (quantifiable) ambitions. They stimulate countries and companies to adopt them as official policy. The 2015 Paris UN Climate Change Conference is an example of such an initiative. There are signs that most participating countries (including China as one of the most polluting countries) will translate the treaty into official policy. But ratification of a treaty does not always lead to implementation – certainly when confronted with the various motivational constellations in a country. The opposite effect, however, does not appear either: when the Trump administration announced its withdrawal from the treaty in 2017, many individual US states such as California announced they would continue to support the treaty. Even when ecological regulation around the world diverges, a global agreement creates a common minimum reference to monitor the extent to which the race to the bottom can be stopped.

The Paris Agreement, however, is still negatively framed and based on doom scenarios (see chapter 2 on the reasons why doom scenarios fail to motivate), and it is therefore debatable whether the agreement will create sufficient behavioral triggers for positive change. Other measures and frames are required as well. The conclusion of the Sustainable Development Goals (SDGs) in September 2015 provides such an alternative approach. It defines a positive agenda for change (with 17 targets) and invites companies, NGOs, governments, and knowledge institutes to work together on this common agenda. This effort is aimed at creating convergence in ambitions (before 2030). Whether this can be achieved depends on the mobilizing effect this ambition has on stakeholders around the world. Most importantly, the SDGs have triggered or reinforced other initiatives aimed at creating a race to the top. The SDGs reinforced the efforts of the World Business Council on Sustainable Development (WBCSD) and sustainability initiatives taken by the Business and Sustainable Development Commission (BSCD) – part of the World Economic Forum. In January 2016, leaders from business, finance, civil society, labor, and international organizations discussed the business case for realizing the SDGs. They concluded that achieving the SDGs would lead to 12 trillion dollars of market opportunities in the four economic systems examined by the Commission, namely food and agriculture, cities, energy and materials, and health and well-being. They represent around 60 percent of the real economy and are critical to delivering the SDGs.<sup>xx</sup>

Taking stock of the degree of international convergence and divergence in international regulation for each of the sustainability issues is not easy. Issues are highly context dependent. Whether there is room for a race to the bottom depends on (1) the degree to which there is a business case available (which is more likely for ecological issues than for economic issues), (2) whether national regulation and international regulation are aligned (which is influenced by administrative and institutional distance), and (3) the extent to which national regulation is strong and international regulation is fragmented (as is the case with most economic issues). If international treaties effectively influence national regulation, a level playing field can be created with minimum standards that can trigger more active strategies (as seems to be the case in ecological issues). The regulatory environment on social issues seems to be mixed, with relatively weak international treaties (e.g., ILO standards have not been ratified by many countries) and poor implementation practices. Table 4.4 provides a rough assessment of global trends.

Main themes	Planet - ecology	People - social	Profit-Prosperity-economic
Priority issues	Climate change# Biodiversity*** Animal welfare**** Pollution; CO2 emissions# Availability of resources*** Responsible fishing# Access to water** Access to energy** Food and nutrition security* Healthy diets** Forests*	Poverty* Income inequality* Wealth distribution** Emancipation# Inclusiveness* Privacy** Human rights# Living wage*** Corruption/bribery** Education* Safety* Security* Health** Sexual harassment** Diversity# Inclusiveness*	Fair trade** Fair prices** Inclusive markets* Fair taxes** Competition policy/ Collusion** Intellectual property rights Protection*** Pricing strategies** Fraud** Insider/Rogue trading** Transparency (consumer information)** Fair bonuses**
Business case available?	Yes, partly	Mixed	Highly contentious
International regulation	Developing	Voluntary	Fragmented
Influence of national regulation	Strong	Mixed	Mixed

\*convergence trend; \*\* divergence trend; # international treaties, \*\*\* undetermined

Table 4.4 Interrelated sustainable business issues and trends in regulation

Since most of these ambitions still need to be safeguarded through national regulation and implementation, the managerial challenge for companies is how to define a more sophisticated and flexible strategy for the specific mix of countries they operate in and the type of 'distances' they have to manage.

#### Risk-Responsibility trade-offs as managing distance

ICR attitudes materialize at the interface between international risks and responsibilities (section 4.2). Companies that are confronted with the turbulence in the international regulatory environment and the risks and opportunities that have been created must make realistic assessments of the context in which they have to operate. In the international business literature, this challenge is operationalized in terms of *distance*. The distance between the home base and the various host countries of the company defines its risk/opportunity profile. There are three types of risks and opportunities involved in international business:

(1) Operational, (2) Strategic, and (3) Sustainability. Risk, if managed well, can also create opportunities. That is the key of international entrepreneurship.

On international Risk management:

*'Witnessing in how many countries - more than 125 - multinationals like Unilever can actually operate successfully, you can see that firms do not need much. Most important of all is a reliable judiciary system.'*

Antony Burgmans, former CEO Unilever MH lecture 2007  
'Poverty and Business'

**Operational risk/opportunities** relate to currency risks when conducting international business.<sup>xxi</sup> For example, it could involve an unexpected or unaccounted change in the home or foreign currency value during the time of a contract. Operational risks also stem from cultural differences between the countries in which a company operates. Dealing with operational risks are the 'hygiene' factors of doing business across borders. They present the difference between good and bad management. They become more important if the 'distance' between the home and the host market becomes bigger (see later). Mastering operational risks is no longer sufficient for obtaining an international competitive advantage.

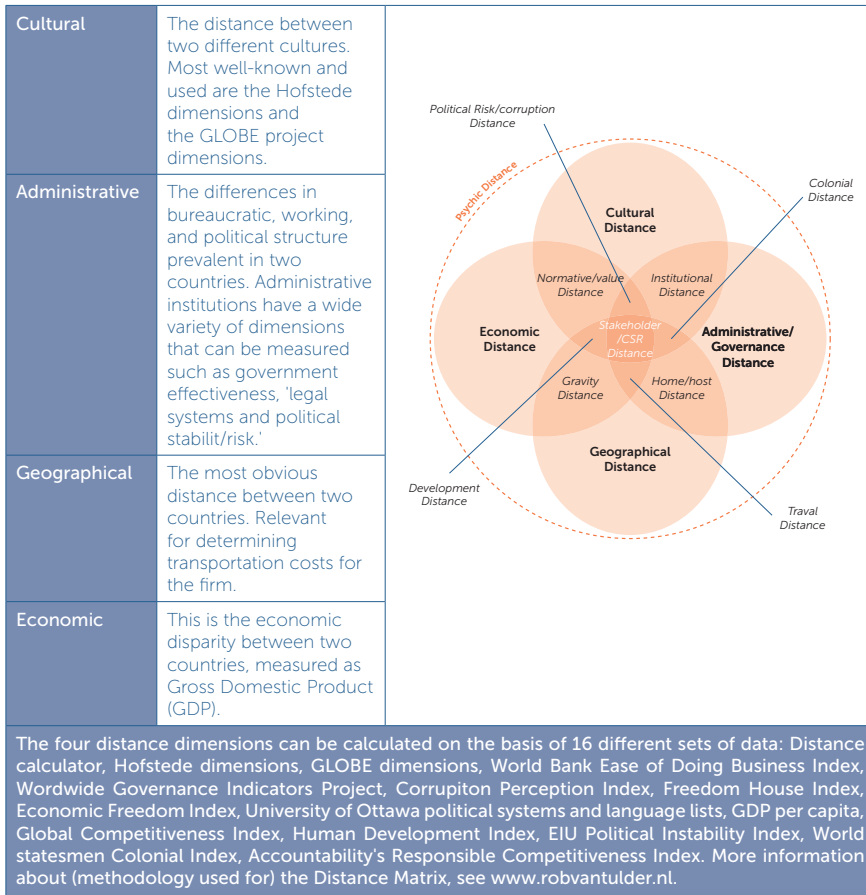
**Strategic risk/opportunities** relate to political risks which are prevalent in immature or volatile political systems. Historically, the main concern for foreign companies in developing countries was the risk that the state would capture their assets – expropriation or nationalization. Since the 1980s, direct expropriation has practically disappeared around the world. Governments now use more subtle measures, such as discriminatory change of regulations or contracts governing an investment. Strategic risks can seriously endanger the return on investments. The quality of regulation and measures to protect investors are good indicators of how big these risks are in a country. Dealing with strategic risks implies a more active approach to relationships with primary stakeholders such as governments.

**Sustainability risks/opportunities** relate to the license to operate the firm can obtain in its host market. This license to operate always involves the firm's corporate responsibilities embedded in the relationships with secondary stakeholders.

In developing countries, the most salient sustainability risks are associated with poverty and income inequality. It is almost impossible to be structurally engaged in developing countries without adequately addressing many (related) sustainability risks. A lack of basic utilities such as water and electricity, limited access to finance, inadequate infrastructure, and burdensome regulation are context-specific factors that require adequate mitigating measures. However, they also present opportunities, provided companies can link their business model and investment strategy to fill these gaps. There is a clear business case and competitive advantage in providing solutions to development problems.<sup>xxii</sup>

The operation, strategic, and sustainability risks are so high in some countries that they are considered as no-go' areas for regular businesses. These are so-called *failed states*. In 2016, failed states included countries such as Somalia, South Sudan, Sudan, Central African Republic, Yemen, Syria, Chad, and DR of Congo. Most of these countries are in Sub-Saharan Africa. *Fragile states* include countries such as Pakistan, Iraq, Haiti, or Afghanistan. Most other countries have created a business environment that is only relatively different from other countries in the world, which implies that the risks are more manageable. The challenge for managers in these countries – as traders or as investors - is to effectively manage risks and opportunities at the same time. The concept of distance offers a good starting point for such an assessment.

Distance in international business is more than a geographical entity. Various dimensions are decisive for doing business with distant countries, both as a trigger for attraction and as a barrier to entry and effective management.<sup>xxiii</sup> They are also relevant at the same time and must be managed in real time. Understanding the influence of distance is important for firms during all stages of business because of its immediate relation with transaction costs and risk and responsibility management strategies. Pankaj Ghemawat developed the CAGE framework<sup>xxiv</sup> to distinguish four general dimensions of distance: cultural, administrative, economic, and geographic (Figure 4.4).



