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MANY WAYS TO ROME: EXOGENOUS AND ENDOGENOUS PATHWAYS TO ENVIRONMENTAL AND SOCIAL PERFORMANCE

MINNA HALME
Aalto University School of Business
Department of Management and International Business
P.O.Box 21230, 00076 AALTO, Helsinki, Finland

JUKKA RINTAMÄKI
Aalto University School of Business

JETTE STEEN KNUDSEN
Copenhagen Business School

MIKA KUISMA
Aalto University School of Business

INTRODUCTION

While many would agree that the reason-to-be of corporate social responsibility is the expected positive effects on the sustainability performance of business, there is little empirical evidence of outcomes of CSR for the natural environment or society. Meanwhile, little is known about how external drivers, internal CSR policies, strategies, management practices, and combinations thereof influence corporate environmental and social performance. In order to address this gap, in this paper we conduct case studies of 19 companies and seek to identify which configurations of internal and external conditions shape social and environmental performance. In other words we ask which combinations of institutional constraints and organizational practices influence social and environmental performance. Is the effectiveness of one organizational element dependent on the presence or absence of another such internal element? Or is the presence of an organizational CSR practice effective only in conjunction with an external factor such as government regulation or market pressure? The two institutional constraints we include in our analysis are *external (market and legislative) pressure* and *form of ownership*, while the three organizational practices chosen for our analysis are the *level of organization of CSR*, the level of *use of environmental and social management tools*, and the level of *strategic integration of CSR*.

With organizational configurations in mind (e.g. Grandori & Furnari, 2008; Fiss, 2007), we do not expect to find only one configuration of institutional constraints and organizational CSR practices leading to positive (or negative) environmental and social performance, but investigate if multiple pathways lead to similar outcomes in terms of environmental and social performance (Aoki, 2001). In this paper we ask the following question: *"Which institutional constraints and organizational CSR practices and combinations thereof contribute to the environmental and social performance of companies?"*

We define CSR as company activities to integrate environmental, social and long-term economic concerns in business operations and in interactions with stakeholders, and the impacts of company's operations to society (cf. Dahlsrud, 2008; COM, 2006; COM 2011). We focus on environmental and social outcomes of firm activity (see also Kang, 2013; Luo and Bhattacharya,

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2009; Schuler and Cording, 2006; Waddock and Graves, 1997; Wood, 2010). We view social and environmental outcomes as encompassing both company performance and the impact of company activities for society. Social CSR includes items such as the quality of jobs, work life balance, job security, diversity, wage equality and gender equality. Environmental CSR include activities to combat climate change, protect national resources and pollution reduction.

DATA AND METHODOLOGY

In order to identify how external conditions and internal practices in combination influence corporate environmental and social outcomes, we apply fuzzy-set qualitative comparative analysis (fsQCA), which offers a means to addressing how sets of organizational elements in combination produce joint effects on performance. This is because outcomes like corporate environmental and social performance involve a complex interplay between interdependent elements that make up the configuration of that particular organization (cf. Jackson and Ni, 2012; Aguilera et al. 2008). From the perspective of empirical data, QCA is a research technique appropriate for analysing case datasets with more than a few cases, but still with an insufficient number for traditional quantitative analysis (Rihoux and Ragin, 2009, 5; Schneider and Wagemann, 2012, 12).

Our dataset consists of 19 Europe-based case companies from the automotive, construction, ICT, retail, and textile sectors. Partners from nine European countries collected the data from case companies in their countries according to a joint data collection template during the year 2011. Data collection involved semi-structured interviews (163 altogether) of company representatives and external stakeholders and document analyses. While according to formal definition all case companies are large as they have over 250 employees and a turnover over 50M€ (COM, 2012), two of them are in the smaller end of this group with less than a thousand employees. The largest ones have from 200,000 to nearly 400,000 employees. All case companies are above average CSR performers and some are even top sustainability performers in their sector. Due to anonymity requirements from some of the case companies, the results are not linked to company names. In terms of geographic coverage, we focus on Europe.

