Sustainable Purchasing Strategy in the Food Industry

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St. Gallen, November 17, 2005

The President:

Prof. Ernst Mohr, PhD
Preface

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Prof. Dr. Volker Hoffmann of ETH Zurich and Prof. Dr. Sanjay Sharma of Wilfrid Laurier University each contributed to the development of my thesis at decisive moments. Dr. Jost Hamschmidt of the oikos foundation enabled me to establish contact with the world-leading scholars of my research field and to discuss my ideas and results with them. Nadine Darmadi of the Rotterdam School of Management provided great support in conducting the Migros and Nestlé case studies.

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St. Gallen, December 2005

Jens Hamprecht
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List of Abbreviations

4C Common Code for the Coffee Community
BP British Petrol
Compl. Complementary
CS Corporate Sustainability
CSR Corporate Social Responsibility
Ecol. Ecological
ECR Efficient Consumer Response
FSC Forest Stewardship Council
FT Fair Trade
Ibid. Ibidem
ICA International Coffee Agreement
i.e. That is
<table>
<thead>
<tr>
<th>Abbreviation</th>
<th>Description</th>
</tr>
</thead>
<tbody>
<tr>
<td>Inst.</td>
<td>Institutional</td>
</tr>
<tr>
<td>ISCT</td>
<td>Integrated Social Contracts Theory</td>
</tr>
<tr>
<td>KPI</td>
<td>Key Performance Indicator</td>
</tr>
<tr>
<td>MSC</td>
<td>Marine Stewardship Council</td>
</tr>
<tr>
<td>N.a.</td>
<td>Not applicable</td>
</tr>
<tr>
<td>NGO</td>
<td>Non-governmental organization</td>
</tr>
<tr>
<td>P1</td>
<td>Proposition 1</td>
</tr>
<tr>
<td>Purch.</td>
<td>Purchasing</td>
</tr>
<tr>
<td>RBV</td>
<td>Resource-based view</td>
</tr>
<tr>
<td>RSPO</td>
<td>Roundtable on Sustainable Palm Oil</td>
</tr>
<tr>
<td>SAI</td>
<td>Sustainable Agriculture Initiative</td>
</tr>
<tr>
<td>SAM</td>
<td>Sustainable Asset Management</td>
</tr>
<tr>
<td>TQM</td>
<td>Total Quality Management</td>
</tr>
<tr>
<td>U.S.</td>
<td>United States</td>
</tr>
<tr>
<td>Vs.</td>
<td>Versus</td>
</tr>
<tr>
<td>QM</td>
<td>Quality Management</td>
</tr>
<tr>
<td>WWF</td>
<td>World Wide Fund (formerly: World Wildlife Fund)</td>
</tr>
</tbody>
</table>
Abstract

This research examines the adoption, the implementation, and the competitive implications of a sustainable purchasing strategy. Building on insights from institutional theory and the resource-based view, we develop a research model that considers the external context of a business. We examine how regulative, normative, and cognitive demands in the institutional environment influence the adoption and the competitive implications of a sustainable purchasing strategy. Hereby, we also examine how businesses influence these institutional demands in their own interest, a practice described as institutional entrepreneurship. Furthermore, we consider how complementary strategies (exploratory and exploitative innovation strategies) influence the adoption and the competitive implications of a sustainable purchasing strategy.

We conduct four case studies to examine whether empirical results confirm our propositions on the influence of institutional demands and complementary strategies.

Our findings suggest that all examined businesses have improved their long-term survival chances by adopting a sustainable purchasing strategy as they have safeguarded their access to valuable resources such as reputation, human resources, and financial resources. If senior management seeks to improve a business’ access to valuable resources (like reputation or human resources) and gain a competitive advantage, then a sustainable purchasing strategy should be adopted when normative demands dominate the institutional environment.