Source: based on Ghemawat (2001)

Figure 4.4 Main distance variables – CAGE

Combining various distance dimensions creates additional insights for managers. For example, development distance can be based on the *Human Development Index (HDI)* of the United Nations Development Program (UNDP) and ranks all countries on their level of development, based on factors, such as life expectancy and education, beyond the traditional Gross Domestic Product (GDP). Comparing the score of one country on the HDI index with that of another indicates how big the development distance is. Generally speaking, the larger the development distance, the more sustainability risks must be taken into account. While Dutch

firms do not need to change their practices when working in Belgium – a country which is similar to the Netherlands regarding development – working in the DR Congo would mean a huge development distance. Firms must try to reduce this distance, for example, by offering education and healthcare services to staff and cutting prices of products down to the income levels of the Congolese if they want to sell to the local market (or their staff).

Another example of a composite distance measure is institutional distance. This can be based on a variety of measures such as the Economic Freedom Index (EFI) and the Corruption Perception Index (CPI). The EFI is published by the Heritage Foundation and ranks countries by issues such as business freedom, investment freedom, trade freedom, and labor freedom. The CPI was developed by Transparency International and ranks countries on their perceived level of corruption. Corruption is considered one of the biggest risk challenges for doing business in most developing countries. The larger the gap, the larger the strategic risks. In chapter 8 these distance variables will be further operationalized and applied to the most important countries with which Dutch companies have a trading and investment relationship. If two countries share a colonial history, the institutional distance can be mitigated through other means, for instance, through a shared legal language based on common administrative principles.

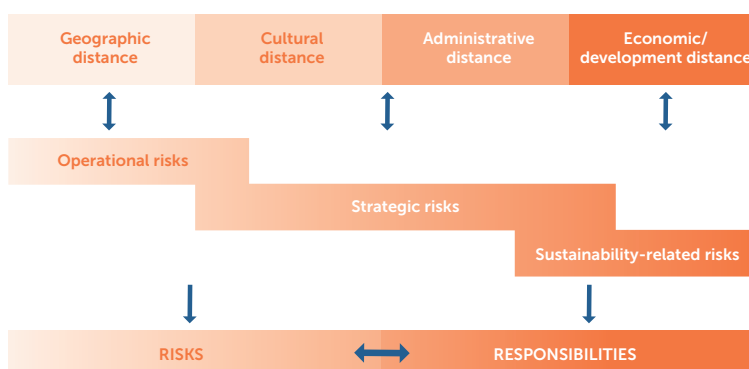


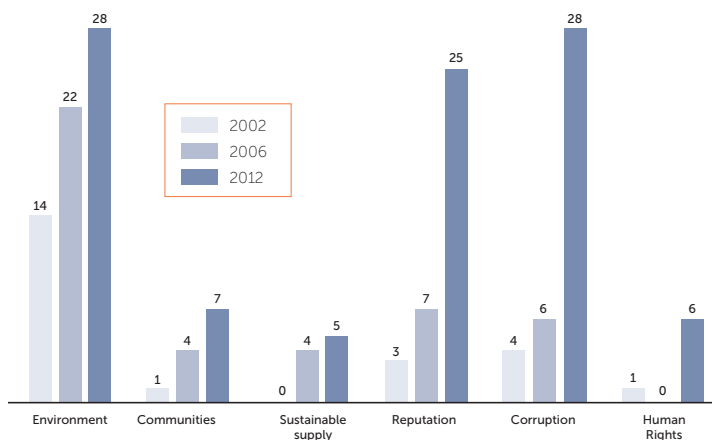
Figure 4.5 Distance – risk-responsibility trade-off



There are two main preconditions for international success in ICR :

- **Selecting a proper portfolio of countries:** This can be considered a function of the relative distance towards specific host countries. this portfolio should not only be managed properly but also better than direct competitors; present and future country portfolios are linked through transition trajectories.
- **Managing operational, strategic and sustainability risks at the same time:** This is a balancing act between international risks and responsibilities.

Multinational enterprises have increasingly tried to cover these risks. We checked the risk disclosed in the annual reports of a sample of 70 multinationals from 2002 till 2012.<sup>xv</sup> The perceived level of risk has increased considerably. The average number of risks companies reported more than doubled over this period (from six to 15 types of risks). Political risk was mentioned by more than half of the companies in 2012 (compared to around one fifth in 2002). Companies from smaller European countries are among the most international companies in the world, and consequently most prone to increasing risks. Asian companies show the least worry about risks (although the number of risks are also increasing). Environment, corruption, and reputation are the fastest growing sustainability-related risks (Figure 4.6). The strong link with reputation, however, also shows that most of these companies have a reactive attitude towards these sustainability risks. Human rights, communities, and supply chains are considered less of a risk, but are nevertheless increasing in importance.



Source: Roman, 2014

Figure 4.6 The evolution of sustainability related risks disclosure

Gaining a strategic and sustainable advantage in other countries not only implies that a firm can manage the balancing act between risks and responsibilities. In combination with other strategic choices, this should compensate for the disadvantages in these categories vis-à-vis competitors from other countries. Operating across borders always involves a combination of risk evasion and risk-taking strategies. Ultimately, successful entrepreneurship is about turning risks into opportunities while minimizing risks during implementation. Internal coordination can partly cover operational risks, but strategic and sustainability risks cannot be covered by internal measures alone. The bigger the economic and administrative distance, the greater the social challenges become and thus the more firms should include development distance into their management models. The larger the development gap between home and host country, the more a firm will be challenged to take responsibility for the problems it encounters. Rather than just avoiding risks, it will be expected to contribute to solving development issues such as poverty and food insecurity. This is increasingly the case for companies that not only trade but also invest in other countries. For instance, the Ethiopian government expects foreign firms to accept their economic responsibility and require them to collaborate with local companies and thus create employment. While a wholly owned subsidiary might be preferable from a risk-management perspective, a joint venture may be the preferred option from a responsibility point of view. All firms that are engaged in developing or emerging countries are faced with issues such as heterogeneous market structures, financial constraints of clients, underdeveloped distribution networks, scarcity of data, poor infrastructure, and low levels of education. Managers should consider how to balance risks and responsibilities in everything they do in these countries.

#### **4.6 Driving change: four ICR pathways through a volatile context**

The international business case essentially defines the entrepreneurial motivation for the preferred internationalization strategy. The business case links the business model with the value proposition (and related profit orientation) of the company (Figure 4.1, section 4.3). Trading and global ambitions are primarily based on intrinsic motivations. The multi-domestic ambition is primarily triggered by extrinsic motivations and consequently creates considerable coordination problems. The

classic matrix organization of many multinational enterprises reveals this logic. The business case for both the regional and transnational corporation reveal a mixed motivation game, albeit it at different degrees of coordination. This chapter defines four pathways for driving ICR transition to define typical ICR challenges along the way: [A] along the opportunistic route (from inactive to active); [B] along the responsive route (from inactive to reactive); [C] as part of the capabilities route (internal alignment towards an active approach); [D] along the collaborative route (towards a proactive externally aligned approach). International issues receive a different weight and priority along each of these routes. Checklist #9 helps to create an initial ranking of these issues and their trade-offs. Further fine-tuning and mapping of a corporate approach will be elaborated in chapter 7 of part II.

Getting all the Motives Right:  
Driving International Corporate Responsibility (ICR) to the Next Level

<b>CHECKLIST #9: International issue prioritization</b>						
<p>International issues can be prioritized according to their importance to the company and their stakeholders. This is usually part of a materiality approach. Materiality is affected by the degree to which a company can influence this topic – for instance through its supply chain. This is called the sphere of influence. The more a company can be identified as a leading company in a chain, the more it can influence the stakeholders in that chain (see also box #7). The second factor is whether international norms are available that the company can embrace with a reactive attitude. The first checklist helps to list international issues and attribute degrees of importance (priority) to them. The second checklist, however, reminds you of the existence of trade-offs between various issues. When specific issues have a relative preference over other issues, you can come up with a more sophisticated exploration of your issue prioritization process. The generic trade-offs define your strategic and tactical profile. The specific trade-offs help to attribute relative importance even amongst issues with comparable priority in the general ranking.</p>						
<b>[1] International issue priority matrix</b>						
<b>ISSUE</b>	<b>EXTREMELY UNIMPORTANT</b>	<b>← →</b>	<b>EXTREMELY IMPORTANT</b>	<b>WITHIN THE SPHERE OF INFLUENCE?</b>	<b>STAKEHOLDER INFLUENCE?</b>	<b>INTERNATIONAL NORMS AVAILABLE?</b>
Education	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Emancipation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Availability of future resources	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Biodiversity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Equal distribution of wealth	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tackling poverty	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Animal welfare	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Responsible fishing	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Efficient use of water and energy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Human rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Fairtrade	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Combating child labor	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Safety	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
A healthy diet	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Tackling sexual harassment	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Diversity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Privacy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Transparency	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Living wage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Health	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Road safety	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Access to cheap energy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Intellectual Property protection	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other, ...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Other, ...	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>

**(2) Common trade-offs**  
 There are some typical trade-offs that individuals are faced with when defining sustainability choices. But do not hesitate to add your trade-offs. By making these trade-offs transparent, you will see that depending on changing attitudes in other areas; some trade-offs will tip over to the other side, or even become completely obsolete. You can also use this technique to involve others or to fill-out with others in your organization. It can help to define 'perception gaps' within your organization, for which then specific change interventions or support programs can be introduced (see chapter 3).

**Sustainability Trade-offs**

	<i>MOST IMPORTANT</i>	<i>EQUALLY IMPORTANT</i>	<i>MOST IMPORTANT</i>	
<b>SPECIFIC</b>	←—————→			
Privacy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Security/safety
Affordable meat	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Animal welfare
Economic growth	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Ecology
Wage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Leisure
Price	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Sustainability
Animal rights	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Human rights
Social security	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Low taxes
Well-being	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Welfare
Low prices	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Fair prices
Taste	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Health
Health	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Wealth
Freedom of choice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Sustainable choice
Jobs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Living wage
Emancipation	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Tradition
Road safety	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Speed limit
Biodiversity	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Cheap food
Access to energy	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Cheap fuel
Low taxes	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Corruption
Freedom of choice	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Responsibility
Jobs	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Pollution
Minimum wage	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Maximum wage
Sustainability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Consumer freedom
<b>GENERIC</b>				
Home stakeholders	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Host Stakeholders
National norms	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Global norms
Competition	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Collaboration
Risk/liability	<input type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>	Opportunity/responsibility

#### ROUTE [A] The opportunistic (activating) route

The initial position in international business is generally that of the trading company – companies without foreign assets. A company that is intrinsically motivated to sell to international markets or source internationally without foreign investment aims at creating a *competitive tactical advantage* in its sector. This is best served by trade (exports/imports) from all around the world. A trading relationship also implies low transaction cost when companies decide to retreat from a country. Trading companies are the most opportunity-driven ‘footloose’ companies. Since this orientation is not accompanied by extensive control strategies, the degree of coordination and integration remains relatively low, while sale (exports) and sourcing (imports) patterns are largely based on efficiency considerations. Many small companies that source internationally belong to this category.

