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Critical perspectives on strategic CSR: what is sustainable value co-creation orientation?

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Abstract

Purpose – This purpose of this paper is to integrate corporate responsibility (CR) doctrine into corporate strategy by problematizing existing notions of traditional corporate social responsibility. We provide a theoretical and empirical basis for the proposition that the bridge between CR and corporate irresponsibility is the embeddedness of strategic decisions in ethically oriented corporate practices toward sustainable value co-creation.

Design/methodology/approach – Analysis was performed by meta-theoretical and economic philosophical approaches. The contemporary trends which have led to the institutionalization of sustainability questions, are explained. Special attention is paid to the historical, cultural and the international institutional context within which organizational culture becomes saturated with deviance.

Findings – The main thrust is that competitive advantage, legitimacy for survival and success of the international firm in the 21st century hinges on innovative value co-creation that meets sustainability pressures and institutional expectations.

Research limitations/implications – The research approach opens itself to debate. No generalizability claims are made but the propositions and conceptual framework seek to direct the CR discourse to engage seriously with cooperative investments for sustainable value creation.

Originality/value – This paper contributes to the debate on CR, global sustainability and the role of international firms in society. It offers clarity in the confusion and fills a theoretical gap through a novel conceptualization of strategic corporate responsibility. Here, consumer, environmental and institutional orientation rather than producer orientation form the basis of analysis on value co-creation.

Keywords International business, Corporate strategy, Cooperative investment, Corporate responsibility, Institutional dynamics, Value co-creation

Paper type Conceptual paper

Corrigendum

The authors have brought to our attention that "Critical perspectives on strategic CSR: what is sustainable value co-creation orientation?", published in critical perspectives on international business, *Vol. 11 No. 1, 2015, pp. 92-109, incorrectly attributed one of the sources drawn upon for Figure 1. This was: Strandvik, T. (2009), "Lectures on relationship and service management", Hanken School of Economics, Helsinki. These both occurred through an author error. The authors sincerely apologise for this. The reference has now been added to the electronic version of the article.*

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Introduction

The concept of value creation is central to all socio-economic analysis. How value is created, captured, protected, destroyed or appropriated by organizations and society at large, as well as the regulatory and normative institutions governing all the above, is what the Nobel Prize winner Ostrom (1990) referred to as common pool resource (CPR). The global economic crisis, the sky-rocketing number of organizations commercializing counterfeit drugs through legitimate supply chains, global warming, environmental pollution and degradation, which in large part are the results of corporate malpractices and negative externalities, have not reduced corporate irresponsibility in the smallest measure. Corporate irresponsibility and unethical practices pervade the culture of many organizations (Banerjee, 2007; de Jong, 2011). Armstrong (1977, p. 185) defines socially irresponsible corporate behavior as: "a decision to accept an alternative that is thought by the decision makers to be inferior to another alternative when the effects upon all parties are considered". For our purposes, ethical responsibility refers to "the cognitive, analytical, systematic and reflective application of moral principles to complex, conflicting or unclear situations [of dilemma]" (emphasis added; Wines, 2008, p. 487).

At least seven salient characteristics of today's corporation remain unchanged despite the aforementioned intractable global problems. First, there is a relentless and greedy pursuit of expansion, which is explained by the efficiency and economies of scale (Sukhdev, 2012). Second, top management's hypocrisy, unethical leadership and excessive expenditure on deceptive advertising have prompted consumer and stakeholder concerns (Wagner *et al.*, 2009). Third, active lobbying and inappropriate use of corporate political power (Scherer and Palazzo, 2007) in developing economies, with weaker regulatory regimes, have led to human right abuses and dispossession of lands and natural resources from indigenous groups (Banerjee, 2007; de Jong, 2011). Fourth, there is an unlimited leverage by companies, which has led to excessive arbitrage of factors (e.g. land, labor and raw-materials) at lowest cost possible where the firm's pursuit of profits, power, influence and capital accumulation through bribery and corruption are now the major focus, leading to systemic risks (Bakan, 2004; Sukhdev, 2012). Fifth, as Vogel (2005) argues, corporations employ a defensive corporate responsibility (CR) strategy to ward off competitive disadvantage and offensive CR strategies to seek competitive advantage (Porter, 1985) when the payoff is higher.

The implications of all these manipulative and unethical practices to society and its environment are vast as they obstruct the global efforts toward socio-economic and environmental sustainability of our CPR. That notwithstanding, modern mega-corporations still thrive on the scandalous disasters of their actions whilst purporting to pursue what they impenitently call corporate social responsibility (CSR). This is not to suggest that there are no pockets of excellence in different varieties and contexts of capitalism. For example, the oldest and still operating corporation Stora Kopparberg mine, charted in 1337 in Sweden, is still alive because it sought long-term survival, i.e. sustainability, rather than quick-profit-seeking behavior camouflaged in traditional CSR (Sukhdev, 2012). Even in weaker institutional regimes, the LaGray Chemical Company (Ghana) through excellence in innovation provides access to essential drugs for the African population in accordance with its ethical and sustainability vision (see www.lagray.com). However, given the magnitude of the problem at stake, there is a case to be made against traditional CSR and how the concept as espoused fundamentally deviates from how it is enacted.