We recommend businesses adopting a sustainable purchasing strategy not to regard institutional demands as nonnegotiable. Businesses can influence these in their own interest. Such institutional entrepreneurship should be targeted at the institutions that define the requirements regarding the ecological and the social aspects of a sustainable purchasing strategy.

Our research documents that the early adopters of a sustainable purchasing strategy need to explore solutions throughout the early phases of the implementation process. Hereby, we refer to the management of the project phases that precede the development of a draft purchasing standard. For the management of these early phases, we recommend the early adopters to collaborate with external parties that have expertise in the ecological and social implications of purchasing the product in question. Late adopters, however, can exploit their own knowledge and build on existing solutions. Managers in these businesses can regard the implementation of a sustainable purchasing strategy as a quality management project.

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1 This abstract is based on the executive summary of this thesis (pp. VII-IX).
Executive Summary

This thesis builds on recent advances in strategic management and corporate sustainability. At the centre of our analysis are sustainable purchasing strategies. Hence, we examine those purchasing strategies that provide not only economic but also social and ecological benefits. In early studies, researchers suggested that there was a direct and unconditional linkage between resource allocation to such a strategy and the resulting competitive advantage. Some researchers argued that this linkage was generally positive while others argued that the linkage was neutral or negative. Given these conflicting findings, scholars increasingly recognized that the research examining issues of corporate sustainability and strategy making needed to place more emphasis on the context of the business presented in a study.

In our research model, we analyze the adoption and the competitive implications of a sustainable purchasing strategy. Hereby we try to consider the context of a business in two different ways.

First, our research model considers the external context of a business. Specifically, we examine the influences of the institutional environment on the adoption and the competitive implications of a business’ sustainable purchasing strategy. The institutional environment of a business defines those structures and strategies of a business that are generally viewed as appropriate, legitimate, or socially acceptable.

The demands for a sustainable purchasing strategy in the institutional environment are raised by institutions such as governmental agencies, non-governmental organizations, the media, or industry associations. We distinguish between different types of institutional demands and their potential influence on a business. Hereby, we make use of the following categorization: regulatory demands (e.g., a business adopts a sustainable purchasing strategy because it is forced to), normative demands (e.g., a business adopts the strategy because doing so is judged as morally appropriate), and cognitive demands (e.g., a business adopts the strategy because all businesses in its industry adopt that strategy, too). In propositions and case study research, we analyze the actual influence of these context-specific demands on the adoption and the competitive implications of a business’ sustainable purchasing strategy. Furthermore, we examine how businesses influence these institutional demands in their own interest, a practice described as institutional entrepreneurship.

Second, our research model considers not only the external but also the business-internal context of a sustainable purchasing strategy. We study how complementary strategies influence the adoption as well as the competitive implications of a sustainable purchasing strategy. Hereby, complementary strategies refer to patterns of business activities that require similar resources and capabilities as a sustainable
purchasing strategy. As an example for complementary strategies, we consider explorative and exploitative innovation strategies. We investigate those resources that a business can use for the adoption of a sustainable purchasing strategy as well as for these two complementary innovation strategies.

The results of this research show that all examined businesses have been exposed to institutional demands for a sustainable purchasing strategy. Some have been exposed to very explicit regulative demands, others have been exposed to normative (or cognitive) demands that senior management could have chosen to ignore. Yet, our results suggest that the examined businesses have enhanced their long-term survival chances by considering demands in their institutional environment. By adopting a sustainable purchasing strategy, the businesses have improved their long-term survival chances as they have safeguarded their access to valuable resources such as reputation, human resources, and financial resources. Based on this finding, we recommend businesses in the European food operating industry to adopt a sustainable purchasing strategy independent of the type of institutional demands for a sustainable purchasing strategy that dominate their institutional environment. If businesses want to improve their access to valuable resources (like reputation or human resources) and gain a competitive advantage, then they should adopt a sustainable purchasing strategy when normative demands dominate in their institutional environment. Businesses can recognize that normative demands prevail in their institutional environment if reports in the media praise a business in their industry sector for adopting a sustainable purchasing strategy. If the institutions that define the minimum requirements regarding a sustainable purchasing strategy award prizes to an adopter of a sustainable purchasing strategy, we have further evidence for a dominance of normative demands in the institutional environment. These normative demands in the institutional environment can be sustained as long as the majority of businesses in the industry sector have not yet adopted a sustainable purchasing strategy.