Achieving a *strategic advantage* in a sector often requires a considerably greater degree of internationalization and coordination. This is the route taken by companies with a global ambition. Branding becomes vital to create uniform product markets.<sup>xxvi</sup> Referencing one of the original thinkers of the globalization idea – Theodore Levitt – the global corporation wants to sell the same things in the same way everywhere.<sup>xxvii</sup> If uniform global or regional markets or supply chains exist, a company can indeed quickly become more global or regional without having to invest in foreign assets. So called ‘born-global’ firms such as companies like Airbnb, Uber or call centres profited from the existence of the internet and could achieve a strategic export advantage in global markets without asset internationalization. These firms tend to have a very specific motivational profile. They are science-based with their founders (which represents a more integrated global market than in most other sectors), are motivated by a worldwide clientele, and are headed by managers that have an “entrepreneurial orientation and mental models that seem to discount the risk of going international”.<sup>xxviii</sup> Most companies that have created a global competitive advantage through their domestic resource base – in particular related to primary stakeholders like dedicated employees, domestic capital providers, or knowledge institutes - prefer to export their products to other parts of the world. There is no real intrinsic motivation to become a multinational corporation.

ICR Challenges for opportunistic companies include:

- *Myopics*: Opportunistic companies are efficiency-driven, so operational risks prevail. Trading companies need to be particularly aware of the countries from which they source. Their ICR motivation primarily depends on the type of product they can sell and the reputational risks that they face because of their sourcing decisions. They become largely risk-averse, which makes them prone to the incumbent's curse, but now on a global scale. Only if sustainable products, components, or markets are available at competitive prices, will these companies be willing – and competent - to include them in their strategy and scale them around the world. They are truly opportunity driven. The chance that they will include ICR motives in their marketing and sourcing strategy that go beyond cost-reduction motives is therefore limited. Responsibility for international sustainability issues does not have the same weight as their risk profile.
- *Small thinking*: trading SMEs have the least motivation to engage in any ICR activities unless prescribed by governments (regulation) or their biggest customers in key markets. The motivation and the ability to support ICR tends to be relatively low.
- *The boundaries to exploitation and opportunism*: Global companies that have succeeded in taking the opportunistic route have profited from global standards and the acceptance of their business models and global brands. They were able to minimize the impact of distance by making societies adapt to their products and service offerings. However, this can have a negative effect especially when these global companies are aimed at consumer markets (B2C companies) and lose contact with their home stakeholders. By searching for an international 'foot-loose' status, their business model initially profits from a race to the bottom: lower wages, lower taxation, and lower regulation in general. By using one corporate brand, they are also more vulnerable to reputational damage wherever they operate, but particularly in their home base.
- *Divergence in regulation increases transaction costs*: Many of the more opportunistic companies are beginning to realize that their divide and rule attitude comes at a price. Greater unpredictability and volatility of the international regulatory environment will limit their possibilities to have more stable relationships with suppliers and markets. In the end, this also increases costs and create risks that are more difficult to mitigate. Even for

opportunistic international companies, there is basic logic in supporting sustainability efforts and raising sustainability standards. Higher wages create markets, education creates higher productivity, serving the needs of people (rather than only markets) creates opportunities for future growth. Global companies, compared to traders and multi-domestic companies, are best positioned to profit from overall growth in their present markets.

#### ROUTE [B] The responsive route: appreciating intrinsic and extrinsic trigger events

The initial decision to become a real multinational enterprise can be triggered by intrinsic motivations. The direction that a company takes in this triggering stage is largely based on its earlier strategic intent and its competitive advantage. Intrinsically motivated companies follow a resource-based logic, the globalization route. Seeking greater markets, more resources, (strategic) assets, or efficiency functions as an internal trigger to become a multinational enterprise. For instance, following the WTO membership of China in 2001 and the release of restrictions on outward Foreign Investments for Chinese companies by the Chinese government, a wave of Chinese multinationals quickly spread around the world. A regional expansion strategy thereby provides a more feasible and realistic internationalization trajectory. International business studies found that companies favor doing business with countries which have similar institutional and administrative distance dimensions. Corporate leaders search for institutional environments that resemble their home base – including comparable regimes on taxation and corruption. The cohesion of regions in institutional, cultural, and motivational characteristics creates fewer external (physical and psychological) barriers.

The strongest trigger for setting up foreign affiliates – and therefore the most dominant initial phase of internationalization – is however often extrinsically motivated. Political interventions such as liberalizing a sector, creating free trading zones, or providing tax incentives by host governments present strong triggers. Host governments can also introduce negative stimuli, such as imposing local content regulation and other entry requirements that prevent companies from a normal trade relationship. The entry decision of companies can therefore become blurred with ad-hoc tactical motivations. A company that is primarily extrinsically motivated to go abroad represents the arch-typical multi-domestic company. In the 1980s, the multi-domestic strategy was the dominant internationalization



trajectory of many European MNEs. It was also the preferred internationalization strategy in sectors such as utilities in which the prime motive for internationalization was triggered by liberalization measures of host countries and the desire to be the first entrant and profit from network effects. But multi-domestic strategies require a high degree of coordination. They are often combined with a very low degree of integration and can thus also create coordination problems such as high transaction and switching costs.

ICR challenges for responsive companies include:

- *Dealing with the liability of foreignness*: Studies on international business have found that companies that internationalize beyond a certain internationalization stage lose part of their advantage. This is called the 'liability of foreignness' (Figure 4.7). The effects of experience wear off and more established companies often have to adapt to local circumstances much more than they would like. Research indicates that foreign companies generally have a lower survival rate than local companies. Trading companies then will either de-internationalize or move to other countries (that are less distant), which will initially lower their profit margins. Other more active types of companies – if they survive – will be able to proceed on the basis of strong internal capability development and turn the liability into an asset (again). The ability of the company to become accepted as a genuine local citizen is vital in this sequence. Strategic management research further reiterates the following<sup>xxix</sup>: The liability of foreignness is higher when firms take a reactive approach and focus on not engaging in harmful activities that produce negative externalities (such as pollution and tax evasion). The liability of foreignness is minimized when firms engage in ICR activities that are focused on proactive engagement in creating positive externalities – such as pension schemes, partnering, and inclusive growth.

Recent research by Alan Muller (2016)<sup>xxx</sup> linked internationalization degrees and financial performance for a sample of 1,000 international companies with their CSR performance. He shows that the U-shape of internationalization applies to ICR results as well but with three modifications: Better social performers enjoy higher profits at home, their financial performance is negatively affected if they move abroad, and that this performance improves at a faster rate (than average profitability) in other stages of internationalization. For the responsive stage of internationalization, he explains: "First, we see

that when companies are domestic-only, those with better CSR show better performance. This is in line with the idea that their business partners know them, know they are more trustworthy and know they treat others well. When the company goes abroad, their new business partners don't know the company that well, and as a result, the extra money spent on CSR can't positively affect legitimacy perceptions. So it is just another cost." Past a certain point – indicated in Figure 4.7 as the tipping point between a reactive and active phase, Muller argues "as the company establishes its pragmatic legitimacy in the international arena, the moral legitimacy effects of CSR kick in again, amplifying the positive effect on company profits." This explains the business case for International Community Responsiveness in higher stages of the internationalization strategy – particularly as the effect of alignment with local stakeholders.

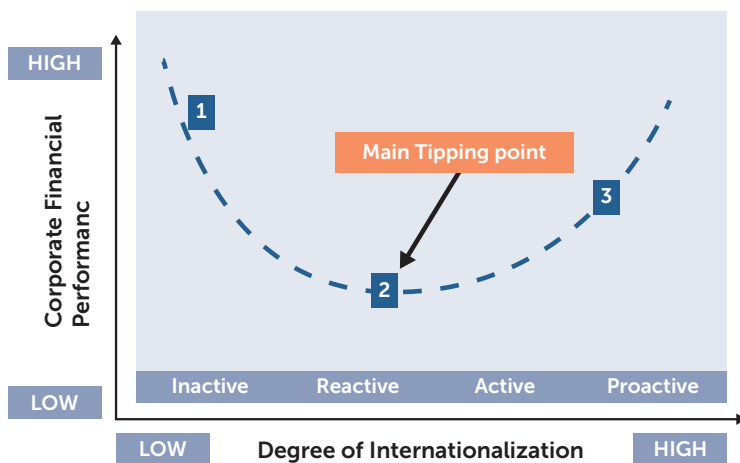


Figure 4.7 Internationalization and financial performance

- *Playing the ranking game:* Many of the initiatives around the world in which the sustainability performance of companies is ranked, are still aimed at naming and shaming. Most ranking initiatives such as the Access to Medicine Index, Access to Seed Index, Behind the Brands (food companies), the Fair Finance Guide, and the Fair Insurance Guide (initiated by Oxfam, Amnesty

and others) are organized by critical international NGOs. Rankings such as the Dow Jones Sustainability Index (DJSI) or the FT4Good Index have been introduced by rating agencies themselves. NGO rankings play on reputational effects (see chapter 3) and are relatively successful in naming and shaming, but much less so in naming and faming. The rating agencies are influential because of their impact on investors. An important challenge created by both routes lies in an effect called 'playing the ranking game'. First, companies that are triggered by a negative public ranking or rating only tend to improve those indicators on which they scored low, which can improve their ranking immediately. If this can be achieved relatively easily, the ranking game prevents companies from making real steps. They remain stuck in an extrinsic and defensive motivation. Secondly, the ranking game also creates an internal dilemma for companies that score relatively high in the ranking. They might lose the intrinsic motivation to do more. It is important to note that a high ranking (as in *Behind the Brand* scores or the *Dow Jones Sustainability Index- DJSI*) only implies that a company is leading in the sector relative to others. Even the highest ranked company in the DJSI cannot claim to be truly sustainable.