This raises a sixth point. Is CSR a myth, given the ethical roots of the current economic crisis (Devinney, 2009; Donaldson, 2012a)? In fact, Frooman (1999) argues that in the absence of firm-stakeholder conflicts, there would not be any demand for CR in the first place. Seventh, outside the European Union (EU) and the USA, where there is much noise and unlimited proliferation of CSR certifications, some scholars suggest that CSR is an euphemism for exporting cultural commodities to developing economies and a pretext for advancing the agenda of political and economic imperialism (Jamali and Sidani, 2011; Khan and Lund-Thomsen, 2011). By implication, all seven major questions are the same fundamental problems under different guises. Such notions that are still labeled CSR are bereft of substance and worthy of disapproval both in theory and practice (Hanlon and Fleming, 2009).

The overarching purpose of this article is to integrate CR doctrine into corporate strategy (CS). Here, value co-creation for the firm and the society, in which the firm is embedded, represents both the means and the end for wealth creation that is sensitive to the prevailing institutions (Prahalad and Ramaswamy, 2004). It aims to provide a theoretical basis for the proposition that the bridge between CR and corporate irresponsibility is the integration of ethical ideals into strategic actions where the consumers and their environment are central to management thinking. In this article, we present various arguments in support of what we perceive as an extremely narrow view of traditional CSR in the extant literature and managerial practice. Clearly, the noble concept of CSR is not incorrect but it is incomplete for contemporary use; or at least it has been irresponsibly misused, distorted and discredited in ways that create ambiguity about its meaning and practical relevance to society. This prompts the question: Is CSR just noble fiction, an overblown rhetoric hyped by media power or a useless cost to a soulless and conscienceless business as Friedman (1970) and Levitt (1958) argued? Or is it an active and integral part of CS for value co-creation in the era of globalization, constrained by questions of sustainability and dynamic changes in regulatory institutions and demand-side market dynamism? We refer to *sustainable value co-creation* as the strategic alliances among the firm, consumers, business and non-business players in ethically, responsibly and innovatively creating socio-economic and environmental gains from our CPR through cooperative investments today – without jeopardizing the future generation's ability to do the same. This view gains credibility among a host of recent scholarly works attempting to integrate CR and strategy as the embodiment of an innovative and forward-looking paradigm shift, which is expected to promote concrete socially desirable actions and value co-creation (Galbreath, 2008; Elms *et al.*, 2010; Katsoulakos and Katsoulakos, 2007; Karnani, 2012; Laszlo and Zhexembayeva, 2011; Lin-Hi, 2008; Louche *et al.*, 2010; Margolis and Walsh, 2003; Porter and Kramer, 2011; Vogel, 2005; Zadek, 2004).

The fallacy of traditional CSR

The existence of a genuine CSR without being embedded in strategy is challenged (Laszlo and Zhexembayeva, 2011; Porter and Kramer, 2006). Sethi (1975, p. 58, cited in Lin-Hi, 2008) argues that "the phrase corporate social responsibility has been used in so many different contexts that it has lost its meaning". To suggest that CSR as hitherto employed by corporations is a great distortion, is a gross understatement. CSR and its use are not just superficial and distractive by nature but they also cloud the intended core message of responsibility of the firm in society, which is expected to be embodied in strategy and aligned with value creating operations. Traditional CSR, then, is a confusing cliché which cheats consumers and society at large.

For these reasons, we introduce the concept of strategic corporate responsibility (SCR) in substitution of traditional CSR. The latter is overly narrow, passive and a disguise for causing harm. Hence it creates the impression of a cost to the firm rather than an investment for itself and society. Further, traditional CSR does not offer any Hayekian explanation of strategizing even though that is what firms do – every CSR initiative involves the allocation of resources within the constraints of the prevailing institutions. SCR practices enhance higher performance and reciprocal value creation for the firm and society (Husted and Allen, 2007) whilst advancing the cause of sustainability (Sukhdev, 2012). By contrast, traditional CSR (despite its originally noble intentions) now lacks substance and remains nothing more than a fashionable concept on corporate web-pages. Some scholars even argue that it is cosmetic, unrealistic and merely a gimmick for public relations (PR) purposes unless it is aligned with strategy (Bakan, 2004; Karnani, 2012; Porter and Kramer, 2006).