Our analysis takes advantage of fuzzy-set QCA, or fsQCA (Rihoux and Ragin, 2009). The main draw of fsQCA is that it permits membership scores in the interval between [0] and [1]; in practice one may assign for instance four different membership scores ([0], [0.33], [0.67] and [1] respectively), or even ten different membership scores ([0], [0.1], [0.2]…[1]). The five conditions we analyze are strategic integration of CSR, use of environmental and social management tools, organization of CSR (organizational practices), external (market and legal) pressure, and form of ownership (institutional constraints), while the outcome in our analysis is environmental and social performance of the firm. The truth table, which includes firm pseudonyms, can be seen in table 1.

Table 1 about here

FINDINGS

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The main findings of our analysis involve two different configurations of organizational practices and institutional constraints, which we call the exogenous and endogenous pathways. Before scrutinizing these pathways, we briefly highlight issues that are common to best environmental and social performers irrespectively of the pathway they follow. One of the common denominators is that these companies appear to be "beyond customer pressure". They all find that "customers do not value CSR" and that CSR does not offer a differentiating advantage in the market.

Another common denominator to good sustainability performers is that they integrate CSR into their core business, emphasize sustainability as a source of innovation, and act upon it, i.e. innovate new sustainable products and services on a regular basis. For instance one of the companies assigns 45 per cent of its CSR directly to innovations [Parts], while another one finds that innovative achievements in materials and energy reduction are not sufficient, but tries to develop business models in which revenues would not come from selling more products but through business models favouring longer lasting products [Devices], and another makes the third most fuel efficient cars in the world.

The exogenous pathway is characterized by managing CSR professionally, "by the book". The three companies in this group are all large multinationals from the auto and ICT sectors. These corporations apply formal CSR (environmental and social) management systems and adhere to external sustainability rating schemes. They measure their environmental and social outcomes with state-of-the-art indicators and also report data in a format that follows external sustainability evaluation schemes. In fact some interviewees expressed that for these corporations the external sustainability ratings rank higher in importance than corporate sustainability unit's recommendations.

The reason is firstly that investors are considered to be influenced by ethical ratings, and secondly that they represent an authoritative evaluation of sustainability. Yet the high performers following the exogenous pathway also integrate environmental and social responsibility into their core business instead of only formally applying systems. This supports the previous findings that formal environmental and social responsibility management systems alone are not sufficient, but that integration of CSR into core business is needed to reach high sustainability performance.

Furthermore, the history of CSR management in these companies reaches to mid- or late 1980. All of them drafted their environmental policies at that time and published the respective reports soon after. In the 1990s the social responsibility management followed, although in all of these companies it had started already earlier but under different headings related to employee participation, workers' councils and the like. This suggests that high-level sustainability performance takes time to build and requires consistent work.

The endogenous pathway is different from the previous one in that it favours company's internal tools and other firm specific processes, and is less influenced by external sustainability and CSR evaluation schemes. As one Food respondent asserted: *"Our starting point is best practice for the firm, not requirements of standards"*, thus illuminating the embeddedness of responsible practice at the firm, but at the same time implying that it is *best* practice that concerns the firm, not *standard* practice. Only one firm, Food, characterized by the endogenous pathway reached good outcomes in both environmental and social responsibility performance. The form of ownership, not being a publicly listed company but owned by employees, appears to be one of the influential determinants making this pathway possible as the company does not have to be overly concerned about investors' expectations

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With regard to environmental performance, two other companies of the sample represent the same endogenous configuration. However, while their environmental performance was possible to evaluate according to the indicator system of our project (which is a combination of several rating schemes and deeper issue-based indicators) and deemed good, their social performance was not sufficiently captured by our measurement instrument as they did not provide fitting facts and figures. This is one of the features of endogenous CSR: the company does seek external recognition, and therefore may not be able to provide data that would make it possible to pass an external evaluation. Yet pieces of qualitative evidence – such as prizes won or Best Place to Work rankings (Parts), locating stores in unprofitable locations, exceptionally low absenteeism among tedious jobs (e.g. storage workers), or keeping prices of organic and fair trade products affordable also for low-income customers (Groceries) – give a reason to believe that also their social (and thus full sustainability performance) is good.