Many of the ranking initiatives are facing another dilemma as well. They often rely on public information, select a limited number of issues (as in the *Access to Medicine Index*) and only get public attention – and thus legitimacy – if they can name and shame companies. This has two effects on the dynamics of the transition. Companies that are ranked high have no incentives to follow through (adverse selection effect), whereas companies that are ranked low (the inactive ones) will have an incentive to deny the relevance of the ranking. Ranking games are now primarily used as a tool to prevent companies from doing harm (i.e., in the reactive phase). Using ranking games as a stimulus for positive change is much more challenging.

- *The coding dilemma revisited*: International codes of conduct – particularly towards suppliers – have been introduced by companies as a response to incidents in the value chain. Stepped up control on safety (e.g., after Rana Plaza in 2013) checks on working conditions in plantations (after child labor was discovered) triggered labeling and coding initiatives. Chapter 3 already hinted at the coding dilemma – which implies that detailed codes are often less well implemented than more generally formulated codes. This dilemma becomes bigger in an international environment. International codes are

not only difficult to control, but many actors in the supply chain (including governments) are not really motivated to implement them, for a variety of often opportunistic reasons. Governments in many developing countries report that child labor codes initiated by developed countries are used as a barrier to trade. Mixed motivations also play an important condition in the effective use of sustainability codes in complex international operations. The most effective international codes are aimed at the internal organization of companies, are in the hands of external/third parties, and are continuously upgraded to take new developments into account. Strict internal codes for companies, for instance, aimed at preventing employees giving in to bribery or corruption with local authorities, are difficult to implement. Many local managers distinguish between the formal (universal and top-down imposed) code and the more informal way of dealing with the day-to-day practices of the company. The most effective codes are not linked to detailed control and accountability measures, but to a good value proposition (as part of an active strategy).

- *Divergence dilemma*: Escape motives are strong in the responsive route. This leaves the problem of a race to the bottom wide open. Multi-domestic MNEs face a dilemma: on average they pay higher wages and provide better opportunities for employees than local companies.<sup>xxxix</sup> Multi-domestic companies are more knowledgeable about how to deal with international differences in regulation than traders or global companies. They have had to internalize these differences to create sufficient synergies to stay competitive. So, multi-domestic companies have actually a vested interest to sustain these differences between countries. Because they have learned to deal with these differences, they don't oppose to strategic entry barriers for competitors that are not present in the host country. Successfully responsive companies are interested in sustaining regulatory rivalry.
- *The danger of a lock-in*: Sustainability brands and certification schemes can enhance but also increase the transaction costs of companies, for instance, because they can get locked-into the supply chains of leader companies (see box #4). There are limits to international certifications that are linked to market mechanisms (i.e., to consumers like Fairtrade, UTZ, and Rainforest Alliance in cocoa). Positive effects from these schemes materialize at the level of farmers (better-organized households, better farmer skills, increased well-being and quality of life (social benefits) and good agricultural practices (environmental

benefits). Industry certification schemes offer traceability and increased possibilities to manage risks concerning food safety, quality, and supply. But the overall effects of most certification schemes are relatively limited if applied by reactively motivated companies. They cannot structurally lift cocoa farmers out of poverty or address bigger problems such as child labor, poor education, or bad infrastructure.<sup>xxxii</sup> Moreover, most certification schemes focus on one key issue such as 'living wage' and find it difficult to include other issues and their trade-offs. Besides, leading international companies introduce different standards with distinct or overlapping requirements. Multiple standards mean multiple audits, reports, higher administrative costs, and a greater charge on (scarce) managerial capital with suppliers.<sup>xxxiii</sup> The additional risk of lock-in exists in which powerful corporations can use sustainability certification as another tool to make producers, especially small agricultural businesses and cooperatives, dependent on one lead company whose interests might not be completely aligned with those of the suppliers. After an initial stage of progress, certified products run the risk of being turned into just another commodity exposed to cycles driven by supply and demand.<sup>xxxiv</sup> Competition between initiatives leads to innovation in business models, but also to inefficiencies and duplication of efforts.

Value chains, consolidation and regional sourcing:

*"Global value chains are becoming more consolidated. [...] Large multinational manufacturers, retailers, and marketers who manage global sourcing networks are proclaiming that they want fewer, large, and more capable suppliers, and that they will operate in fewer strategic locations around the world. [...] This is likely to promote more regional sourcing with suppliers located close to the major consumer markets [...]. Globalization is not going to disappear, but it is likely to become more decentralized."*

Gary Gereffi, Duke University  
MH Lecture 2009 'Chains for Change'

#### **BOX 4: Global chains for change**

The way international value chains are organized is an important dimension of international sustainability. The third Max Havelaar lecture (2009) examined what this implies for the type of competition and the possibilities for sustainability strategies. It is important to recognize that most chains do not represent free markets.

The role of civil society organizations:

*“With all due respect – CSR is good, CSR is done by lots of willing people, CSR will help the world – but in general the world of companies ends and begins at the factory gate.”*

*“As a development organization we have a very specific role in change processes. [...] chain cooperation offers our local partners the opportunity to get a better position in the value chain [...] But a partnership is like a marriage: you need to work at it to make it a success, particularly if it is an inter-cultural marriage.”*

*“We need to go faster.”*

*“Only if we tackle the whole sector and the entire chain. is it possible for us to eat and drink coffee in a sustainable and enjoyable way.”*

Willemijn Lammers, ICCO  
MH Lecture 2009 ‘chains for Change’

They are governed by leading companies that can seriously influence the way the chain works, and whether it has a positive or a negative effect on international sustainability throughout the chain. These leading companies are in the best position to make the change, provided they develop appropriate business models, which in this case relates to sustainable supply chain management (SSCM) practices. An important finding was that an active SSCM approach includes vertical upscaling of suppliers, for instance, through labels or other initiatives. A more proactive SSCM approach goes beyond this and helps suppliers to become empowered and to engage in horizontal and social upgrading, which gives them a long-term competitive advantage that goes beyond participation in a proprietary supply chain of one company with the risk of being locked-in. Lock-in effects represent the trade-off between economic and social/ecological sustainability.

Sustainable sourcing: someone has to do something:

*“There is not as much academic thinking going in companies as you might have hope, but there is lot of practical work going on. You can talk all you like about sustainable sourcing [...] but someone has to do it.”*

*“Starbucks is one of the few coffee companies that takes pride in not buying coffee on the New York commodity market. The reason is that we do value the direct relationship with suppliers – not just farmers, but also the traders and the coffee mills – because we believe that only direct relationships make it possible for us to find that high-quality coffee, but also to help the farmers in growing that high-quality coffee under the circumstances that we desire. [...] This is not charity. We believe that the relationship with the farmers, and helping them grow that high-quality coffee, ultimately is the best way to sustainability.”*

Hans van Bochove, Director Public Affairs, Starbucks  
MH Lecture 2009 ‘chains for Change’

What initially looks like a positive effect for suppliers in a supply chain in which the lead company helps companies to get a higher price (and income) by adopting lead company-proprietary labels or by adapting quality standards can become a situation of dependency in the long-term that hampers further growth (due to one lead company in the supply chain y). It can also hinder the ability to diversify to other chains and customers, which support longer term competitiveness of these suppliers and can help them to move up into value chains. In economic terms, the switching cost to other buyers (with other standards) can become prohibitive especially for smaller and weaker companies and the transaction costs to diversify into another chain can discourage companies from trying this strategy. Strategic management research on the conditions for long-term sustainable growth of smaller companies (in particular, start-ups) has found that it is vital that the companies can and want to diversify (even if it is at the expense of short-term profitability). A modest ambition is to differentiate within the same sector, but with the risk of sustained dependency on specific lead companies. A more strategic ambition is to diversify into other value chains. Whether suppliers

can diversify also depends on whether they are allowed or stimulated to do so by their major customer – the leading company. A successful upgrading strategy that combines economic, ecological, and social upgrading represents a truly empowered company.

What can governments do in value chains?:

*“There is no doubt that it is imperative to make the international chains of trade and production more sustainable. That is also crucial in combating speculation in raw materials and establishes long term sustainable financing in the chain.”*

*“What can government do to develop global value chains?”*

*[1] set a good example;*

*[2] work with other governments to ensure a free and fair trading environment;*

*[3] encourage the private sector to play its part.”*

Bert Koenders, Minister of Development Cooperation  
MH Lecture 2009 ‘chains for Change’

Empowerment at the bottom of the value chain:

*“I have been a banana farmer from the age of eight. [...]Because of the Fairtrade movement we had to reorganize ourselves as a corporation and register the organization. [...] Which gave us power – because farmers are now also businessmen and women just as in any other sector. We know what we want although we may not be as highly educated as having PhDs. We know when we are operating at a loss; we know when we cannot afford to manage our farms.”*

Cornelius Lynch, banana farmer St. Lucia  
MH Lecture 2009 ‘chains for Change’

To enable this type of change, governments and NGOs should be involved with the right combination of motives. However, the need to diversify as a precondition for successful upgrading is not widely recognized, because it is counterintuitive. It is not easy to convince companies or a cluster of companies (in a local economy) that they should trade off short-term profitability (and lower initial social progress) for longer-term



competitive advantage (and higher social resilience). This is why many successful upgrading activities have not necessarily been initiated by suppliers, but by proactive buyers that did not want suppliers to become overly dependent on them.<sup>xxxv</sup>

- *Scaling certification requires sectoral initiatives*: The motivation to achieve sustainability can be enhanced if the whole sector supports coordinated certification initiatives. Economic reasons for instance triggered the cocoa sector to higher levels of sustainability through certification: (1) greater demand than supply for certified produce, (2) a sector in which small-scale farmers are often more efficient than large-scale farmers, and (3) a product that is not a basic commodity (and thus provides some margins). Lucas Simons, former director of UTZ<sup>xxxvi</sup>, points out that at the end of the second phase of certification in the cocoa sector, organizations realized that they had spent a great deal of money on training and certification, but with insufficient outcomes. He concluded that industry cooperation should be a vital precondition to enhance the active business case for sustainability. In 2014, Cocoa Action was founded - a platform for the nine largest chocolate grinders and manufacturers to work together on sustainable cocoa cultivation.<sup>xxxvii</sup> But experts from the field found its composition and ambition disappointing.<sup>xxxviii</sup> The project remained limited to one region and a relatively limited number of farmers. Moreover, NGOs and other institutions did not have any input, indicating a considerable lack of cooperation. There were indications that better results could be achieved with coalitions in which NGOs and governments were also represented. In 2010, the Dutch IDH initiative created a Choco Workgroup with representatives from companies, trade unions, retailers, industry associations, government, and NGOs. At the same time, a platform for international knowledge transfer (Cocoa Connect) was created to support the exchange of knowledge within public-private partnerships. The institutionalization of these initiatives in international ISO standards (introduced for the cocoa sector), and in government procurement practices will be the ultimate stage of successful (proactive) collaboration.