Justification for the article

Joel Bakan in his ground-breaking book, *The Corporation* (2004), presents mega-firms as pathologically psychopathic – totally disconnected from their moral compass and hard-wired into the covetous pursuit of profits. That corporations do all the above is now well documented, so why produce this article? First, there are theoretical, socio-political and scientific reasons on the basis of which a new trajectory of SCR based on value co-creation can be pursued to move international business (IB) research into new territories (Roberts and Dörrenbächer, 2012). As Katsoulakos and Katsoulakos (2007, p. 356) argue, it is widely recognized that CSR and corporate sustainability as business practices remain isolated from mainstream strategy and therefore, mainstreaming has become the key challenge for the CR movement. Second, we indicate an epistemic fault-line which separates the normative considerations from the positive in some analyses (Donaldson, 2012b). However, in SCR we explain the importance of the normative as informing the positive and how both to a large extent are self-reinforcing. As Ghoshal (2004) argues, "bad management theories are destroying good management practices". By emphasizing the role of academics to engage with good theories through a critical perspective on CR, we highlight and allow the emergence of theories with strong explanatory power and a better understanding of SCR. Only then can managers, policy makers and society as a whole benefit. We agree with Kilduff and Mehra that:

> […] from a post-modernist perspective, there is no reason to limit enquiry to a few paths marked out by any one particular elite, and it is undesirable for researchers to pursue the obvious at the expense of the unusual [emerging themes which challenge conventional notions with healthy skepticism; emphasis added] (Kilduff and Mehra, 1997, pp. 461-462).

The confusion in conceptualizing CSR lies in the specific context in which it is socially constructed with its surrounding biases and not the substance in its definition *per se* (Dahlsrud, 2006). This means the research agenda must move from mere conceptual dissonance to a meaningful construction of applicable theoretical models with international contexts and institutions in mind. In fact, Sanders (2012) advocates the redirection of international CSR research from rule-based to institutions and agency, considering the conflictual nature of globalization especially when the triad/OECD countries are compared with developing economies. Thus, the conceptualization of CSR entails an ethical dimension that demands breadth and depth wider and deeper than what we do know now. This is the gap in extant literature that we seek to fill in terms of value co-created with international stakeholders when day-to-day ethical responsibility is fused into strategy and into the deliberate planning and implementation processes (Mintzberg and Waters, 1982).

Theoretical perspectives

Definition of concepts

To increase the coherence in this theory building exercise, the key concepts are defined. CR has been variously defined and yet the plethora of conceptualizations does not include strategy. However, by *strategy*, we are referring to the firm's day-to-day substantive actions through resource combination and allocation that produces long-term consequences for the firm and its stakeholders. Stakeholders are referred to as *stake-players* here to accentuate their active nature and to differentiate them from passive stakeholders if we adopt the service-dominant logic (Grönroos, 2008). Stake-players both pressurize and offer inputs for organizational learning and strategic renewal (i.e. redesigning and refreshing organizational culture, internal institutions and technologies to keep abreast of emerging market and technological, social and environmental changes; Crossan and Berdrow, 2003). *Innovation* is operationalized as creatively transformed, useful and commercially viable resources through technological and scientific applications – whether they are exploitative or explorative by nature (March, 1991) or of frugal type that meets sustainability and institutional expectations. *Value* is seen as optimal service ("perceived worthiness") and satisfaction for the consumer and society at large, which in turn creates value (e.g. return on investments, reputation and legitimacy) for the firm and its network context of players, e.g. stakeholders, financiers, government, suppliers, non-governmental organizations and their environment. Therefore, value is not meant to connote only financial rents for owners, which agency theory holds to be the only responsibility of agents (Jensen and Meckling, 1976).

Value co-creation. A clear distinction should be made between human values and value (e.g. benefit, utility, profits or value in the instrumentalist view). Here, the main strand of literature points to the service-dominant logic (Grönroos, 2008; Vargo and Lusch, 2004) and value co-creation (Prahalad and Ramaswamy, 2004) perspectives to demonstrate that the consumer is ultimately the only value creator because he is the source of revenue to the organization and the firm (which makes value propositions) gets opportunities to co-create value through relationships. In the demand-side analysis of value co-creation (Pitelis, 2009; Priem *et al.*, 2012; Sawhney *et al.*, 2005), it is the consumer who signals the firm about the existence of an opportunity for technological innovation. Pitelis (2009) differentiates between value creation, which is spurred by consumers' willingness-to-pay due to "perceived worthiness", and value capture, being a derivative of market structure and firm's resource base:

> Too much focus on value capture today may undermine long-term success, too much focus on value creation may deprive an organization of the means to compete and thus keep creating value. Hence, an ambidexterity is encouraged (Pitelis, 2009, p. 1,119).

