Oliver Salzmann

Corporate Sustainability Management in the Energy Sector

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An Empirical Contingency Approach

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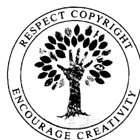

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Preface

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Oliver Salzmann

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List of abbreviations

BCS	Business case for sustainability
CS	Corporate sustainability
CSM	Corporate sustainability management
CSP	Corporate social performance
CSR	Corporate social responsibility
EHS	Environmental, health & safety
ESP	Environmental/social performance
GM	General manager
IEA	International Energy Agency
NGO	Non-governmental organization
OG	Oil & gas
OPEC	Organization of Petroleum Exporting Countries
RoI	Return on investment
SME	Small and medium-sized enterprise
SD	Sustainable development
SO	Sustainability officer
TQM	Total quality management
UNEP	United Nations Environment Programme
UT	Electric/gas utility
WBCSD	World Business Council for Sustainable Development
WEC	World Economic Forum
WRI	World Resources Institute

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1 Introduction

1.1 Research field

The history of corporate social responsibility and other related concepts can be traced way back to ancient Mesopotamia and Greece (and probably even further), where businessmen were punished for negligence that harmed workers and the general public. However, it is obvious that the industrial revolution at the end of the 19th century substantially increased the significance of businesses and thus also their scope to behave more or less responsibly within society. Because there was no legislation in this area at that time, history mentions several businessmen who postulated that business should serve society and took corresponding initiatives (Balza & Radojicic, 2004; Wren, 1979). With the emergence of labor unions and legislation (on minimum wages, disability compensation etc.), the concept of the social responsibility of the businessman gained importance over the following decades.

After World War II, social concerns were increasingly incorporated into management education and legislation (foremost social security systems). Between 1960 and 1980, rapid economic growth and its social and environmental effects (including incidents such as e.g. Aberfan, Wales in 1966 and Seveso, Italy in 1976) triggered several initiatives such as the Club of Rome and the Brandt Report as well as new regulatory standards in industrialized countries, e.g. the US Environmental Protection Act (Mohan, 2003).

Obviously the growing acceptance of businesses' social and environmental responsibility was intensively discussed among scholars and practitioners. The best-known contribution to this debate is undoubtedly Milton Friedman's claim that "few trends could so thoroughly undermine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stockholders as possible" (Friedman, 1962). Consequently scholars increasingly built a stronger and more logically grounded case for corporate social responsibility (CSR). For example Johnson (1971) presented several views of social responsibility, among them utility maximization (rather than profit maximization) as the prime motivation of companies. He postulated that socially responsible managers maximize utility by extending their interest beyond their own well-being to their fellow employees and citizens.

In the 1980s and 1990s a plethora of further definitions and frameworks were developed and refined (Arlow & Gannon, 1982; Carroll, 1999; Davenport, 2000; Moir, 2001). Furthermore, the notion of sustainable development, initially defined in the Brundtland Report by the World Commission on Environment and Development (1987), gained more and more importance. However, the inflated use of terms such

as corporate social responsibility, corporate sustainability and corporate citizenship led to significant skepticism and cynicism, particularly in civil society.

So far empirical research essentially only produced a plethora of instrumental studies yielding inconclusive evidence for a sound business case, and failed to describe corporate sustainability management (CSM) and its economic rationale comprehensively (Griffin & Mahon, 1997; Morsing, 2003).[1] In particular, sector-specific and comparative approaches are missing although the contingent character of CSM and related concepts such as social responsiveness was diagnosed as early as the 1970s (Arlow et al., 1982, p. 235; Carroll, 1979; Sethi, 1975). Understandably skepticism has not ebbed away (Walley & Whitehead, 1994).

The present study's objective is to fill these gaps by empirically examining the main external and internal determinants (i.e. drivers or barriers) of CSM, companies' approaches to CSM in terms of both strategic disposition and implementation, and the economic rationale for their approaches and their outcome – the individual research questions are laid out in detail in section 4. The study adopts a clear descriptive contingency approach that is based on data collected from two groups of managers, namely sustainability experts and non-sustainability experts, in two different industry sectors (integrated oil and gas vs. electric utilities) and several geographical regions of operations.

1.2 Structure

The study is divided in nine blocks (see Figure 1-1). In the introductory section the author elaborates on the study's research field and objectives as well as its structure and intended contributions.

Section 2 deals with existing different theoretical frameworks for CSM and related concepts. It also defines the key concepts used in this study.