- *Bandwagon and herding effects create bounded rationality*: A considerable degree of irrational or bounded rational tactical behavior has been observed in international businesses. The motives to enter or leave a country have often been strongly influenced by copying each other's (perceived) behavior and rationale. Can the same mechanism apply to ICR? In a relatively stable regulatory environment (a national economy), bandwagon or herding effects represent a relatively rational decision to follow the action of others and drive change. But in the international arena, bandwagon effects are more complicated. They can refer to companies that follow each other to specific countries for rather defensive motives - for instance, those related to loss aversion for not profiting from this market. If we link this mechanism to ICR strategies, bandwagon effects can be positively redressed if companies follow each other to countries where a positive regulatory change in sustainability areas can be noted or to countries that create more stability and predictability in sustainability. We found that internationalizing companies favor more stable countries with stricter regulation (including most sustainability issues) over less stable countries with more lenient regulation.<sup>xxxix</sup> Multinational enterprises from emerging markets that took over companies in countries with stricter regulation, have found it difficult to internalize the higher standards and apply them to their home market. This happened when Tata Steel from India took over Corus from the UK and the Netherlands. Take-over strategies (brownfield acquisitions) in general create more internal coordination problems than organic (greenfield) strategies.
- *The internalization of externalities*: One challenge in the management of negative externalities 'at a distance' is how to deal with the geographical spread and the net outcome of their effects. For instance, negative externalities in a host country (pollution) can contribute to positive externalities in the home country (clean products). Taking these trade-offs into account not only creates an accounting problem, but an even bigger motivational problem with consumers and other stakeholder in the home country. The greater the distance, the lower the motivation to do something about negative externalities. But the greater potential to internally coordinate costs and benefits across borders can also support positive change - provided it is part of an overall strategy in which the company not only limits negative externalities, but also links this to a positive externalities approach for its consolidated activities around the world. This requires a different form of

reporting and a greater involvement of external stakeholders in effective change trajectories.

- *The dilemma of appropriate transparency*: Transparency, in general, seems to be an area of high morals (see preface). Transparency relates to codes of conduct, departs from the notion that full transparency helps in overcoming power abuse and is generally considered to contribute to positive change. But in a VUCA world, transparency across borders can also have backbiting effects – also known as negative demonstration effects. This effect applies, for example, to remunerations of corporate leaders. In response to high CEO compensations in the Netherlands, a code (*Tabaksblatt*) was adopted that requires complete transparency of CEO compensation in large companies. The expectation was that transparency would result in more modest demands. The opposite happened. CEOs started to compare their compensation with leaders in their sector from the United States. Rather than lowering their salaries, this transparency gave them an extra argument to raise their salaries – even though the US remuneration system is based on completely different principles.

So, transparency can have perverse motivational effects and lead to a ‘race to the top’ on the wrong issues. In other areas, such as taxation transparency tends to reinforce a race to the bottom. Appropriate transparency is needed. In particular in partnership strategies transparency can be a stimulus as well as a barrier to success (cf. section 3.3[D]).<sup>x1</sup> During negotiations between unwilling partners, transparency can be abused for opportunistic reasons – to make the project fail. During negotiations between willing partners, transparency can jeopardize the trust-building process that is needed because the parties have different interests that require some discretion. External and internal communication is a vital prerequisite for driving ICR to the next level, but they need to be carefully managed - not in the least because of the motivational aspects that are involved.

- *Adverse selection on a global scale*: Quite a number of international initiatives have also been prone to specific adverse selection effects (section 3.3). The UN Global Compact Initiative (UNGC) for instance has been negatively affected by this mechanism. The UNGC started in 2000 as an initiative by the UN Secretary-General. Participating companies promised to abide by ten basic principles, but on a voluntary basis. The voluntary nature of the initiative was the source of its success – witnessing a booming number of

participants - but also of its failure. The UNGC attracted several companies that wanted to profit from the legitimacy of being a part of a UN endorsed network, even if they did not intend to work according to the principles of the compact. Many companies consequently engaged in bluewashing. Due to the positive blue brand of the UN, companies interpret the label of Global Compact as a legitimacy while not doing more. The UNGC became susceptible to adverse selection, because it included companies with weak as well as strong CSR performance<sup>xii</sup>). For political reasons, the UN decided that the size of the network was more important than the implementation of the principles. The resulting low accountability and transparency required from participants and the lack of specificity attracted many participants, but with a low group cohesiveness. The adverse selection mechanism even resulted in a lower incentive for participating companies to implement the ten principles of the network.<sup>xiii</sup> The adverse selection effect of these types of networks also creates a problem for frontrunner companies. Participating in the network might hold them back from taking more daring initiatives.

- *The international materiality dilemma*: A typical dilemma that responsive internationalizers face is how to deal with really global - border crossing - issues, like climate change or tax erosion. Chapter 3 already argued that it is difficult to define the salience or materiality of an issue to a company through stakeholder consultation. But in an international context this becomes even more difficult. The salience issue is further influenced by the distance problem. Most companies involve those stakeholders in their consultation that they can organize at the headquarters in the home base. This is practical, but with international issues, home stakeholders might be motivated differently from local stakeholders in host countries. Relatively weak reputational effects (and related urge for legitimation) are further weakened in an international environment. In practice, the materiality analysis thus proves most responsive to home country needs and stakeholder pressure. By using materiality assessment primarily as a reactive tool to assess risk, companies further lower the strategic potential of the tool to assess opportunities. These impressions are reinforced by a few critical studies on the use of materiality or issue priority matrixes for global economic issues that concern supply chains in general and issues such as taxation and intellectual property right protection specifically. Compared to national materiality assessments, the international materiality matrix is therefore even more about intent than

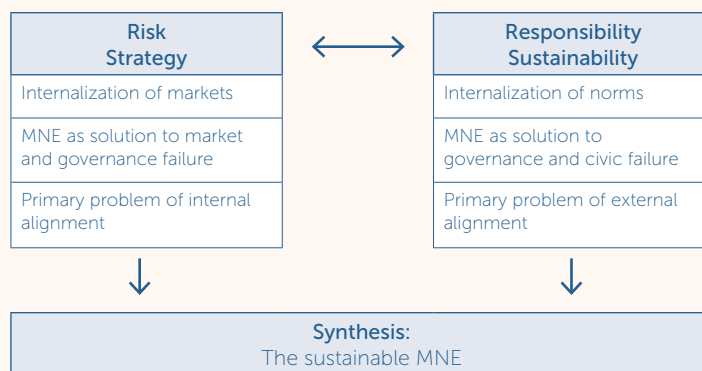
about performance. Implementation is often not guaranteed, and the matrix is supply-driven instead of based on shareholder needs (tacit or future) around the world. They do not show the industrial benchmarks used by peers and investors to compare performance nor key sustainability performance indicators within an industry.<sup>xliii</sup> This further underlines the conclusions reached by KPMG (2014) that senior management is often not involved in the materiality assessment process. The international business context seems at the moment too complex for a meaningful materiality assessment at the corporate level. Using Checklist #9 for each company might help to make the 'salience/materiality' analysis more relevant.

### **BOX 5: A Short intermezzo - the theory of the multinational enterprise**

Multinationals (MNEs) are often treated with considerable distrust. This is because they attract media coverage when they adopt strategies that are considered to be manipulative (tax evasion), corrupt (colluding with governments), or irresponsible (polluting local facilities). This reinforces the reasons behind the defensive (and even secretive) attitude many multinationals have. But is this a distinctive feature of all MNEs? There are good arguments why MNEs present a certain logic that provides value to the societies in which they operate beyond nationally operating companies. The scientific discipline of International Business has developed the internalization theory, which explains the logic as well as the legitimacy of multinational enterprises. The argument is as follows: In an imperfect world and under certain conditions multinational corporations can be considered a lesser evil compared to non-multinational corporations. Multinationals correct for market imperfections or market failure in both national and international product markets.

This theory builds on the general theory of the firm, as introduced by Ronald Coase and others, which argues that markets, in general, are not good at directing resources. Firms are a response to the high cost of market failures or market imperfections.<sup>xliv</sup> Many of the imperfections in international markets arise because of government interventions – sometimes for good reasons, sometimes as the result of regulatory capture by interested parties. The potential to profit from undisturbed international trade and exchange in a VUCA world is consequently severely limited. Multinationals set up facilities around the world and internalize part of the market inside their organization. They can provide solutions to market and governance failures. If they organize the interaction between headquarters and subsidiaries well, they can contribute to greater wealth through enhanced efficiency and greater exchange of knowledge.<sup>xlv</sup> Ethical theory has added another dimension to this argument. In an imperfect world, in which norms and values compete, the multinational corporation can also internalize norms and thus create an environment that solves some of the rivalries between cultures, norms, and values.

MNEs can create a “normative free space” that can enhance sustainability beyond competing for national systems and cultures.<sup>xlvi</sup> They can theoretically manage their international responsibilities by aligning their internal organization with the norms and values of their external stakeholders. If they do this right, they can also be considered a force for good. An extended theory of the multinational enterprise looks at both strategy and sustainability, defines the trade-offs between risk and responsibility, and assesses whether the synthesis created by a company adds greater value to society compared to a non-internationalized company.



#### ROUTE [C] The capabilities route: internal alignment

The second phase of internationalization processes often provides a reality check of the original ambitions and their implementations. After the initial stage of internationalization, management needs to reassess the implemented strategy and consider internal inefficiencies and external conditions for further expansion. Companies, in practice, seek internal alignment in three distinct directions: continued globalization, retreat, and regionalization. This has very pragmatic reason. Companies that sustain a multi-domestic strategy for instance face continued fragmentation and serious coordination problems. This type of

company therefore seeks internal realignment by closing factories and sales points. Global companies, on the other hand, can only pursue their international ambitions if the countries they invested in are willing to adapt to their strategic vision. Some global companies, like Walmart, failed to impose their business model on some developed markets such as Germany and Switzerland, and consequently de-internationalized. By doing this, these companies abandoned their globalization ambitions but kept their business model intact. Other global companies like McDonald's, Coca-Cola, or IKEA succeeded much better in sustaining their business model even if they spread to more distant countries. They have been capable of sustaining their intrinsic motivations and have created relatively coherent change trajectories through a strong corporate culture based on more unique capabilities than in the case of Walmart (following the A-arrow of Figure 4.2). But even they have had to adapt to local circumstances if they wanted to remain competitive.