We recommend businesses adopting a sustainable purchasing strategy not to regard institutional demands as nonnegotiable. Businesses can influence these in their own interest. Such institutional entrepreneurship should be targeted at the institutions that define the minimum requirements regarding the ecological and the social aspects of a sustainable purchasing strategy. Prior to the adoption of a sustainable purchasing strategy and throughout the early phases of the implementation process, it may also be necessary to influence the corporate culture. Hence, the objective of such institutional entrepreneurship is to ensure that the sustainable purchasing strategy of the business is regarded as legitimate in the business’ institutional environment as well as business-externally.
Our research documents that early adopters of a sustainable purchasing strategy need to explore solutions throughout the early phases of the implementation process. Hereby, we refer to the management of the project phases that precede the development of a first draft of the new purchasing standard. For the management of these early phases, we recommend the early adopters to collaborate with external parties that have an expertise in the ecological and social implications of purchasing the product or raw material in question. For early adopters, quality management skills in the implementation process only become relevant once a first draft of the new purchasing standard has been defined. Late adopters, however, can exploit their own knowledge and build on existing solutions. From the outset, the late adopters can think of the implementation of a sustainable purchasing strategy in terms of a quality management project.
I Introduction

I.1 Relevance of the research: managerial perspective

An analysis of data from the World Bank shows why sustainable purchasing strategies deserve the attention of the food industry. During the last two decades, the world population has risen by 40% (World Bank 2002). Meanwhile, the global area of arable land has almost stagnated. How does the food industry satisfy growing calorie demands if the natural resources of farmers are so obviously limited? On the one hand, the industry requires increasing raw material volumes; on the other, it needs to take care not to deplete resources today that it would require tomorrow.

<table>
<thead>
<tr>
<th>Global population millions</th>
<th>Arable land % of land area</th>
</tr>
</thead>
<tbody>
<tr>
<td>1980</td>
<td>2002</td>
</tr>
<tr>
<td>4.430</td>
<td>10.3</td>
</tr>
<tr>
<td>6.200</td>
<td>10.8</td>
</tr>
</tbody>
</table>

Table 1: Development of the global population and arable land available

What strategy should the industry pursue in the light of this dilemma? A tentative answer could be to improve the controls of natural resource usage by farmers. However, Table 2 highlights why a focus on ecological improvements alone may not suffice. To date, about a billion people in Asia and Africa live in extreme poverty (World Bank 1998).

<table>
<thead>
<tr>
<th>Region</th>
<th>Population (in millions)</th>
</tr>
</thead>
<tbody>
<tr>
<td>South Asia</td>
<td>520</td>
</tr>
<tr>
<td>Sub-Saharan Africa</td>
<td>280</td>
</tr>
<tr>
<td>East Asia-Pacific</td>
<td>260</td>
</tr>
</tbody>
</table>

Table 2: Asian and African population living on less than $1 a day (in millions)

In these regions, farmers may not be in a position to safeguard natural resources if they need to struggle for their own survival. Farmers require a minimum of education and slack resources if they are to improve the ecological performance of their farms. Consequently, sustained profits of the food industry depend not only on the ecological but also on the social criteria of agricultural production.

Acknowledging the interdependence of ecological, social, and economic performance, managers have coined the notion of a sustainable business strategy. Although industry initiatives encourage such “sustainable” strategies, their actual meaning as well their implementation and controlling remain unclear (Norman & MacDonald, 2004). Especially in the resource-intensive food industry, managers urgently require advice on the development and the implementation of a sustainable
purchasing strategy. To express it in the words of an industry partner, “everyone talks about sustainability but nobody tells you how to achieve it”.