In section 3 the author assesses empirical studies and data to provide a comprehensive benchmark for the present study.

In section 4, the author elaborates on every detail of the study's conceptual rationale and focus – based on the theoretical and empirical gaps identified beforehand. Section 5 presents and evaluates the research method chosen. More specifically, it explains (1) why and how the design and instruments of this study were selected, and (2) how the data were collected and analyzed.

[1] The term "corporate sustainability management (CSM)" essentially means corporate responsiveness to environmental and social issues; the term "business case for sustainability" refers to the economic rationale for corporate sustainability (i.e. positive net economic benefit). Both concepts will be defined in detail below.

Section 6 presents an analysis of the main characteristics of both sectors (corporate activities, drivers, trends, etc.) from a non-sustainability perspective to provide the context for a comprehensive and holistic discussion of CSM. Obviously companies' activities and business environments (regulation, competition) greatly determine the degree to which they can engage CSM.

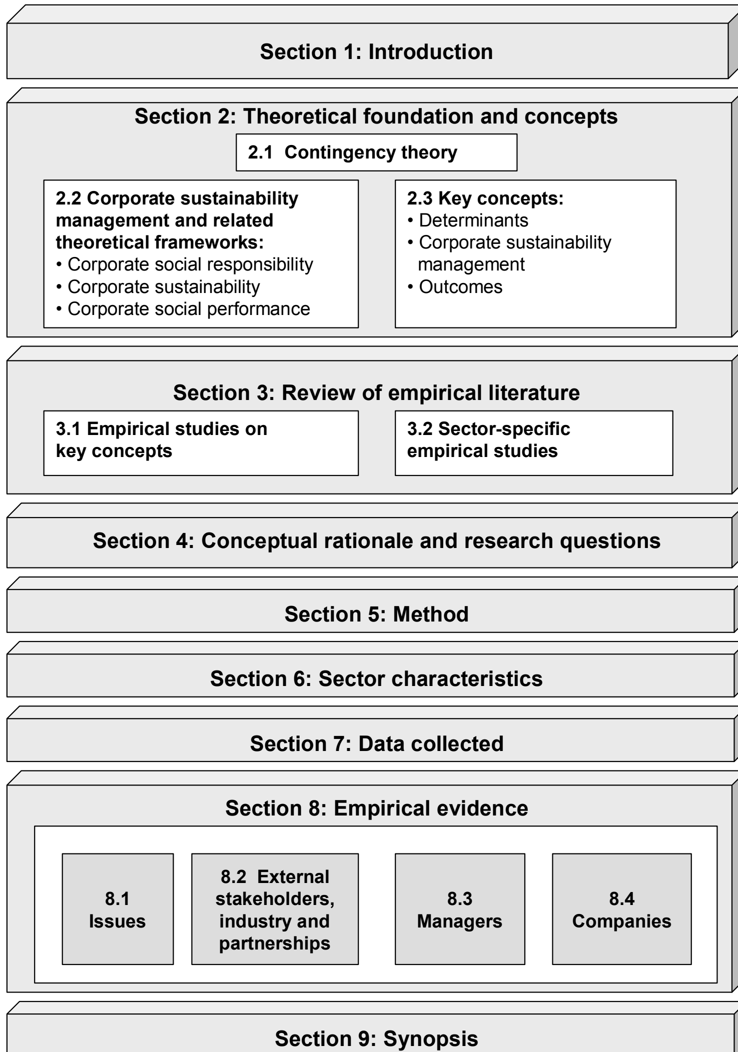

Figure 1.1: Structure of the content

In section 7 the author describes the samples on which the study is based. In particular he elaborates on the distribution of respondents' management functions, their regions of operations and their nationalities.

Section 8 presents and interprets of the empirical evidence collected. Finally section 9 features the author's key findings, an assessment of the study's significance and suggestions for further research.

1.3 Intended contributions

The present study is largely deductive and explanatory in nature, since it aims to comprehensively analyze and explain companies' approaches to CSM and their outcome. Since the economic rationale for CSM is an area in which descriptive empirical studies have not been undertaken to date, the author will analyze this subconcept in a more inductive and exploratory way, namely the analysis of the economic rationale for CSM.[2]

It should be noted that the study does *not* include any normative discussion about how "much" CSM companies should engage in to resolve existing environmental and social issues. It is based on the assumption that companies are economic entities whose primary objective is the maximization of expected profits (Lankoski, 2000, p. 5)

Contributions can be expected in three areas that comprise (1) the conceptual framework developed for and tested in this study, (2) the method, and (3) the data.