Serious coordination costs related to the global and the multi-domestic strategy make a regional strategy for many companies a particularly attractive next step to recombine intentions (motives) and realities (strategic realization). Consecutive regional integration steps in Europe, North America, and South-East Asia have consequently been influenced by coalitions of local companies that wanted to internally re-align their activities in the region to create greater synergies and efficiencies. At this stage, in particular smaller companies that have strived for a global strategy find that it is difficult to deliver standardized products around the world, since it also requires standardized markets and consumers (that only exist in very limited markets). Even 'born globals' find it difficult to reach global markets if they are not prepared (or motivated) to engage in local presence or adaptation. Companies like Airbnb and Uber are confronted with considerable local resistance against their centralized (platform) business models. Even for well-established global brands like Coca-Cola, Nike, Nestle, or McDonald's, a certain degree of regional integration has become mandatory to sustain a strategic advantage and a license to operate in areas where sustainability risks are at stake. By implementing this strategy, their motivation becomes inescapably more complex with a need for very sophisticated (mixed) degrees of international coordination.

The capabilities route of internationalization creates a number of additional ICR challenges that are primarily related to the internal organization of the firm:



- *Withstand the inclination to manipulate transfer-prices*: The responsive route contains many motivational temptations that can lead companies away from ICR strategies. The search for tax havens thereby presents a particular source of contention. Another source of contention and popular distrust is the ability of internationally operating companies to use internal pricing mechanisms to deceive tax authorities. This is the area of transfer pricing. Transfer pricing within multinational companies as such is a necessary management technique. It regulates internal trade. Companies engage in internal deliveries between their subsidiaries as an answer to imperfect markets. This implies that a large part of internal transactions is not based on markets, but on other motives and considerations such as quality, flexibility, sustainability, service, and property right protection. The added-value and legitimacy of being an internationally operating corporation is even critically related to smart management systems across borders (see box #5). Accounting for these transactions across borders – as part of national accounting rules - requires companies to put a price on these transactions. Transfer pricing becomes *manipulative* – even fraudulent - if companies have the intent to assign profits to those countries where they have the lowest taxation on profits, or to those countries where they have the biggest leverage on tax authorities (through ‘rulings’).

Allegations of transfer price manipulation seriously limits the license to operate. For instance, it was found that about 60% of capital flight from Africa originated from improper transfers pricing.<sup>xlvii</sup> But the problem is not limited to developing countries alone. The popular discourse on the tax-related operations of global companies was triggered when the UK and the USA started to complain about the tax evasion strategies of their own companies such as Apple, Amazon, Hewlett-Packard, Starbucks, or Microsoft. It is difficult to separate a relatively legal strategy (making use of differences in tax regimes to evade high taxes) and an illegal act of manipulation. More importantly, transfer price strategies have also consequences for positive (active) ICR strategies. The internal alignment challenge of firms to adequately deal with transfer pricing has two parts. First, companies need to rethink transfer pricing mechanisms in order not to do harm in the countries they operate in. This is a matter of compliance, that generally requires more sophisticated compliance procedures than present in most companies.

Paradoxically companies also need transfer pricing mechanisms to do good. They can do so by creating new management models to account for the positive contribution that can be achieved by investing in sustainability. This might require cross-subsidization between divisions spread over different countries. Companies that want to engage in a positive agenda are also likely to become bigger supporters of a level playing field in taxation and have a view on what fair taxes could entail. Supporting the OECD BEPS initiative (Table 4.4) and other campaigns is often needed to prevent other companies from becoming free riders on the initiative of frontrunners. Take, for instance, the 'Publish What You Pay' campaign which was set up in 2002 by a group of civil society organizations advocating financial transparency in the extractive industry. It created an extrinsic motivation for companies to become more transparent in their tax reporting. A 2009 evaluation report noted that the main challenge for the 'Publish What You Pay' campaign 'continued to be about how to overcome vested interests among governments and companies in maintaining the lack of transparency.'<sup>xlviii</sup> Consequently, the Publish what you pay campaign remained rather ineffective in helping companies use adequate tax reporting as an internal management tool. How companies address internal transfer mechanisms for sustainability causes, consequently, has not yet been addressed in any meaningful way.

- *A coordination and scaling challenge*: One of the classic challenges of firms operating across borders is how to coordinate the activities between headquarters and subsidiaries. Internal alignment requires headquarters and subsidiaries to collaborate and learn from each other. If this is well-organized, the multinational enterprise provides an organizational set-up in which experiences can be scaled more rapidly than in any other organizational form. This can apply to the internal process of the company, but also to the value and supply chains in which it is active (cf. Box #4). In his Ted Talk (see chapter 5), Michael Porter argues (that the scaling potential of multinational enterprises provides a pervasive argument for targeting multinational companies to address major sustainability issues.

A comparable argument is used by societal organizations like the World Wildlife Fund for nature (WWF), which has targeted a limited group of 200 hundred multinationals that are influencing the direction of sustainability change either internally in their organization across borders or as part of their global value chain strategy. Research on the specific internal organization

of ICR in multinational corporations is not very well established. But there is some evidence that the more distant from the home county the subsidiary is, the less likely it is to engage in CSR.<sup>xlix</sup> This finding applies particularly to global (American) companies. There are also indications that the more autonomy is given to the subsidiary, the higher local CSR performance is.<sup>l</sup> Companies that want to scale up their ICR performance need greater degrees of coordination and control across borders. But greater coordination comes with specific ICR governance dilemmas as well.

- *The governance dilemma*: Chapter 3 noted that a rich value proposition could improve the ability to move beyond the reactive phase. Internationally operating companies are particularly susceptible to the influence of their main funders (their principals). Rapid internationalization is often funded by issuing public-equity (stock) in international financial markets. The growing influence of stock markets on the financial affairs of companies increases the pressure on companies to aim for short-term profits; shareholder value prevails over stakeholder value (chapter 3). The more dependent companies are on short-term finances, the more difficult it is to internally develop capabilities for longer-term returns on investment in areas such as sustainability. Making the transition to higher levels of sustainability – as Dutch frontrunner companies such as Unilever, AkzoNobel, or KLM are trying to do – requires particularly smart business models in which short-term profit (efficiency orientated) considerations must be aligned with longer-term motives.

The limited research on the impact of governance styles on increased capabilities for implementing ICR shows that large family-owned companies and cooperatives are generally better capable of implementing coherent ICR strategies. They often have a richer value proposition, which is paradoxically positively influenced because they face financial barriers to engage in rapid internationalization strategies. While publicly listed companies have access to sizable funds (through stock issues) to acquire foreign assets, the internationalization strategies of family-owned companies and cooperatives is inevitably more organic, because funding comes from internal sources. Subsidiaries are often mergers or greenfields instead of quick, often expensive take-overs. This organic type of internationalization strategy is slower but easier to coordinate and less susceptible to the influence of anonymous shareholders.

- The cross-cultural leadership challenge*: International business research shows the importance of country contexts for legitimate leadership profiles. In particular in the capabilities phase, leadership requires followership. Routing the transition from a reactive to a more active approach in sustainability areas depends on the successful alignment of the internal cultures of an international company. Corporate leaders must deal with two particular dimensions of distance: cultural and psychic distance (see Figure 4.4). Cultures can diverge considerably in the importance they give to motives that are associated with successful business leaders. Consider the research of Hofstede on this phenomenon.<sup>ii</sup> Table 4.5 reports what goals – and thus related ICR motives – managers find important for successful business leaders in four culturally distant countries.

China	India	Denmark	USA
Most important			
Respecting ethical norms	Family interests	Creating something new	Growth of the business
Patriotism, national pride	Continuity of the business	Profits 10 years from now	Personal wealth
Power	Personal wealth	Honor, face, reputation	This year's profits
Honor, face, reputation	Patriotism, national pride	Staying within the law	Power
Responsibility toward society	Power	Responsibility toward society	Staying within the law
Least important			
Creating something new	Staying within the law	Family interests	Profits 10 years from now
Game and gambling spirit	Creating something new	Power	Responsibility toward employees
This year's profits	Responsibility toward employees	Responsibility toward society	Family interests
Personal wealth	Respecting ethical norms	Personal wealth	Continuity of the business
Staying within the law	Game and gambling spirit	Continuity of the business	Creating something new

Source: Based on research by Hofstede et al. (2002)

Table 4.5 Goals ascribed to successful business leaders

Geert Hofstede's research shows dramatic country differences. Four of India's top five goals are among Denmark's bottom five (family, continuity, wealth, and power). Three of Denmark's top five goals are among the bottom five in the USA (creating something new, profits ten years from now, and responsibility towards employees). Respecting ethical norms is ranked at the top in China but is among the bottom five in India. Staying within the law is a typical motive for European and American leaders, whereas it is not considered important in China and India. Responsibility toward society is only considered important in China. Short-term (this year's) profits are in the top five in the USA and in the bottom five in China. The table reads like a recipe for conflict in which the corporate management of one country tries to run business completely differently than in another country. This finding illustrates the importance of perception differences among cultures. Perception differences create 'psychic distance'. Global company leaders need to find a compromise between these perceptions or choose their country portfolios well. Transnational corporate leaders need to find a synthesis between these perceptions (or come up with a segmented approach).

- *Personal leadership challenge: Developing a global mindset.* Effectively dealing with various cultures and problems requires a different mindset. The Thunderbird School of Global Management developed a *global mindset inventory* to assess the characteristics necessary for global leaders to effectively influence people from other cultures. The concept of a global mindset consists of three broad individual characteristics, which guide three distinct facets which all have been validated (Table 4.6).<sup>iii</sup> Interesting aspects of this leadership mindset is that global leaders can make decisions and act appropriately in the face of many options (part of intellectual capital). In terms of psychological capital, the global mindset is open and active, whereas in terms of social capital, it is intercultural, interpersonal, but able to engage in conversation, asking, and listening (rather than answering). These mindset characteristics build on the collaborative mindset characteristics at an individual level (chapter 2) but with specific reference to international challenges. A leader with a global mindset interprets ICR issues more as an opportunity than a risk despite the complexity and trade-offs involved in making the right decision as to the course and the international value proposition of the company. The ambidexterity challenge of leadership (chapter 3) in an

international context then relates to diversity and intercultural empathy and an active interest in the context(s) in which the company operates.