Drucker (1974, p. 84) argues that:

> […] the customer never buys a product. By definition the customer buys the satisfaction of a want. He buys value. Yet the manufacturer, by definition, cannot produce value. He can only make and sell products.

by using tangible resources and core competencies, which Constantin and Lusch (1994) refer to as *operand* (physical resources) and *operant* resources (e.g. dynamic capabilities) given their unique inimitable (or costly to imitate) nature. Zimmerman (1951) and Penrose (1959) subscribed earlier to the firm's resources as being inputs. Penrose (1959) in particular views products that consumers buy as nothing more than the services the products provide. The service-dominant reasoning, then, denotes a gestalt shift from the firm-centered resource-based view (Barney, 1991), which sees the firm as mostly producing and making exchanges, toward a relationship-based marketing for value co-creation. The international firm's operations then become a social activity which involves values that require moral decisions and obligations on the part of entrepreneurial managers to be ethically responsible. Responsibility does not create strategy but defines the boundaries and conditions for strategy's successful and institutionally acceptable implementation.

CR in perspective

The landscape of CR has been thoroughly explored (Carroll, 1979, 1991; Frederick, 1960, 1998; Garriga and Melé, 2004; Matten and Crane, 2005; Secchi, 2007; Waddock, 2003) in terms of its historicity (Bowen, 1953) and contemporary trends, conceptualization and infinite taxonomies as well as CSR and firm performance (Waddock and Graves, 1997). CR has been variously defined. Nevertheless, the fundamental meaning seems to overwhelmingly point to firms' practices that are acceptable as long as they do not deviate from social expectations on legality, legitimacy, health and environmental safety and human rights (Katsoulakos and Katsoulakos, 2007).

In mapping out the fuzzy contours of CSR theories, Garriga and Melé (2004) offer four main dimensions. *First*, in the *instrumental theories* the firm only stands for profit maximization, leading Matten and Crane (2005) to conclude that self-interest is what motivates strategic CSR. For Margolis and Walsh (2003, p. 282), no fundamental principle guides organizations to pursue CSR simply because "it is the right thing to do". Here, "doing good" is conditioned by profitable outcomes. Opportunism and other irresponsible practices persist due to structural incentives available to firms (Orlizky *et al.*, 2011) especially in the absence of institutional checks and balances (Campbell, 2007; Sanders, 2012). Rooted in Pierre Bourdieu's theory of social practice, van Aaken *et al.* (2013, p. 349) argue that at the micro-level, pro-social activities represent "social practices that individual managers employ in their efforts to attain social power". *Second*, the *political theories* explain how corporate power is irresponsibly used in international contexts (Scherer and Palazzo, 2007; Sanders, 2012). *Third*, Garriga and Melé argue that some corporations meet the expectations of society in what is referred to as *integrative theories* given the firms' dependency on society for survival (Donaldson and Dunfee, 1999). *Fourth*, *ethical theories* are about the ethical responsibility of corporations toward society.

There is no general consensus on how CSR can be integrated into CS (Katsoulakos and Katsoulakos, 2007; Orlizky *et al.*, 2011). CSR is, thus, viewed as one of the most contested concepts (Fleming *et al.*, 2013; Lin-Hi, 2008). First, every corporate action is performed with and in cooperation with a vast network of both internal and external stakeholders and their environment. Second, every decision and action then must consider such relationships if it is to reach long-term goals. It follows logically that, separating strategic actions from responsible daily practices becomes an analytically faulty way of explicating the concept of responsibility. CR is either inherently strategic or just tactical for short-term gains. The tactical route as the ultimate vision of the entrepreneurial manager is rendered incomplete with the introduction of SCR upon which long-term success depends.

SCR in context

Strategy is defined as "a pattern in a stream of decisions" with emphasis on what organizational leaders plan (strategize) with the intention to act upon and what is actually realized or implemented (Mintzberg and Waters, 1982, 1998). Oliver (1991) offers five strategies by which firms respond to their institutional environment: *acquiescenc*e (complying by imitating model organizations), *compromise*, *avoidance* (strategies for avoiding compliance), *defiance* (resistance to institutional pressure), *manipulation* ("the purposeful opportunistic attempts to co-opt, influence, or control the environment"; Oliver, 1991, p. 157). Harnessing Hayek's (1945) definition, planning (strategy) refers to a complex set of interrelated decisions about the allocation of available resources. In fact, all economic activity is in this sense planning. The resource-based view finds relevance in four ways: what is allocated; who allocates it; how it ought to be allocated and with what consequence. Further, CSR does not offer any Hayekian explanation of strategizing even though that is what firms do. By leaving out "social" and broadening the scope toward CR in general, the concept adequately accommodates a firm's socio-ethical, institutional and sustainability obligations toward the internal and external environments. Responsibility will then denote all actions, decisions, implicit and explicit with direct or indirect effect on legal and natural persons with whom a company relates. This is not a mere semantic difference. Rather, it represents a transition into an epoch of centralizing the ethically responsible role of managers as inseparable from corporate practices. This answers the philosophical question of whose business it is to act responsibly and toward whom? While only one step away from referring to such organizational practices as SCR, Collins and Porras (1994, p. 4) imply that firms "by nature are woven into the very fabric of society". It is therefore "tautologous" to repeat the "social" when referring to CR as organizational practices. This is also explained by what Donaldson and Dunfee (1999) refer to as the firm's implicit social contract with the larger society of which it is an integral part. It follows that the importance of the discourse still lies within the social license-to-operate, thus, legitimacy (Lin-Hi, 2008), defined as the "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" (Suchman, 1995, p. 574).