Conceptual framework

To data a theoretical framework for corporate sustainability performance (that incorporates CSM as a key concept) does not exist as such. Corporate social performance models (Wood, 1991) are largely adequate to capture the complexity of corporate sustainability performance. However, they exhibit several shortcomings. This study's conceptual framework for corporate sustainability performance (see section 4) builds on the strengths of Wood's (1991) model of corporate social performance. It is innovative insofar as it takes a sequential (process-oriented) perspective of CSM. It includes the determinants of CSM, companies' strategic disposition to and implementation of CSM and the outcome. Thus it is also designed to examine causal effects between the key concepts defined. Its heuristic value (Bortz et al., 2002, p. 17) should be significant, since it not only explains variations in CSM and its outcome but is also able to anticipate future events and developments. Furthermore, unlike competing

---

[2] A combined inductive and deductive approach is not uncommon in empirical research (Bortz & Döring, 2002, p. 35), since studies are often based on known theoretical frameworks but also offer modifications to them.

models of corporate social performance (Wood, 1991), it explicitly differentiates between four motivating principles of CSM and takes into account both its social and environmental dimension. Finally, it incorporates the economic rationale for CSM.

Method

Empirical literature on CSM or related concepts has largely ignored its contingent nature (Salzmann, 2002). Early studies by Buehler (1979), Abouzeid (1978) and Shetty (1979) as well as more recent research by Henriques and Sadorsky (1996), Banerjee (2003) and Lankoski (2000) focus on a narrower research domain, i.e. on a subset of concepts analyzed in the present study, and consider other and fewer contingencies such as organizational resources and industry.

Based on the premises of contingency theory that companies' strategies, structures and performance – whether in a general or a specifically social/environmental context - are determined by situational (both internal and external) variables (Greening & Gray, 1994, p. 491; Luthans & Steward, 1977, p. 183; Wood, 1991, p. 700), the present study takes a multiple contingency perspective by describing corporate sustainability management, its determinants and its outcome across:

- two groups (or disciplines) of managers in
- two industry sectors and
- various regions of operations.

Thus it allows for (1) a sector-, management group- and region-specific analysis that ensures clear interpretability (internal validity), and (2) comparative analysis that yields more generalizable results (external validity).[3]

The validity and the scope of results is further increased through the study's mixed method design that combines both qualitative and quantitative instruments of data collection and analysis and thus makes a complementarity and triangulation of findings possible (Teddlie & Tashakkori, 2003, p. 17).

Data

It is surprising how few descriptive studies on the business case for sustainability management are available to date (see Epstein & Roy, 2003 as a rare exception), particularly if one takes into account that a plethora of instrumental studies produced largely inconclusive evidence regarding its existence (Salzmann, 2002). This study is the first of its kind to include a comprehensive description of the economic rationale for CSM as it is perceived by managers.

[3] See e.g. Bortz (2002, p. 37) on the need for internal and external validity of research results.

Furthermore the dataset on which this study relies is new, unique and – considering that this is not a cross-sectional study – relatively large. Thus the study provides an extensive and current benchmark for a so far unmatched variety of dimensions of CSM. It should be noted, however, that due to its broad scope, it *cannot* provide detailed analyses of the individual dimensions.

2 Theoretical foundation and concepts

In this section, the author provides an overview of existing theoretical frameworks and definitions that relate to the study's research objective and key concepts (see Figure 2-1).

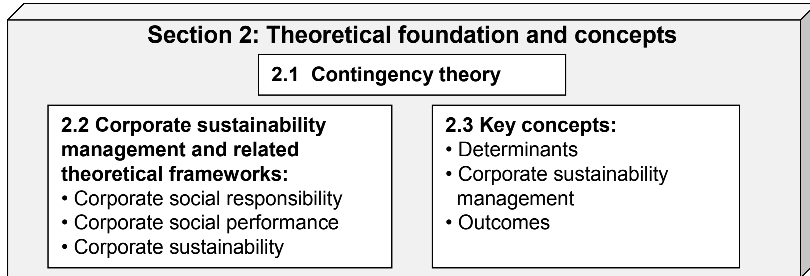

Figure 2.1: Structure of section 2

2.1 Contingency theory

Contingency theory was popularized in the 1960s in particular (Dessler, 1976; Fiedler, 1967). It states that management and organizational life are situational and subject to contingencies. The theory has a wide range of applications, such as e.g. in organization design as well as leadership and behavior (Luthans et al., 1977, p. 183).