Individual characteristics	Discrete facts
Intellectual Capital	Global business savy: one's grasp or worldwide industry; risk Cognitive complexity: complex scenarios, but making decisions Cosmopolitan outlook: active interest in context
Psychological Capital	Passion for Diversity Thirst for Adventure Self-assurance
Social Capital	Intercultural empathy Interpersonal impact Diplomacy

Source: Javidan et al, 2010

Table 4.6 What's in the mind of the global leader

- Mature dealing with setbacks*: Even positive change creates uncertainty and failure. The more complex internal and external alignment processes are, the bigger the chance that critical observers find cases of failure. Cynical NGOs will use indications of wrongdoing somewhere in the international organization of the company or in its supply chain as evidence of their fundamental distrust in the intrinsic motivation of companies to do good. For companies that have not yet properly internalized their ICR strategies, external cynicism also feeds into internal opposition against the chosen change strategy. But well-aligned companies can use temporary set-backs as a stimulus for further alignment and learning. They can identify the transition phases the company is in and the likelihood that mistakes will be made. They can withstand the inclination to install stricter control measures to enforce compliance with strict rules, codes, and other measures of control. To move away from reactive alignment, management needs to create a different strategic story inspired by a more mature attitude – largely framed by the difference between knowing what is going wrong (and needs to be corrected) and what is going right (and can be improved).

The problem with Gucci Capitalism and hope for a new era:

*"It one of the most depressing facts of live in western countries, that many people feel that the lives of their children are not likely to be better than theirs."*

*"Gucci Capitalism is an ideology born in the 1980s stating that markets should be left to self-regulate, governments should laissez faire and human beings are nothing more than rational utility maximizers. In every country that adopted it, a gaping chasm has emerged between the economy and social justice."*

*But the crisis also leads to an era in which we are 'pulling together'; manifestations of a new era of capitalism in which cooperation, sharing and collective interest rule."*

*"Partnerships for development can be a real source for positive change, but there cannot be a single solution to the complexities of poverty, state failure, malnutrition under-investment, etc."*

Noreena Hertz, author and opinion leader  
MH Lecture 2008 'Partnerships for Development'

- *Specific HRM challenges:* Active rotation of employees between countries and management areas has always been part of the internal alignment approach of global companies. Rotation builds internal loyalty and a strong (global) company culture that can compensate for the cross-cultural challenges that less integrated international companies face. Royal Dutch Shell, for instance, has a competitive internal HRM policy and an internalized job market, where employees must apply for a new position every couple of years. This strategy creates three ICR problems: (1) The planning horizon for managers is too short (they will be going to other countries); (2) Local knowledge is limited, which creates pressure on the license to operate (due to limited embeddedness in the local context); (3) If this goes together with changes in functional areas, it will be difficult to build up knowledge in more complex management areas like sustainability – for which a local context is also important. Part of the reason why Shell faces recurring human rights issues can be attributed to regular changes in the local management, which makes it difficult to learn from previous mistakes.

**ROUTE [D] The collaborative route: creating external alignment across borders.**

The transnational MNE is far from being a reality, but there are companies that are moving in this direction. The third stage of internationalization requires companies to seek structural alignment with non-market actors: with local actors, with international NGOs, and with international governmental organizations (at the regional or global level). The external alignment strategies with stakeholders are strongly influenced by previous strategies and relationships with these societal actors. The ambition to be a good 'local citizen' as the actual operationalization of the glocalisation or transnational ambition is different from the construct of the 'transnational solution' as portrayed by Christopher Bartlett and Sumantra Ghoshal (1989). They looked only at the market and marketing environment of companies. In the original work, this implied a high degree of internal coordination, but it did not necessarily require external alignment with societal stakeholders. The (transnational) community responsive corporation needs a license to operate in all the countries in which it conducts business. In practice, this implies a focus on the societal value of its products and value proposition. It provides an easier strategic advantage over other companies. It makes the strategy of this type of MNE a mixed-motive game in which the company cannot pursue just its own internal logic but must consider the motivations and ambitions of stakeholders. In recent international literature, this strategy is also referred to as resource bundling. Other studies have already alluded to this strategy as smart stakeholder management or shared value creation. One of the greatest strategic and motivational challenges for MNEs will be to efficiently and effectively organize this across borders. The way MNEs manage this process will seriously affect the legitimacy of the multinational corporation as an agent of change and progress.

The international collaborative route holds specific ICR challenges as well:

- *Proactively dealing with stakeholder distance*: Being a transnational corporation requires intense relationships with local stakeholders, but it also has a bearing on the nature of these relationships and on the chosen strategies. ICR strategies of multinationals paradoxically do not always face positive evaluations from overseas and most distant (host) stakeholders. Figure 4.4 shows that dealing with stakeholder distance requires sophisticated management approaches – at the interface of all relevant distance dimensions. But there exists a distinct effect in stakeholder relations based on proactive, rather than reactive approaches. Crilly et al. (2016)<sup>iiii</sup> distinguished



in their research between not doing harm (focused on attenuating negative externalities) and doing good (focused on proactive engagement creating positive externalities). They found that “stakeholders attribute the motive for foreign firms’ do-no-harm CSR to managerial interests and shareholder pressures. Stakeholders perceive a wedge between managers and owners (who may be unmotivated to reduce the negative impacts of their business activities) and local stakeholders (who bear the social costs).” They conclude that foreign firms gain more by highlighting doing good rather than avoid doing harm CSR initiatives. More specifically, they argue that the liability of foreignness is minimized when firms engage in good social responsibility. Whether stakeholders attribute the right motivations to the firm’s value proposition can influence the profitability of foreign activities. It can also positively influence the possibility to create partnerships with a wider range of local stakeholders (see chapter 3). The research of Muller (2016) also identified the importance of establishing legitimacy with stakeholders, which amplifies a positive effect on company profits.<sup>iv</sup>

- *Attribution challenges*: Attributing positive externalities on a national scale is difficult (chapter 2). It is even more challenging at an international level faced with the governance gap. But it also creates possibilities. This applies to those areas where there is still a need and a potential to grow. It requires companies to upgrade their value proposition to include international opportunities and to measure their positive contributions to society. This dimension is largely ignored in International Business studies. But like with the psychology of the manager (chapter 3) and the core of the business CANVAS Plus, the ultimate value proposition, mission or vision statement of a MNE represents the effort to formulate the deepest motivations of the company leadership, why they exist as a company and what kind of license to operate the company seeks from societies around the world. Strategic management textbooks are starting to include firms’ value propositions as a relevant dimension of their global strategic considerations.<sup>v</sup>
- *Creating a sustainable corporate story and a proactive mission*: What drives aspiring transnational corporations can best be understood by looking at their mission definition and the corporate narrative they co-create with stakeholders. This has become known as a sustainable corporate story.<sup>vi</sup> It links the motivation of the company leadership with the motivations of important societal stakeholders. The mission statements of companies have

regularly been defensively motivated. For example, Google's 'don't be evil' motto illustrates a reactive internationalization strategy and is not very helpful in defining what positive strategy the company envisages. Mission statements and mottos can also guide the internationalization strategies of companies in a more proactive mode. In 2014, five big exemplary MNEs from different home bases and sectors had the following mission statements:

- General Electric (active in over 160 countries): "We invent things that matter and help cure the world. We make things that very few in the world can, but everyone needs."
- BP (active in 80 countries): "We are committed to making a real difference in providing the energy the world needs today, and in the changing world of tomorrow."
- Toyota (active in 160 countries): "We will lead the way to the future of mobility, enriching lives around the world with the safest and most responsible ways of moving people."
- Total (active in 130 countries): "... To responsibly enable as many people as possible to access energy in a world of constantly growing demand."
- Philips (active in 60 countries): "We strive to make the world healthier and more sustainable through innovation. Our goal is to improve the lives of 3 billion people a year by 2025."

Many international companies have started to formulate global ambitions that include value propositions that go way beyond profit maximization. The extent to which these statements can be considered window-dressing depends on how they are implemented. (Part II elaborates on this).

- *Reversing materiality*: Successful international external alignment also depends on the way company strategies can be linked to the agreed societal goals. The 2015 agreement of the 17 SDGs – in which companies and civil society organizations actively participated – creates a relevant frame for targeted, collaborative strategy development. International organizations argue that the 17 SDGs can have a very important impact on the purpose of enterprises all over the world. But, as major consultancy firms also argue, this potential will only materialize if companies can align their strategies with the SDGs. Only then will they contribute to a "universal language to proactively act, inspire and solve tomorrow's global challenges".<sup>lvii</sup>

Recent studies indeed show that more than two-thirds of (big) companies around the world have started to align their strategies with the SDGs. The biggest challenge, however, is the move from theory to practice. This means embedding SDGs in strategic activities and not only using them for companies' philanthropic activities. The trust gap that still exists towards the action of leading companies implies that – although companies are considered important – they are not perceived to take sufficient responsibility to address the SDGs. Companies that try to incorporate the SDGs in their strategic planning must make them material or real.

The materiality practice, however, also creates a barrier for progress by being relatively reactive and fragmented. Typically, materiality starts from the perspective of the company and prioritizes in direct response to stakeholder pressure. Including the SDG agenda in the materiality assessment could reverse the logic. By selecting a universal agenda that will be relevant for at least 15 years (until 2030), companies can channel their strategies, but also reap opportunities and restore societal trust in their activities. Reversing materiality is essential. This means defining the threshold of society and making it strategically relevant for companies. An increasing number of companies are actively engaged in aligning their strategies with a selection of the SDGs (see box #6). How to make this material remains a challenge.<sup>lviii</sup> Recent research of Corporate Citizenship (2017) shows that businesses have the tendency to use the SDGs for communications but neglect the strategic implications. Moreover, whilst 99% of their respondents said that their company was aware of the SDGs, 20% indicated that they had no plans to do anything about them.

### **BOX 6: The Dawn of a new era: reversing materiality for the SDGs**

The 8th Max Havelaar lecture (2015) provided a timely account of what was indicated as the dawn of a new era – the finalization of 17 Sustainable Development by the world community in September 2015. Organized by the United Nations, the adoption of the Sustainable Development goals shows a number of changes in the international agenda: The number of goals has more than doubled, they are more complex (169 sub-goals), and they are universal, i.e., applicable not only to developing but also to developed countries.

