Principles of Sustainable Business
Frameworks for corporate action on the SDGs

Tools & Skills

BEARS ON THE ROAD:
[B] The Responsive Route

THE RESPONSIVE ROUTE: represents the prevalent route taken by organizations that see themselves confronted with **external triggering** events (see Chapter 7). Mounting stakeholder pressure and the threat of stricter regulation can be decisive reasons to move away from a ‘inactive’ or ‘passive’ stance to sustainability (level 1), towards a level 2 (‘reactive’ sustainability approach and organization of the business model.

Cost considerations, reputation and brand value are generally the main motivational drivers (Chapter 8). Along the responsive route, the critical operational challenge lies in **altering the dominant tactical and short-termism practice** that is grounded in how the business model is orientated, organized and incentivized.

The internal momentum for change risks to cease, however, as soon as the **external pressure from stakeholders** disappears. Loss of traction jeopardizes the internal decoupling and recoupling processes needed to coherently organize around ‘level 2’ corporate responsibility (‘minimizing negative effects’; ‘avoid doing harm’). The reactive logic – with its inherent need to swiftly respond to external concerns – commonly arrives at a lower degree of integration as a more consistent sustainability strategy is yet to be determined and internalized, and a higher need for operational coordination (see Chapter 11).

1. PERSONAL [MOTIVATIONAL] ‘BEARS ON THE ROAD’

On route [B], people face one or more of the following psychological challenges in responding to sustainability challenges:

- ***Distancing and denial.*** People don’t like to be accused of or perceived as ‘inactive’ or ‘reactive’, and will refute accusations or facts pointing to that direction – for instance by backing their attitude with moral arguments and rationalizations.

- ***Extrinsic incentives bias.*** People tend to overestimate their intrinsic motivations and downplay the extrinsic stimuli they need to change behaviour.

- ***Bystander effect.*** Doom scenarios make people believe that, individually, they are unable to do anything about them. Negative frames on abstract issues – for which collaborative efforts are considered necessary – tend to have limited activating impact on individuals; related to the ‘apocalypse fatigue’ concept.

- ***Negative nudges***. Abiding by (minimal) regulation may lead to avoiding more fundamental and desirable changes in behaviour (especially in countries with weak governance and ‘rule of law’, where abiding to the law may already be considered an advanced step). Avoidance of fines and sanctions is then mistakenly interpreted as an acceptable way to ‘redeem’ improper or unsustainable behaviour.

- ***Moral self-licensing.*** By taking a small step, people may feel morally justified to ignore the bigger picture and make a greater effort.

More information: *GatMR*, pp. 59–62 [1]

2. ORGANIZATIONAL [MOTIVATIONAL] ‘BEARS ON THE ROAD’

On the responsive route [B], companies in particular face operational challenges, including:

- ***Contextual* challenges:** such as the cultural or legal environment. For example, the American ‘claim and litigate’ culture makes it difficult for organizations to admit (past) wrongdoing and learn from mistakes. This encourages ‘reactive’ and ‘defensive’ responses to appeals for behaving more responsibly, and inhibits more swift and decisive action towards developing an ‘active’ and adaptive sustainability attitude.

- ***Risk and loss aversion.*** Motivation research shows that potential loss is a much stronger trigger for action than potential gain.

- ***Legitimacy.*** Despite changing societal expectations and business environment, companies’ actions tend to be strongly biased towards defending their present position through reporting and transparency to primary stakeholders, rather than being accountable to – and being trusted by – a wider group of societal stakeholders. A mere ‘license to exist and operate’ is a necessary but insufficient requirement in the longer run. In order to become more resilient to changing societal expectations, companies will also have to earn a ‘license to experiment’.

- ***One-sided stakeholder pressure.*** Pressure from stakeholders might push a company to focus on one particular issue, thereby reducing the urgency felt to work on tackling other vital issues as well.

- ***Sucker effect***. When and where companies (as good corporate citizens) take responsibility for an issue they were not directly involved in, they take away the incentive to act for those companies that are directly involved and responsible.

- ***Denial.*** Organizations don’t like to be accused of or perceived as ‘inactive’ – or ‘reactive’ for that matter – and will refute accusations or facts pointing to that direction; they will defend their reactive sustainability attitude by linking it to moral/organization-intrinsic arguments.

- ***Understanding the issue.*** Is the issue a one-off incident, structural or even systemic? The more severe and structural the issue is, the less sufficient a ‘reactive’ attitude is and the more pressing it becomes that the company develops an ‘active’ attitude towards societal issues.

- ***Materiality dilemma.*** The ‘classic’ (single) materiality matrix displays the importance of issues to stakeholders on the vertical axis, and the importance to the company on the horizontal axis. Risks of applying this tool include:
    - Focusing mainly on risks instead of opportunities;
    - Only involving ‘friendly’ stakeholders;
    - Differences between published and internal versions;
    - Changing priorities year after year, so none of the issues becomes strategic.