It implies that the strategies, structures and practices of an organization depend on the way in which environmental variables become relevant to it (Longenecker & Pringle, 1978). Luthans and Stewart (1977) attempted to develop a general contingency theory of management and defined the contingency approach as identifying and developing functional relationships between environmental (e.g. culture, technology, raw materials), management (e.g. planning, leadership) and performance variables. They also offered a detailed classification of the variables they incorporated (p. 184). However, their theory has several shortcomings. Most importantly it is very complex and lacks a description of the functional relationships between the variables. Hence it is not a general theory in a strict sense (Longenecker et al., 1978, p. 681; Luthans & Todd, 1978, p. 685).

It is obvious that contingency theory also applies to the domain of corporate social responsibility and performance. Early empirical studies in that area pointed to the need to examine corporate social performance and responsiveness contingently upon factors such as organizational size, relevance of issues and industry characteristics (Abouzeid et al., 1978; Arlow et al., 1982; Buehler et al., 1979; Holmes, 1977, 1978; Shetty, 1979). However, theoretical foundations in the domain only emerged much later: Husted (2000) presented an issue-contingent model, arguing that a better fit of corporate strategies and structures with social issues increases social performance.

Furthermore, Greening and Gray (1994) presented, based on their empirical analysis, a model that incorporates institutional pressure, managerial discretion and firm size as the key determinants of corporate issues management structures. The author will describe both studies (Greening et al., 1994; Husted, 2000) in more detail in section 2.2.2 Corporate social performance.

2.2 CSM and related theoretical frameworks

An assessment of the current academic literature quickly reveals that the term "CSM" is only rarely used. Scholars have focused more strongly on other concepts such as corporate sustainability and in particular corporate social responsibility and corporate social performance. In the following paragraphs the origins, meanings and links of the different terms will discussed in more detail.

2.2.1 Corporate social responsibility

The origin of corporate social responsibility (CSR) can be traced back to the first half of the last century or even further to the industrial revolution. During the 1950s and 1960s, the notion gained more importance through contributions from authors such as Bowen (1953) and McGuire (1963) who reacted to emerging social issues of employee and human rights in the US. A comprehensive scholarly framework developed virtually exclusively in the US through contributions from authors such as Carroll (1979), Wartick and Cochran (1985), Wood (1991), Swanson (1999) and McWilliams (2001).

Studies mainly searched for principles to guide business in terms of its role in society, i.e. factors that motivate business to certain levels of responsiveness to social and environmental issues, and discussed several theories such as agency theory (Friedman, 1970), stakeholder theory (Freeman, 1984) and corporate social performance models (Carroll, 1979; Wartick et al., 1985; Wood, 1991). Overall, the concept of corporate social responsibility varies greatly across the different management and academic disciplines. Probably the most significant contribution comes from Carroll (1979) with his definition of four categories of social responsibility. He defined the four categories – economic, legal, ethical and discretionary responsibility – as hierarchical but not mutually exclusive concepts and argued that they could serve as principles for managers selecting adequate corporate responses to a specific issue. Carroll acknowledged companies' economic responsibility to generate profits as the fundamental organizing principle and thus defused arguments relating to the priority of economic over social responsibility (Friedman, 1970). The remaining three principles are defined as follows: The legal responsibility of business is compliance with existing regulation; the ethical responsibility refers to fulfilling society's expectations or avoiding causing harm; the principle of discretionary (also later called philanthropic)

responsibility refers to actions that are not expected by society or those that bring about social benefits.

The 1980s mainly saw empirical instrumental studies investigating the economic effects of different levels of corporate social responsibility. Since then scholars have partly refocused on theoretically sound and practical principles for corporate social responsibility (Carroll, 1999; Whetten, Rands, & Godfrey, 2002, p. 381). Wood's (1991) formulation of three fundamental principles as part of her reformulated corporate social performance model remains one of the most significant contributions to date. The model comprises the institutional principle of legitimacy (proper use of power), the organizational principle of public responsibility (responsibility for outcomes related to the primary and secondary activities of businesses) and the individual principle of managerial discretion (managers' responsibility to exercise the discretion available to them to contribute to socially responsible outcomes) (Wood, 1991, p. 696). It will be discussed in more detail in sections 2.3.1.1 to 2.3.1.3.