*“So the learnings that we have: solutions will only work and be scaled up to big volumes if they’re a real solution to the target group they’re meant for. It also has to become part of your business model otherwise it’s not sustainable. Technology will not be the limiting factor. It will be available but we need to figure out how to work together and make this happen.”*

Hans de Jong – director Philips Benelux

The SDGs encompass more diverse global issues, such as sustainability, urbanization, inequality, migration and the elderly. They are framed as positive goals, rather than negative duties and doom scenarios – which would trigger bystander effects (see chapters 1 and 2). The goals have been created with contributions from a great variety of peoples and organizations.

*“I think everything is in place to achieve these SDGs but we have to dare [...] to make it possible.”*

Nisha Bakker, head partnerships – UNICEF-Netherlands  
MHL Lecture 2015

The SDGs are a typical example of multiple-stakeholder engagement. The United Nations’ survey ‘MyWorld2015’ asked 9.7 million global citizens what they would like to have included in these new goals. The 17 SDGs are therefore the outcome of an inclusive process in which many people added their own goals to the all-encompassing global goals. With more

areas and issues being covered by the new goals, one could assume that more people and organizations will also make more effort to implement the goals.

*“Basically what the SDG framework does is ask countries to do two things, to provide a policy response to the SDG agenda and to report on the achievements or the way in which the countries actually achieve those goals. So we have to implement it and we have to report on it and that is precisely what is now being discussed in the UN the negotiations on some parts of the agenda are still ongoing and it’s particularly on the monitoring framework. So it’s important to keep negotiating and taking a tough stance on this.”*

Ronald Wormgoor – head of Dutch SDG team  
MHL 2015

SDGs have their supporters and fans that praise them and are optimistic about their implementation, but they also have their critics and pessimists. It’s still unclear how the SDGs can be achieved. But what became clear from the Max Havelaar lecture is that most international companies and many international Civil Society Organizations see the SDGs as a positive frame in which to start organizing partnerships.

*“If you are investing in the continent, work with local people, train local people, engage in discussion with local government in order to contribute to local content.”*

Marina Diboma – Young African leader  
MHL 2014

- *The partnering challenge*: An important way to enhance the strategic relevance of the SDGs is to engage in a proper portfolio of cross-sector and intra-sectoral coalitions or partnerships. The SDGs cannot be achieved without partnering. Partnering is the fifth basic principle of the SDGs – next to People, Planet, Prosperity, and Peace. But there is a “jungle” of global and local platforms, roundtables, initiatives, covenants, and partnerships that companies can choose from.<sup>lix</sup> In previous research, we found that more than 90 of the 100 largest global companies in the world engage in partnering and have an average portfolio of 18 cross-sector partnerships aimed at addressing a variety of sustainable goals. However, we also concluded that the portfolios of most of these companies were not very focused and that many of the partnerships were ad-hoc and not linked to the companies’ core activities. If companies want to manage their partnership portfolio in a more strategic and sustainable manner, they are faced with internal and external alignment considerations that define whether the partnership is a good fit, can contribute to a proactive strategy, and enhance the ICR strategies of the company.

Companies can decide to create partnerships with global or with local stakeholders, depending on their strategic intentions. Partnerships with international NGOs such as World Wide Fund for Nature (WWF) or UNICEF exemplify the ambition of internationally active companies to scale partnerships. If such partnerships are successful, they are easier to scale and replicate because the partners at both sides of the table are international organizations. Strategic alignment with NGOs can create efficiency and scale, and partnerships with local NGOs can enhance legitimacy. But the whole portfolio of partnerships, in the end, defines the effectiveness of the partnerships. We found that effective partnerships require considerable formation time.<sup>lx</sup> It does not necessarily require trust, but rather trust-building and mutual respect. We also found that the delegated individuals that negotiated on behalf of the partnering organizations play an important part. A spark is needed, which is easier to establish if all participants realize that they are part of the problem as well as part of the solution.

- *Creating a strategic fit and a license to operate*: A new management area is needed: strategic partnership portfolio management (PrC, 2010). This management discipline contains some internal and external alignment dimensions that make the portfolio fit-for-purpose depending on the

materiality of the related issues and on the partners of the partnership. The strategic challenge for companies relates to the *strategic fit* of the partnership portfolio with the issues the company is facing along four strategic decisions areas: (1) what to produce, (2) with whom to produce, (3) where to produce it and (4) what next to produce.

Checklist #10 considers four areas of management where a good strategic fit between materiality and portfolio is important to create greater trust, but also help the company to develop a variety of licenses to operate that are needed to break through a passive approach towards sustainability issues:

[1] *Have a license to exist*: Issues related to the portfolio of products and services: these issues define whether a company has a license to exist and operate on the basis of its activities (no controversial products like tobacco). If partnerships or partners are not linked to the core activities of the company, the fit is poor.<sup>lxii</sup>

[2] *Get a license to operate*: Issues related to key stakeholders: how the company is positioned in networks of primary and secondary stakeholders defines whether the company is able to get a license to operate. Most of the issues that companies face in this realm are related to the kind of negative externalities the company creates. A good fit includes friendly stakeholders, but also those stakeholder that suffer from the negative externalities of the company;

[3] *Sustain and scale a license to operate*: Issues related to the portfolio of countries the company is selling or sources. This dimension defines the extent to which the company *can sustain a license to operate* over a longer period and scale this license by moving into more countries. Big companies can and should spread their supply chains and marketing activities over a large of countries. Contributing to the SDGs also requires companies to consider their global license to operate. However, CSR risky countries can jeopardize the reputation of a company and create barriers to move to a higher level of sustainability (van Tulder, 2018). The partnership portfolio should not only be located in the home country of the company but should also involve partners in the other (host) countries in which the company operates.

[4] *Acquire a license to experiment*: Issues related to a future license to operate or also known as the license to experiment. The portfolio of future oriented activities can give a company the license to experiment as long as

the stakeholders support this ambition and the added value of the approach. The fit is good if stakeholders that share the future value proposition of the company are engaged in a solid partnership.

CHECKLIST #10: Partnership portfolio fit			
Strategic areas (linked to licenses [1] - [4])	[a] Materiality of related issues:	[b] Partnership portfolio?	Fit? [a] + [b]
	low ↔ high	narrow ↔ broad	poor-medium-good
[1] Core business: products and services	Which topics are related to core businesses? What sustainability risks are involved?	Intra-sectoral partnerships or cross-sector partnerships: on related topics	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
[2] Key stakeholders: clients and governments	Who are considered prime stakeholders and are involved in stakeholder dialogues (stakeholder salience)	Friendly stakeholders; partnership configuration (public-private; profit-nonprofit); coalitions of willing or needed	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
[3] Countries: location of sources and markets	Nature or CSR risks related to the country portfolio of companies	Degree of local representation (international NGOs and international governments)	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>
[4] Future businesses	Prioritized SDGs: nexus challenge and relationship with future core activities	Alliance with relevant stakeholders as co-creation of future opportunities: nature and number of friendly and critical stakeholders represented	<input type="checkbox"/> <input type="checkbox"/> <input type="checkbox"/>

The combined scores on these four dimensions define the extent to which a company can and should search for partnerships. For instance, if a company has a poor portfolio of strategic activities, it is important to create a broad alliance of partners in the same sector to address these issues. If a company has strong and powerful stakeholders, it should search for alliance partners in the topics that (present and future) stakeholders find most important. An increasingly important consideration in this respect is whether the partnership can be considered a 'coalition of the willing' or a 'coalition of the needed'. If the partnership includes willing parties that are not necessarily needed, the partnership will be less effective in addressing the issue (an SDG for instance). The leadership challenges related to partnering processes will become broader. It is not just aimed at vision or strategy but also at the transformation of the whole sector or the issue on a global scale. The partnership portfolio is also likely to be connected and empathic to other stakeholders. The most fitting leadership style for this kind of challenges is consequently dubbed 'connected leadership'.



#### 4.7 Conclusion: stacking complexity, creating opportunities

The internationalization dimension of sustainability challenges adds complexity, volatility, and risks but also creates opportunities. The choice for specific internationalization trajectories creates path dependencies that cannot be ignored when developing sophisticated ICR strategies. Many of these motivations, however, are weak (fickle) or extrinsically driven. When moving from a CSR to a ICR dimension, the variety of stakeholders, interests, and environment/institutional complexity multiplies. The internationalization strategies of companies – whether small or large, with a high or low spread of international assets and activities – presents the sunk cost within which companies develop ICR strategies. Internationalization motives consequently matter in a variety of very fundamental ways:

- Intrinsic motivations for internationalization are regularly guided by the search for efficiency maximization or cost minimization. But these are among the bleakest forms of what motivates entrepreneurs. Efficiency-seeking motivations also contain considerable weak spots because the international environment is increasingly volatile. This makes it difficult to develop global strategies. There are valid (corporate) reasons to develop more transnational strategies, to engage in local presence, to develop a more sustainable profile, and to enhance the license to operate and experiment
- There are indications that the governance gap in the international arena can become a space of opportunities if companies *get all their motives right*. In practice this requires new management models that focus on a synthesis between risks and responsibilities. A risk orientation tends to feed into overly defensive motives, which might create barriers to drive ICR strategies to the next – more sustainable, but also more strategic level.
- The challenges identified in this chapter per change route also involve noticeably different leadership styles and mindsets. The ability to deal with paradoxes (see chapters 2 and 3) in an international arena requires specific intellectual and cultural characteristics that have a bearing on a firm's internal organisation. However, ICR leadership also involves external and strategic dimensions, creating a proper fit between present and future portfolios of activities and between stakeholders through partnerships and global value propositions.
- The role played by mixed motives becomes even more prominent than observed in previous chapters. Stakeholder involvement, as well as a more active or proactive sustainability agenda (to do good rather than to avoid

doing harm) is getting a different meaning. Proactive strategies are not only important to create a license to operate but are a prerequisite for overcoming the liability of foreignness.

- So, the need for external stimuli and triggers remains present to drive ICR to a higher level. But, perhaps paradoxically, in the international arena, companies have considerably more room to maneuver, which makes it also more important to nurture intrinsic motivations as part of the strategic planning process. The framework of the SDGs – as the most prominent race to the top initiative - provides clear opportunities if companies can develop appropriate approaches and sophisticated (rich) value propositions. None of these approaches can be based on go-at-it-alone strategies. Mixed-motive games and strategies are therefore the best way forward. The global goals create opportunities, but whether they can be appropriately managed depends on the way ICR change trajectories are implemented. Making it work confronts intention (primary motivation) with realization (secondary motivations). This topic will be addressed in the second part of this book.