We argue that there is no clear-cut dichotomy between CS and CR. They are the two faces of the same coin. Thus, either strategies are inherently responsible or they are irresponsible (all or nothing). Therefore, SCR should not be construed as the amalgamation of two distinct concepts, i.e. CR + CS = SCR, but rather, the full embeddedness of strategies into socio-institutional and sustainability obligations. As a distinction, responsible firms pursue sustainability while deviant firms only aim to maximize their utility with neither a sense of responsibility nor the need for legitimacy. In essence, irresponsibility is the product of a managerial mindset that misses the opportunity to meet market and institutional expectations.

Zadek (2004), citing several empirical examples, describes the five stages of CR as follows. The *defensive stage* is where there is a mixture of deviance and denial, which is then handled by a legal team or the communications team dealing with PR. The *compliance stage* involves reactionary compliance with some newly established corporate codes in ways that are visible to the complaining constituents. This is clearly seen as a cost of doing business and creating value for the firm in the strictest sense of the word because it mitigates the cost of litigation. The *managerial stage* is where managers begin to realize the superficiality of compliance and public communication apparatus and therefore begin to take serious responsibility for corporate actions. The *strategic stage* is where the firm begins a new set of practices based on proactive response by aligning responsible practices with its strategies aimed at gaining competitive advantage. The *civil stage* is where the optimal and most socially desirable targets are achieved. Here, the firm promotes collective action by addressing socio-economic, political and environmental questions not as a cost of gaining competitive advantage but as a part and parcel of the society it invests in and cooperates with for mutual gains. The link between the strategic and civil stages is blurred and it is here that an open dialogue for learning and innovation aimed at value co-creation exists.

Design

We employ a *meta*-theoretical (Tsoukas and Knudsen, 2003) and economic philosophical analysis (Becker, 2006; Earl, 2001; Sen, 1977, 1988). By the first, we mean that theory itself becomes the main unit of analysis as we attempt to make sense of its conceptual utility and practical relevance to both the social and business worlds, simultaneously. In this way, we reflect critically on and engage constructively with the extant literature on CR and the conceptual proposition of the current understanding of CR. Further, such a process helps us to probe the extent to which the extant literature matches with the contemporary empirical realities. Moreover, the iteration between theories allows for flexibility in abandoning theories with the least explanatory power.

Further, justifications for our recourse to economic philosophical analysis are: one, classically, it is the generally acceptable approach to answer fundamentally complex socio-economic questions [Sen, 1977; see also Adam Smith, *Theory of Moral Sentiments* (1759) and *An Inquiry into the Wealth of Nations* (1776)]. Two, epistemologically, this approach is appreciated because certain questions cannot be answered by scientists through the collection of more data. Three, such critical reflection cannot be done in a vacuum. It entails engagement with influential contributions in a meaningful conversation that leads to key theoretical and practical implications. The limitation is that this approach lacks paradigmatic consensus across disciplines and opens itself to debate among the positivists. Further, the paper does not involve systematic collection and analysis of data, which would be outside its scope.

The economic philosophical analysis with a critical perspective on international CSR contributes to strategic management and international business literature. The aim is to contribute to the new institutional theory (NIT; DiMaggio and Powell, 1983; Scott, 2001; Williamson, 2000). Intersecting the above are the resource-based view and value co-creation. The NIT along with transaction-cost and resource-based view is at the forefront of IB research since its explanatory power has now re-emerged as a fundamental theoretical foundation for inquiries into the strategies of multinational companies operating in emerging economies where institutions are undergoing dynamic changes (Peng *et al.*, 2008). These theoretical lenses are selected to mutually reinforce each other and depicted as the quintessential scope of the broad and yet overlapping areas of strategy and ethics, firms' resources and their interface with society constrained by institutional dynamics. Such civic engagement is what Lin-Hi (2008) describes as an "investment in social cooperation for mutual advantage".

Firms cannot pursue SCR without the obligation to avoid harm or value destruction. This school of thought subscribes to the "do no harm" universal principle, which is anchored in and inspired by the Kantian tradition of "categorical imperative" (deontological ethics) (Kant, 1964). Although we do not delve into all the subtleties of this Kantian philosophy, which deviates significantly from the utilitarian ethics perspective, we join contemporary ethicists in extending it to "doing good" and "avoiding bad" (corporate irresponsibility) simultaneously (Lin-Hi and Müller, 2013); thus, to a proactive effort to reduce public bad (Orlizky *et al.*, 2011). Bowie (1999), building on the Kantian school offers three formulations of hypernorms of Kant's categorical imperatives:

(1) economic interactions falling short of categorical imperatives are not morally permissible;
(2) it is imperative to have respect for the human person as an end and not a means; and
(3) the moral community formulation emphasizes work place democracy.