2.2.2 Corporate social performance (CSP)

The concept of corporate social performance refers to corporate behavior rather than to principles that guide the behavior. The first key theoretical contributions originated in the 1970s: Sethi (1975) argued that corporate social performance is culturally and temporally determined and presented a three-state schema for classifying corporate behavior, which comprised (1) social obligation (proscriptive), (2) social responsibility (prescriptive), and (3) social responsiveness (anticipatory and preventive). Subsequently, Carroll (1979) introduced a three-dimensional corporate social performance model. It comprised (1) social responsibility encompassing the four categories referred to above, (2) social issues that change over time and differ between industries, and (3) social responsiveness that stands for "an action phase of management responding in the social sphere" (Carroll, 1979, p. 502).

Wartick and Cochran (1985) continued with Carroll's three-dimensional CSP model. They discussed three key challenges to the concept of social responsibility:

- The concept of economic responsibility attacks both basic premises of corporate social responsibility: (1) the social contract that implies a set of rights and obligations that business operation must follow, and (2) the idea of moral agency postulating an alignment between the values of business and society.
- The concept of public responsibility (Preston & Post, 1975) calls for a discussion of which issues are relevant or irrelevant and how responsibilities may be realized.
- The challenge of social responsiveness demands a shift of emphasis away from social obligations to the process of social responsiveness.

They synthesized the challenges and existing models. First, both economic responsibility and public responsibility were subsumed in one model. Second, social responsiveness was included as a separate process dimension of corporate social performance. Third, corporate social performance was based on the policies of (social) issues management (as a direct extension of social responsiveness). Thus the authors created a principle/process/policy model of corporate social performance. Corporate social performance was defined as "the underlying interaction among the principles of social responsibility, the process of social responsiveness, and the policies developed to address social issues" (Wartick et al., 1985, p. 758).

Wood (1991) revisited the model of corporate social performance and synthesized formulations from several authors such as Carroll (1979) and foremost Wartick and Cochran (Wartick et al., 1985). She addressed the following issues in existing theoretical literature (Wood, 1991, p. 692):

1. The term "performance" refers to actions and outcomes – rather than interactions and integration as conceptualized by Wartick and Cochran (1985). Hence an action component needed to be added to the model of corporate social performance to facilitate the definition of corporate social performance as such. Wood's (1991) model features a process view of social performance rather than an outcome-oriented approach as presented by Wood and Jones (1995).
2. There are various facets of social responsiveness. Hence it is essential to see it as a set of processes (e.g. stakeholder management, environmental assessment) rather than a single process.
3. The outcome component of Wartick and Cochran's (1985) model, namely policies, is too restrictive. A comprehensive corporate social performance model should incorporate additional dimensions of outcome such as programs and other observable outcomes (e.g. social impacts of corporate behavior).
4. Corporate social performance is a "neutral" concept in the sense that it is not limited to responsible companies: It can be positively or negatively evaluated.

Wood (1991, p. 693) defined corporate social performance as a company's "configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationship" (see Figure 2-2 for a visualization of the model): It is process- rather than results-oriented: Corporate social performance is seen as a configuration of drivers, processes and outcomes, rather than as an outcome only.

She also suggested that the three guiding principles of social responsibility – public responsibility, legitimacy and managerial discretion (discussed in more detail in 2.3 Key concepts) – should not be understood as absolute standards, but as "analytical

forms to be filled with the content of explicit value preferences that exist within a given cultural or organizational context and that are operationalized through the political and symbolic processes of that context" (Wood, 1991, p. 700).

Figure 2.2: Wood's corporate social performance model, based on Wood (1991)

Wood discussed three processes that are interlinked and partly overlap: environmental assessment (analysis of the company's business environment), stakeholder management (the management of stakeholder relationships), and issues management (minimizing surprises, crisis management, public affairs). Outcomes of corporate behaviors were categorized into the social impacts of corporate behavior (although not explicitly named, environmental incidents such as oil spills were also accounted for), corporate social programs (investments of resources in some course of action) and corporate social policies to guide decision-making (Wood, 1991, p. 709). It should be noted that – unlike social programs and social policies – social impacts exist both within and beyond the organization (hence the white rather than the grey box in Figure 2-2 – in contrast to the other outcomes and the processes of social responsiveness). It is important to note that Wood (1991) primarily presents a "classificatory device" rather than a theory, as the nature of the relationships between the elements of her model remain unclear.