This call motivates us to conduct research on sustainable purchasing strategies in the food industry.

| There is a demand for research on the development and the implementation of a sustainable purchasing strategy. |

I.2 Relevance of the research: theoretical perspective

To what extent has academia explored the interface between social, ecological and economic business performance so far? What appeared as a side note of the general management literature in the early 1970s today has become a broad and multi faceted research body. Logically, we structure this research body into three groups.

1. A first research stream provides classifications of social and ecological initiatives by businesses. Here, scholars categorize the degree of a business’ involvement in social and ecological initiatives. Frequently, a differentiation is made between “reactive”, “proactive” and a number of intermediate business strategies (Carroll, 1979; Wartick & Cochran, 1985).

2. The second research stream examines the factors that affect the adoption of social and ecological initiatives by a business. Researchers have considered explanatory factors that are specific to a business (Banerjee et al., 2003; Bansal & Roth, 2000; Flannery & May, 2000) as well as its general business environment (Banerjee et al., 2003; Russo, 2003).

3. The third research stream investigates competitive implications of social and ecological initiatives of a business. Two recent meta-analyses conclude that positive competitive implications can be confirmed (Margolis & Walsh, 2003; Orlitzky et al., 2003).

In examining the theoretical research gaps, we focus on the second and the third research stream. Three theories dominate the analysis of the antecedents and the outcome of social and ecological business initiatives: institutional theory (DiMaggio & Powell, 1983; Meyer & Rowan, 1977), the resource-based view (Barney, 1986, 1991), and theories of business ethics, particularly stakeholder theory (Donaldson & Preston, 1995; Freeman, 1984). The development of each of these theories is ongoing. In the following, we focus on research gaps that concern institutional theory and the resource-based view.

As for institutional theory, we examine the concept of legitimacy in more detail. Institutional theory suggests that legitimacy increases the survival chances of a
business (Meyer & Rowan, 1977; Oliver, 1991). Hereby, scholars distinguish between *regulative* legitimacy (the perceived need to comply with regulations), *normative* legitimacy (the perceived need to comply with norms), and *cognitive* legitimacy (the perceived need to comply with standard models). Jointly, these three aspects of legitimacy capture the diverse demands that the institutional environments of a business place upon it (Scott, 2001).

- We find that particularly the concept of normative legitimacy requires more detailed analysis (Dacin et al., 2002).

Moral and ethics are the “stuff” that the norms in the institutional environments of a business purport to build on. Yet, institutional theory rarely addresses the moral bases of these norms. A norm is questioned if it is not aligned with the interests of an organisation (institutional entrepreneurship, cf. DiMaggio, 1988 and Oliver, 1991) but not because it may be morally inappropriate. Normative theories can provide this complementary perspective.

There is a need to link institutional theory with insights from normative theory. Specifically, the concept of normative legitimacy in institutional theory needs to be explored from the perspective of normative theories.

With respect to the resource-based view, we also analyze one concept of the theory in more detail:

- Specifically, we suggest that the conceptualization of resource “value” in resource-based research models demands closer examination. Barney (1991) notes that the resources of a business need to be valuable in order to contribute to sustained competitive advantage. In practice, scholars often struggle to test this proposition in their resource-based research models. Too little is known on how resource value can be made more tangible in a resource-based research model. In many empiric studies, researchers have examined whether a specific asset of businesses is associated with increased business performance or not. Unfortunately, such tests alone are no verification of resource-based logic. In order to test that *valuable* assets lead to sustained competitive advantage, resource-based research models would also need to tap the *business environment* as well as additional, *complementary assets* of businesses. Recently, scholars have raised the awareness for the need of considering the business environment in resource-based research (Aragon-Correa & Sharma, 2003; Brush & Artz, 1999). However, the role of complementary assets has received less conceptual attention. Specifically, in research on sustainable business strategies, scholars
have described innovation management as an asset that is complementary to social and ecological business initiatives (McWilliams & Siegel, 2000; Waddock & Graves, 1997). Yet, little is known on how different innovation strategies impact these initiatives.