Critics mainly attack the Kantian school's universalizability and rigidity in local transposition since they represent Western perspectives. That notwithstanding, they serve as an indispensable guide to ethical behavior.

If the above is a reliable logical guide, then strategy cannot exist without ethical responsibility or vice versa as both the means and an end for sustainable value co-creation. Thus, SCR is not what firms are doing but what firms are in "the process of becoming" in an evolutionary sense, constrained by the prevailing institutions that demand that value is not only co-created for society but is co-protected as a moral duty (avoid value destruction) (Ahen and Zettinig, 2011; Lin-Hi and Müller, 2013). SCR, in this sense, embodies the duty for firms to take "ownership of the externalities they generate" (Crouch, 2006, p. 1,534) beyond the economic, legal, ethical and discretionary (philanthropic) responsibilities as in Carroll's (1979, 1991) typologies.

Results and discussion

How we got here

CSR has a history, and that significant part can hardly be ignored in any useful analysis. The concept has had multiple meanings at different historical junctures and the corporation has always played a central role especially in the past 150 years (Sukhdev, 2012). For Sukhdev (2012) 1820-1920 marked the definition of today's corporation. "These hundred years also freed the corporation from social purpose and established the primacy of profits as the corporation's raison d'etre" (2012, p. 6). The proposition of SCR at this point in its evolutionary course is not meant to remove the firm but to align its goals with those of the society for co-created and shared value (Porter and Kramer, 2011). Figure 1 is a simplified representation of the historical evolution of the trajectory of CSR in the post-World War II (WWII) era (as denoted with the dotted arrows) starting from the bellicose coexistence of capitalism and communism to the present age of neo-liberal capitalism side by side the institutionalization of sustainability issues. In each decade, different struggles were witnessed and CSR was reconfigured in meaning

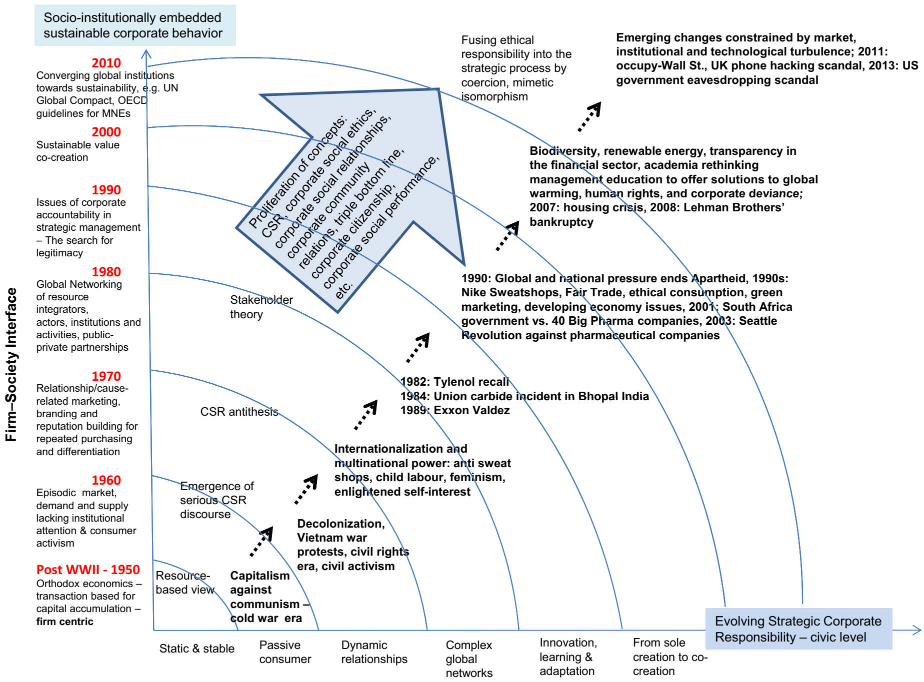

Figure 1.
The historical change process from CSR to SCR; "Towards sustainable value co-creation: Chronicle of path dependence" (inspired by Strandvik, 2009)

and the level of urgency. The horizontal axis depicts the relational evolution from stable/passive consumers to the emergence of co-creation. The vertical axis shows how each decade framed society's interface with business until the 21st century. The big arrow shows the different labels of CR under business ethics. In the aftermath of WWII, basic consumer needs were in short supply. The scarcity that led to high demand for goods meant that the externalities produced within the economic sphere were not major issues to society and governments any more than the satisfaction of their demand. The sales-transaction approach of orthodox economics applied to production and commercialization worked perfectly. Globally, such a view is shifting since the ultimate preferable future is the institutionalization of global sustainability as depicted in Figure 1.