Another observation worth noting is that the endogenous approach does not necessarily indicate low formality. While Food and Groceries are almost organic in their approach to CSR, Parts' CSR is highly structured, bureaucratic and formal. While Parts generally develops CSR from the inside, instead of seeking external recognition, it does so with formality similar to externally verified CSR management tools and certificates.

CONCLUSIONS

Our study takes a leap further from traditional CSR studies focusing on the CSR-financial performance relationship and/or using relatively narrow proxies for representing CSR (Halme and Laurila, 2009; Margolis and Walsh, 2003; Vogel, 2005). On the one hand we study the impact of internal CSR practices and institutional constraints on the environmental and social performance. Not only do we study the influence of these constraints and practices separately, but scrutinize their configurations that lead to high versus lower environmental and social performance. On the other hand we take seriously the fact that CSR is multi-faceted concept and area of practices consisting of several issues with multiple performance items. We therefore developed an evaluation framework that measures various environmental and social issues through multiple indicators.

We recognized two pathways to good sustainability performance: one is exogenous the other is endogenous. The exogenous pathway is characterized by the use of externally certified management tools and certificates, and the importance of external CSR rating schemes. This pathway seems typical for large, publicly listed firms. The endogenous pathway, in turn, includes firms that build their CSR from within, characterized by a lesser importance of standardized management tools for CSR, instead relying more on internal orientation in conducting CSR. In contrast to firms applying the exogenous approach, the firms in our dataset that successfully follow the endogenous path have an ownership mode that distinctly differs from a publicly listed firm; one of the firms is employee-owned, one is a customer-owned co-op, and one is (mostly) owned by a family-based charitable foundation. It is, however, noteworthy that regardless of the pathway, integration of CSR into the firm's core business appears to be almost a requirement for simultaneously high environmental and social performance (reached by four companies only). CSR management systems or high formal organization of CSR alone do not appear to suffice for high performance.

Does the form of ownership then make a major difference with regard to social and environmental performance? From one perspective it does not: the group of top environmental and social performers includes publicly listed, family-owned, cooperatives and employee-owned

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companies. From another perspective, however, it does: to reach good environmental and social performance, publicly listed companies have a high tendency to follow an exogenous pathway while those companies that are not publicly listed have higher autonomy from the constant evaluation at the stock market, and thus are freer to tailor their CSR approaches. These results are in congruence with the extant literature concerning forms of ownership and CSR (Amato and Amato, 2007; Arthur et al. 2007; Dyer and Whetten, 2006; Prado-Lorenzo et al. 2009), but contribute to it by specifying that non-publicly listed firms apparently have a tendency to have somewhat different CSR pathways than firms that are publicly listed.

Most previous writings at least implicitly treat CSR performance as if it was a unified entity (Wood, 1991; 2010, Muller and Kolk, 2010; Barnett, 2007). Contrary to this popular notion, our analysis indicates that environmental and social CSR are not a coherent unit in European companies at least: environmental and social performance was simultaneously high in only four companies, and simultaneously (relatively) low in five companies. While there were 19 companies in the sample, over half of them (10) had differences in the level of environmental versus social performance. One partial reason for this is that the pathways to high (or low) environmental performance are different from pathways to high social performance. While high environmental performance is often reached as a result of a combination of external pressures and having externally certified environmental management systems in place (particularly in publicly listed companies), a high social performance seems to have much more independence of these issues. It is more linked with integrating social responsibility into core business, and indeed appears not to be conditioned by external pressure.