- A second research gap concerns the conceptualization of resource value in resource-based research models as well. Frequently, scholars hypothesize and test a linear association between the asset of a business and business performance. Potentially, such studies can lend themselves to misinterpretation as they cannot provide information on possible, optimal levels of resource allocations (Miller, 1990). Specifically, in research on sustainable business strategies, little is known on an optimal level of resource allocation for improvements of the social and ecological business performance.

From a theoretical perspective, there is a demand for a clearer conceptualization of “resource value” in resource-based research models. Contingencies, complementary assets, and non-linear relationships require more analysis as factors that influence the value of a resource.

I.3 Empirical setting and research questions

Empirical setting
In order to address the research gaps we identified above, we will formalize and substantiate a model of the driving forces and the outcome of sustainable purchasing strategies in the food industry. Our empirical setting encompasses the purchasing strategies of European-based food manufacturers. On the one hand, this empirical setting allows including food manufacturers that engage heavily in social and ecological initiatives, for example by offering “organic” products. On the other hand, this setting also comprises food manufacturers following a low-cost strategy. We suggest that this empirical setting is sufficiently broad to include those “extremes” that we require for the substantiation a research model (Banerjee et al., 2003; Eisenhardt, 1989).
Research questions
We pose two research questions that focus on the research gaps summarized above. The first research question addresses the research gaps described on p. 3 and p. 4. In order to capture the “value” of a sustainable purchasing strategy better from a resource-based perspective, we should consider the role of complementary strategies, cf. p. 3. Specifically, we argued that the role of different innovation strategies as complementary strategies would need to be studied in more detail. Furthermore, we noted that contingencies require consideration if we study a sustainable purchasing strategy from a resource-based perspective, cf. p. 3. We remarked that particularly the normative aspects of the institutional environment require a more detailed analysis, cf. p. 3. Therefore:

**Question 1:** How do complementary innovation strategies and normative aspects of the institutional environment influence the adoption, the implementation, and the competitive advantage of a sustainable purchasing strategy in the European food industry?

This leaves one theoretical research gap that we identified with respect to resource-based research models. We argued that resource-based research models need to be examined for non-linearities, cf. p. 4. Therefore:

**Question 2:** With respect to the competitive advantage of European food manufacturers, what are the criteria and what is the optimal level of resource allocation to a sustainable purchasing strategy?

I.4 Structure of the study
In chapter II, we introduce the theoretical basis of this thesis. We introduce institutional logic (thus, institutional theory and institutional entrepreneurship), the resource-based view and the Integrated Social Contracts Theory. We explain the existing theory gaps and address these by integrating the theories.

In chapter III, we provide answers to the research questions from a theoretical perspective. We first present a research model on the adoption and the competitive implications of a sustainable purchasing strategy. Subsequently, we discuss that research model in detail. We develop a set of propositions that summarize central arguments of this thesis.

The propositions present the basis for a structured and theoretically grounded analysis of case studies. In chapter IV, we select four case studies describing the adoption and the outcome of a sustainable purchasing strategy by European-based food manufacturers. Each of these case studies is examined with respect to every
proposition of the research model.

Theoretical and managerial implications of this research are drawn in chapter V. We confront the empirical evidence of the case studies with the theoretically grounded propositions. Hereby, we focus particularly on examining deviations from the propositions. The managerial implications of this research are drawn out of the theoretical implications. We focus on whether - and how - a business should adopt a sustainable purchasing strategy.