Since Wood's refinement, research has increasingly focused on measurement and theoretical development (Collins & Starik, 1995; Greening et al., 1994; Griffin, 2000; Griffin et al., 1997; Husted, 2000; Moore, 2001; Simpson & Kohers, 2002; Swanson, 1999; Wood et al., 1995). As Carroll (1999, p. 292) also pointed out, revised or adapted frameworks have not emerged distinct from existing frameworks and are unlikely to

do so in the future. Nevertheless two subsequent models of corporate social performance will be discussed in more detail, as they also – like the present study – incorporate a contingency approach.

Based on empirical analysis, Greening and Gray (1994) presented a contingency model for corporate social performance that incorporates both institutional theory and resource dependency theory. Partly in alignment with Wood (1991), they concluded that corporate social performance is driven by issues management structures which are in turn motivated by external institutional pressures, i.e. legitimacy, and organizational response capabilities (Gray, 1994, p. 491).

Husted (2000) formulated an issue-contingent model of corporate social performance as "a function of the match between the social issues and the varieties of response that are available to the firm" (p. 25). His model implies that aligning strategies and structures to social issues will lead to greater social performance. In contrast to Wood's (1991) model, it is results-oriented, as he defines corporate social performance "as the extent to which stakeholders' expectations regarding the firm's behavior with respect to those same or other relevant stakeholders are satisfied or exceeded" (p. 31). He continued to present several hypotheses about which strategies (computation, discovery, inspiration, bargaining) and structures (bureaucratic, collegial, organized chaos and representative) should be used to achieve the alignment between the firm and its environment most effectively, depending on the nature of the existing social issue, which he defined in terms of different kinds of expectational gaps between the company and its stakeholders (see also section 2.3.1.1)

2.2.3 Corporate sustainability

Corporate sustainability was "born" with a slight environmental emphasis at the end of the 1980s. It is based on the normative since multigenerational concept of sustainable development.[4] In general, compared to corporate social responsibility, it is seen as the broader organizing principle, because it differs from the traditional management paradigms of growth and profit maximization by incorporating a societal three-dimensional (economic, environmental and social) goal of sustainability for corporations, governments and civil society (Wilson, 2003). Business responded to the "call" of the *Brundtland Report* (World Commission on Environment and Development, 1987) with the Business Charter for Sustainable Development (1990) and *Changing Course* (Schmidheiny, 1992) which was endorsed by the then Business Council for

[4] There are a variety of definitions for the term sustainable development. The most common one originates from the Brundtland Report (World Commission on Environment and Development, 1987), in which sustainable development is defined as a development that meets the needs of present generations without compromising the ability of future generations to meet their needs.

Sustainable Development. Both argued for a synergistic rather than dualistic relationship between economic performance on the one hand, and environmental and social performance on the other.

Corporate sustainability was subsequently refined by several authors (Marrewijk, 2003; Marrewijk & Werre, 2003; Starik, 1995, p. 916). Alongside sustainable development, Wilson (2003) identified three key constituents of corporate sustainability:

- Corporate social responsibility, which offers ethical arguments for managers' and companies' engagement in sustainable development.
- Stakeholder theory which provides the necessary business arguments, as it suggests that more sustainable business practices will improve companies' relationships with their stakeholders.
- Corporate accountability, which complements corporate social responsibility by referring to companies' duty to explain and justify corporate activities rather than to the need to engage in them.

As these more recent contributions show, improving the theoretical basis of corporate sustainability remains a challenging task, since the underlying normative concept of sustainable development is more complex than that of corporate social responsibility due to its multi-dimensional and multi-generational nature. It is also obvious that any theoretical foundation of corporate sustainability will to a certain extent "fall back" on the already existing frameworks for corporate social responsibility and social performance.

2.2.4 Discussion

A review of existing theoretical frameworks reveals significant differences in terms of two criteria:

1. Comprehensiveness: Both corporate social responsibility and corporate social performance feature a strong and conclusive theoretical basis. In contrast, corporate sustainability is hardly theoretically grounded.
2. Focus: Corporate social responsibility and corporate sustainability are conceptualized as principles that motivate corporate behavior. In contrast, models of corporate social performance are a lot broader: Alongside motivating principles, i.e. drivers of corporate behavior, they include corporate behavior as such (processes of social responsiveness) and its outcome. Furthermore, the notion of corporate social responsibility tends be more narrow and less strongly focused on environmental (more strongly on social) effects of corporate activities than corporate sustainability (Marrewijk et al., 2003). The meanings of both concepts have increas-