What is SCR and how does it differ from traditional CSR

To avoid confusion, we distinguish SCR without the second "S" from strategic corporate "social" responsibility (SCSR; Davis, 2010) since the latter still carries with it notions of traditional CSR (such as philanthropy and PR) which has little to do with competence-based innovation and the creation of a long-term competitive advantage within a complex and evolving institutional context. Traditional CSR is a subset of the larger domain of CR. The difference is that SCSR is a transitioning stage from CSR toward SCR, which in essence, is a fully integrated concept as explained below. Therefore, the SCR process involves innovative value co-creation that engages civil society through the maximization of human, natural, financial and social capitals; a move from producer orientation to consumer, environmental and institutional orientation (view Figure 2). SCR envisages emerging social questions as problems worth solving; it creates new opportunities for value co-creation in response to institutional and contextual needs and is referred to as sustainable value co-creation orientation.

The SCR is defined as the consistent, proactive adaptation process of integrating institutionally acceptable day-to-day behavior into dynamic capabilities, governance and operational systems at all levels. The goal is to co-create superior and contextually relevant value propositions innovatively and sustainably. All levels refer to business level, corporate level and collective level; thus alliances and cooperation via relationships (Porter, 1996). This includes designing and institutionalizing core values at the technical, managerial and structural levels with the aim of matching the external institutional dynamics with the firm's dynamic capabilities. SCR denotes the direction and scope of the firm through the identification of core competencies that coevolve with the market and institutional needs.

What SCR is not

SCR extends the "do no harm" principle by adding "create and protect value". Simply doing no harm constitutes value destruction since the indifference neither decreases nor increases value creation – it is deemed an ordinary behavior. The opportunity cost associated with doing nothing inherently constitutes value destruction. Hence, SCR is not about conformance but rather about performance beyond the required regulations (Drucker, 1974; Lee, 2008; Matten and Crane, 2005). SCR is not a public display of benevolence as a cover up. Rather, it is the renewal of the organizational mind to innovate. Corporations and charitable organizations are two distinct creatures and their roles must not be conflated here except when there

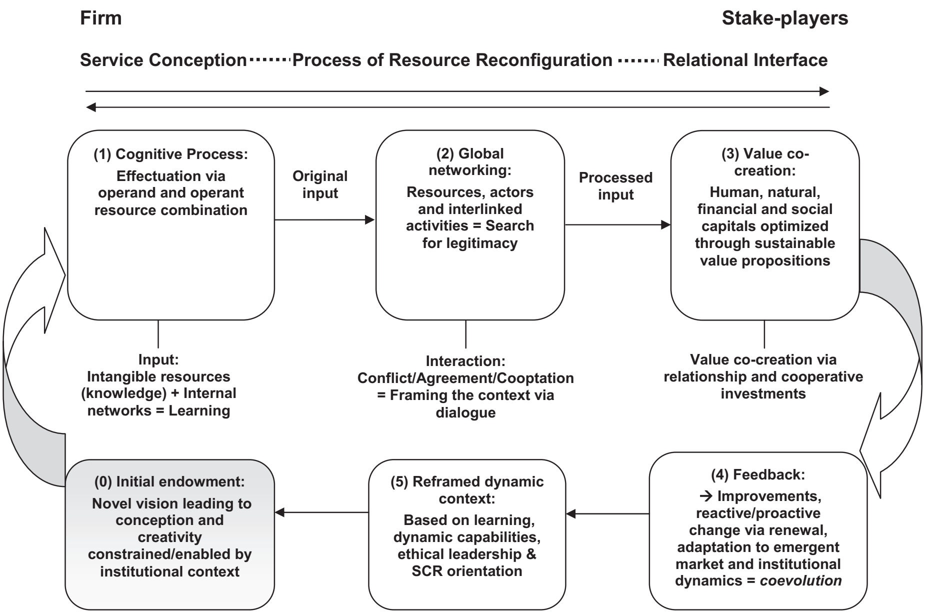

Figure 2.
A six-phase analytical model of SCR cycle for demand-side value co-creation

is an alliance. Between the application of resources and value creation are questions of legitimacy and legality but abiding by the rules does not qualify as SCR. In some weak institutions, no innovation is required to conform to new regulatory requirements. In the EU, for example, regulations are being standardized to allow conformity by all organizations. However, at other times new regulations impose urgency for innovation and only the most innovative firms can effectuate changes that lead to sustained competitive advantage. Major corporations such as Badische Anilin- und Soda-Fabrik (BASF) and Infosys are typical examples of such proactive social and environmental initiatives embedded in technologies.

Toward value co-creation: conceptualizing SCR

To maintain competitive advantage, legitimacy matters due to the current trend toward non-price competition. Thus, responsibility entails the process by which society's resources (knowledge, information, ideas and tangible resources) are systematically and innovatively organized to offer superior value propositions to meet contextual and inter-temporal need. Since SCR is a dynamic concept, how does feedback from stakeholders reshape SCR in co-creating value innovatively? We now present a six-phase (from 0 to 5) analytical model of the SCR cycle (Figure 2).