The Annex is provided in chapter VI.
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|-----------------|-----------------|-----------------|-----------------|-----------------|
| I.1 Managerial perspective | I.2 Theoretical perspective | I.3 Research Questions | I.4 Structure of the study | I.5 Definition of a sust. purch. strategy |
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| V. Conclusions |
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**Figure 1: Structure of the thesis**
I.5 Definition of a sustainable purchasing strategy

In order to develop a definition of a sustainable purchasing strategy two research streams demand consideration:

- Corporate Social Responsibility (CSR) and
- Corporate Sustainability (CS)

Although the roots of these two research streams are different, they increasingly tap the same issues (Sharma & Ruud, 2003). The notion of corporate social responsibility has been developed by scholars of business ethics. Proponents of the stockholder theory argue that the only social responsibility of a corporation can be “to make profits” (Friedman, 1962, 1970). From this viewpoint, a moral responsibility of a business must be denied because “organizations are like machines and it would be a category mistake to expect a machine to comply with the principle of morality” (Ladd, 1970). However, more recently it has been a stakeholder theory perspective that dominating the definitions of CSR. In this latter tradition, CSR has been described as “actions that appear to further some social good, beyond the interests of the firm and that which is required by law” (McWilliams & Siegel, 2001). Clearly, the above definitions contradict one another. A business cannot view profit making as its only responsibility while engaging in actions beyond its own interests. Therefore, consider two definitions of CSR that are more reconciling. Unlike McWilliams & Siegel, Davis (1973) does not require that firms should go beyond their own interests in order to be considered as responsible. Instead, Davis argues that CSR can be understood as “the firm’s consideration of, and response to, issues beyond the narrow economic, technical and legal requirements to accomplish social benefits along with the traditional performance gains which the firms seek (Davis, 1973, p. 312)”.

Another bridging definition is suggested by Carroll. He supports the argument of stockholder theory and describes economic responsibilities as a business’ most basic responsibility (Carroll, 1979). However, he acknowledges additional responsibilities: the legal, ethical, and discretionary responsibilities of a business. Hereby, the legal and ethical responsibilities indicate the need to comply with regulations and norms. Discretionary responsibilities refer to voluntary actions such as donations to charity. These are responsibilities that a business would need to engage in to be considered as a good citizen.

Reviewing these understandings of CSR, we need to acknowledge that the concept still lacks a “solid and well-developed consensus which provides a basis for action”
SUSTAINABLE PURCHASING STRATEGY IN THE FOOD INDUSTRY

(van Marrewijk, 2003). Furthermore, proponents of this concept tend to emphasize the social responsibilities over ecological responsibilities of a business (van Marrewijk, 2003).

Next, consider the concept of corporate sustainability. This concept was first evoked in the literature on environmental management (Jennings & Zandbergen, 1995; Russo, 2003; Starik & Rands, 1995). In these first publications, researchers have focused on the ecological aspects of sustainability. Yet, increasingly, corporate sustainability is not only associated with ecological, but also with social issues. To illustrate, the World Business Council for Sustainable Development (WBCSD) first defined corporate sustainability on the basis of a long-term, successful survival of a business in its economic as well as its natural environment (Schmidheiny, 1992). Today, the WBCSD has adopted the more inclusive Brundtland definition: “sustainability is development that meets the needs of the present without compromising the ability of future generations to meet their own needs” (WCED, 1987). In practice, this definition of sustainability is only rivalled by definitions that refer to a triple bottom line (3BL). According to the “3BL” school of thought, a business needs to measure and report economic, social, and ecological business performance in order to achieve corporate sustainability (Elkington, 1997). However, this very notion of a triple bottom line has been criticized by academics. First, because “many uses of ‘triple bottom line’ are simply synonymous with ‘corporate social responsibility’ ” (Norman & MacDonald, 2004, p. 247). Second, “there are fundamental philosophical grounds for thinking that it is impossible to develop a sound methodology for arriving at a meaningful social bottom line for a firm” (Norman & MacDonald, 2004, p. 251). Furthermore, there may not even be a need for a social bottom line because “it has never been possible to do well by the [financial] bottom line without paying attention elsewhere, especially to key stakeholders”.