From a managerial perspective, our findings support the notion by Halme and Laurila (2009) that if a company aims to be at the very top in its environmental and social performance, it would be wise to integrate these issues into its core business activities and moreover innovate solutions to environmental and social problems. Mere application of management systems, even if diligent, does not appear to reliably lead to top performance. Secondly, the insistence for better environmental and social performance is increasing and so is the demand for evidence of it (COM, 2011). Improved performance measurement and understanding the impacts beyond the firm gates is needed within companies.

This study paves the way for more comprehensive future studies on CSR performance. Multilevel explanations are particularly important in the area of CSR, where institutional and organizational influences interact to shape performance. Comparative methods such as the fuzzy-set analysis may offer a fruitful approach to better understand this complex phenomenon. They may offer a way of building more comprehensive models on configurations of factors that lead to higher and lower performance levels in organizations. We recommend particularly that future studies are more careful in distinguishing between environmental and social aspects of CSR, and recognize that reaching results in them may be based on different drivers and practices.

As to limitations, we had a set screening instrument for environmental and social performance; we did not record all possible outcome data. While our instrument was comprehensive and based on the most pressing environmental and social sustainability issues, as well as commonly known and applied in sustainability measurement schemes such as the GRI, it is possible that some companies received lower outcome ratings because they do not measure outcomes according to indicators we applied. As to limitations on generalizability of the findings, we focused on companies headquartered in Europe. While most of them are large international firms, and many are multinationals, it is likely that the socio-political institutional environment of Europe has a bearing on the results.

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Despite the aforementioned limitations our results make an important contribution to shifting the focus from studying the connection between CSR and financial performance to an emphasis on the environmental and social aspects of CSR. With the continuing economic turmoil causing social distress, and especially the increasing challenges facing our relationship with the natural environment, this shift is not only timely, but also desperately needed.

REFERENCES AVAILABLE FROM THE AUTHORS

TABLE 1
Calibration table for environmental and social performance

Case		Outcome		Conditions							
Industry	**Firm**	**Env outcome**	**Soc outcome**	**External pressure**		**Ownership**	**Organization of CSR**	**CSR management tools**		**Integration of CSR into core business**	
				$ExPre_E$	**$ExPre_S$**			**$Tools_E$**	**$Tools_S$**	**$Integ_E$**	**$Integ_S$**
Automobile	Mobile	0,67	0,67	0,67	1	0	0,67	1	0,67	1	1
	Parts	0,67	0,33	0,67	0,33	0,67	0,67	1	1	1	1
	Auto	0,67	0	1	1	0	1	1	0,33	0,33	0,33
	Speedy	1	0,67	0,67	1	0	1	1	1	0,67	0,67
Construction	Building	0,33	1	0,67	0,67	0	0,67	0,33	1	0,33	0,33
	Construction	0	0	0	0	0,67	0	0	0,33	0,33	0
	House	0	0,33	0	0,33	0	0	1	1	0,33	0,33
ICT	Operator	0,33	0,67	0,67	0,33	0,33	0,33	0,67	0,33	0,33	0,67
	ICT-Service	0	0,33	0,67	0,67	0,33	0,33	0	0	0	0,67
	Telco	0,33	0,67	0,67	0,67	0	1	1	1	0,67	1
	Devices	1	1	0,67	1	0	1	1	0,67	1	1
	Comm	0,33	0,67	0,33	0,33	0	0,33	1	1	0,67	0,67
Retail	Food	0,67	0,67	0,67	0,67	1	1	0,67	0,67	1	1
	Groceries	1	0,33	0,67	0,67	1	1	0,33	0,33	1	1
	Market	0,67	0	0,33	0,67	0	0,33	0,33	0,33	0,67	0,67
	Store	0	1	0	0	0,67	0	0	0,33	0,33	0,67
Textile	Fashion	0,33	0,33	0,67	0,67	0,67	0,67	0,67	0,33	0,33	0,33
	Design	0	0	0,67	0,67	0	0,33	0	0,33	0,33	0,33
	Trendy	0,67	0,33	0,67	1	0	1	0,33	0,67	0,33	0,33