The learning processes of exploitation and exploration (March, 1991) include learning by doing, learning by experience and learning by interactions as the spatial order for building social networks (Geels, 2002). The strategic interaction of the firm and a network of business and non-business actors creates the basis for learning and adaptation to market, institutional, technological and environmental change. The model in Figure 2 helps to explain the SCR cycle of adaptation and sustainability. In a complex global business context, we view SCR as a chain of responsible decisions, an interlinking of activities and legitimately acquired and sustainably configured resources. Responsibility is characterized as the intent to commit to offer value propositions through learning and proactive actions for the betterment or changing of products or service quality (Phase 0). At its inception to co-create value, SCR does not include any form of physical interaction between the firm and the consumer. It starts directly at Stage 4 and 5 of strategic and civil phases of CR for collective actions for mutual gains (Zadek, 2004; Lin-Hi, 2008) or shared value (Porter and Kramer, 2011). The interaction is only a cognitive process (1). That explains why SCR is inherently of service as the ultimate reason for firm-stakeholder relational embeddedness (2) (Grönroos, 2008). This means that any act defined as irresponsible on the part of economic actors is premeditated, strategically planned and involves resource allocation. This leads us to *P1*:

P1. Superior value propositions for the consumer constitute value for the firm which in turn allows for new innovations leading to sustained legitimacy and competitive advantage.

One value co-creation process (3) ushers in a new process through new knowledge from feedback (4). The feedback loop of ideas and pressures is in the form of novel innovative inputs for learning, compromise and visibly reactive modifications, improvements or new creative ways of offering value propositions. On the basis of the above model, we argue that:

P2. Innovative value co-creation in day-to-day practices and learning occurs through feedback from consumers, institutions, strategic stakeholders and even competitors leading to a coevolution of preferences and sustainable techno-scientific solutions.

At the core of this stage is an ethically proactive leadership and governance structure that reframes (5) the dynamic institutional context of the firm's network and absorptive capacity in response to the feedback; i.e. re-igniting another cognitive process of strategic-ethical decisions to offer value propositions bundled in a chain of responsibilities for mutual benefit (back to 0). Here, there is an economic and political space for voice and accountability. The firm only serves as the initiator and nucleus for organizing the process of value co-creation as it searches for new opportunities. This leads us to the temporal dimension of responsibility as having an invisible cognitive past, a current physical process, an aspiration among players in the present and a vision to affect the potential, preferable future. SCR therefore equals sustainable value co-creation. We formally argue with *P3* that:

P3. Voluntary governance of SCR works under ethical leadership and the appropriate institutional environment and can also innovatively create competitive advantage where formal institutional structures are weak but informal institutional structures are strong.

Conclusions and managerial implications

This paper answers the question what is sustainable value co-creation orientation? It seeks to guide policy by challenging managerial wisdom on the needless dichotomy between ethical responsibility and strategy. Harnessing the contribution of Rasche and Behnam (2009, p. 243), "there are still many unanswered questions and probably even more unquestioned answers" about the insensitivity of the modern corporation toward social ills. We underscore the importance of recognizing corporate malpractices as an institutional and strategic problem that is central to the CR discourse internationally. Notwithstanding the numerous conceptual confusions and tautologies about CR, sustainability and organizational strategy, the presence or the lack of strategy-making that is embedded in CR (Laszlo and Zhexembayeva, 2011) directly affects consumers and their environment. We argue that SCR, organizational strategy or value co-creation leads us nowhere without a long-term focus – sustainability. Profit making *per se* is not unethical. Attaining such objectives at the expense of stakeholders or in ways that make society worse-off now and in the future constitutes corporate irresponsibility.

The managerial contribution consists of the notion that the socio-cultural and historical contexts of international business matter. Therefore, awareness of these will help the international firm to co-create the needed value with stake-players through communication channels and direct engagement toward cooperative investment for mutual gain in international operations. Strategies must respond to institutional needs to gain legitimacy through differentiation and create value with and for society while mitigating negative externalities and seeking to proactively respond to emerging opportunities and challenges.

Our approach in theorizing is neither a trivial enterprise nor a simplistic stylizing of existing CR concepts. We advance a new conceptualization of SCR; this consists of the cognitive processes and actual changes in behavior of a firm that aims at attaining sustainability. This is pragmatic, phenomenon-driven and context-bound. Strategic operations and managerial direction entail partnerships with other resource integrators for value co-creation. Hence, SCR is a mechanism for coevolving with global environment. Sustainable value co-creation also entails protecting operations against value destroyers such as the drug counterfeit industry. This will also be on our next research agenda after studying how the relationship structure of organizations' resource integrators affects value co-creation.

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