- ***Coding dilemma.*** Many organizations have introduced ‘codes of conduct’ to make sure that employees act responsively. However, the problem with codes of conduct is that they in

[1] The abbreviation ‘GatMR’ refers to the publication *Getting all the Motives Right. Driving International Corporate Responsibility (ICR) to the Next Level* (2018), which is freely downloadable from: https://www.robvantulder.nl/wp-content/uploads/2019/12/Getting-all-the-Motives-Right-part-1.pdf

particular specify what employees should *not* do. Strict codes ('rules') do not provide a positive stimulus to do 'the right thing'. More general codes – which define basic duties and responsibilities while explaining the philosophy behind them – have been found to be often more effective.

- ***Discouraged employees effect.*** If companies merely engage in window-dressing or green/white/blue/SDG-washing, the motivational effect on employees to engage in sustainable actions will vanish quickly.

- ***False reliance.*** The reputation effect of engaging in sustainability is usually considered an important positive stimulus for companies. However, publicly-listed and consumer-goods companies are also susceptible to reputation risks (naming and shaming) if and where real-life realization lags behind espoused sustainability intentions. B2B and small and medium-sized companies tend to be less susceptible to reputation risks. Also, their motivation to become more sustainable more often stems from intrinsic motives.

More information: *GatMR*, pp. 88–97

3. INTERNATIONALIZATION [MOTIVATIONAL] 'BEARS ON THE ROAD'

A responsive internationalization route poses the following 'International Corporate Responsiveness' (ICR) challenges:

- ***Dealing with the 'liability of foreignness'.*** Foreign companies generally have a lower survival rate than local companies do. This liability of foreignness becomes more prominent when the firm takes a 'reactive' approach of merely making sure it is not engaging in harmful activities ('avoid doing harm'). The liability of foreignness becomes smaller when firms actively contribute to creating positive effects (e.g. inclusive growth, living wages, training and education, investment in local value-adding industries and technology).

- ***Playing the 'ranking game'.*** There are many initiatives around the world that rank or rate the sustainability performance of multinationals. Companies that are confronted with negative public scores tend to only improve those indicators on which they underperformed – which may immediately improve their relative ranking/rating but has little real-life impact in terms of improved sustainability. Those companies scoring high on relevant international rankings may become complacent, losing the motivation to take further steps – for instance, to improve specific non-sustainable realities in countries of their operations.

- ***Coding dilemma.*** International codes of conduct – introduced to prevent incidents or irresponsible practices with suppliers in global value chains – prove hard to monitor and control. Many players in the value chain are not really committed to implementing and upholding them. The more effective codes of conduct are not linked to detailed and strict control and accountability measures, but to good, fair and resilient value propositions (as part of an 'active' sustainability strategy).

- ***Sustaining status quo***. Multinational companies benefit from regulatory differences between countries, and therefore can have a vested interest in maintaining the status quo of regulatory rivalry.

- ***Certification lock-in***. International certification schemes – such as Rainforest Alliance, Utz, Fairtrade, FSC, MSC – have positive sustainability effects. But multiple certifications create overlap, higher transaction costs, and may unintendedly lead to lock-in, in particular for suppliers within international value chains. Reactive multinational companies under public scrutiny may pressurize locked-in suppliers by putting the burden of 'being compliant' fully on them. Scaling sustainability-oriented certification hence requires sectoral initiatives.

- ***Bandwagon effects.*** Motives for companies to enter a new market – or leave a host country - can be influenced by copying market leaders' (perceived) rationale, in order not to be too late to be able to profit (loss aversion, fear of losing out on opportunities). In general, multinational companies favour stable countries that create more stability and predictability as regards sustainability regulation.

- ***Internalizing 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. The greater the physical, institutional, administrative, cultural and stakeholder distance, the lower the incentive to act. However, the potential to internally coordinate the costs and benefits across borders can also support (net) positive change – provided it is part of an overall corporate strategy that not only strives to limit negative externalities, but also seeks to create and scale positive externalities for its consolidated activities around the world.

- ***Appropriate transparency and negative demonstration effects.*** Transparency of information is typically regarded as a positive force for change. But ill-timed or too much transparency can also be counter-productive, enticing a 'race to the top' on the wrong issues (e.g. CEOs comparing their remuneration with that of international colleagues) or a 'race to the bottom' in the wrong areas (e.g. transparency in international taxation rates, regulatory exemptions, cheapest prices, lowest wage levels).

- ***Adverse selection.*** When global sustainability initiatives, platforms or coalitions use insufficiently ambitious standards for allowing companies to participate, the overall ambition level of the initiative might significantly decrease. Adverse selection mechanisms tend to be self-reinforcing.

- ***International materiality challenge.*** In a multi-domestic or international context, it becomes very challenging to define and prioritize the most salient cross-border issues to the multinational company as a whole. Home stakeholders may be motivated differently and have different stakes than the company's stakeholders in host countries. In practice, the materiality analysis proves most responsive to home country needs and stakeholder pressure. By using the materiality matrix as a reactive tool to merely assess risk, multinationals further lower the tool's strategic potential to assess opportunities.

More information: *GatMR*, pp. 166–181