Despite this critique of Norman & MacDonald, we suggest that the triple bottom line concept has been of value for the academic debate because proponents of the concept emphasize that a business also has to be judged with respect to its ecological and social performance and not only its (present) economic performance.
Comparing the research streams on CSR and CS, we find that the definitions of CSR have been more thoroughly grounded in theory than the definitions of CS, even though researchers have built on very different theories. Davis’ definition of CSR appeals to us as it acknowledges economic as well as social responsibilities of a business, cf. p. 8. To us, it appears easier to build on this definition rather than using definitions from the research on corporate sustainability such as the Brundtland definition.

Still, the concept of corporate sustainability better taps the need for considering three corporate performance domains. Davis’ definition could be misunderstood as considering social and economic responsibilities while disregarding any ecological responsibility. Therefore, we complement his definition with the notion of “ecological benefits”. Thus, we define

<table>
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<tr>
<th>A sustainable business strategy shows in a business’ consideration of, and response to, issues beyond the narrow economic, technical, and legal requirements…</th>
<th>A sustainable purchasing strategy shows in a business’ consideration of, and response to, issues beyond the narrow economic, technical, and legal purchasing requirements…</th>
</tr>
</thead>
<tbody>
<tr>
<td>…to accomplish social and ecological benefits along with the traditional performance gains which the business seeks.</td>
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These are the definitions of a sustainable business strategy and a sustainable purchasing strategy that we draw on in the following chapters. For developing our theoretical basis in chapter II, we draw on the more general notion of a sustainable business strategy. In chapter III and chapter IV, we specify our research for a sustainable purchasing strategy.
II Theoretical basis

Abstract: In chapter II.1, we first introduce institutional theory. This theory suggests that businesses adopt a sustainable business strategy because of institutional demands. We complement that theory by introducing institutional entrepreneurship, a literature that examines how businesses influence such institutional demands. We highlight that institutional entrepreneurship helps businesses to maximize the value of a sustainable business strategy. In chapter II.2 to chapter II.4, we analyze how institutional entrepreneurship can be rendered more successful. Two approaches are discussed:

- In chapters II.2 and II.3, we integrate institutional entrepreneurship with further means to maximize the value of a sustainable business strategy. These further means are based on the logic of the resource-based view (RBV), which we introduce in chapter II.2. Subsequently, the integration of institutional entrepreneurship and RBV is conducted in chapter II.3.
- In chapter II.4, we introduce a social contracts theory. That theory helps businesses and researchers to clarify the target of institutional entrepreneurship (and to identify “the actor to be lobbied”). Furthermore, it facilitates a normative evaluation of institutional entrepreneurship.

Through stepwise integration of these literature bodies, we gain the means to develop propositions that address the research questions. These propositions are derived from our theoretical basis in chapter III.

II.1 Institutional theory

II.1.1 Introduction to institutional theory

Institutional theory suggests that all businesses require legitimacy in order to enhance their survival chances (Meyer & Rowan, 1977). This quest for legitimacy explains why businesses resemble one another in their actions (DiMaggio & Powell, 1983; Scott, 2001). Hereby, institutional theorists distinguish between three different types of legitimacy that a business can acquire: regulative legitimacy, normative legitimacy, and cognitive legitimacy (Scott, 2001).

Institutional theory suggests that a business needs to comply with regulative, normative, and cognitive demands. Complying with each of these enhances a business’ legitimacy and increases its long-term survival chances.

2 The publication of Meyer & Rowan (1977) paved the way to an institutional theory that examines
In the following, we define and illustrate each of these three types of legitimacy that a business gains from complying with demands in its institutional environment:

- **Regulative legitimacy** is gained by minimizing or eliminating the gap between the demands of powerful groups and the actions of the business. Typically, a business complies with laws, the demands of powerful customers, or the demands of renowned pressure groups (DiMaggio & Powell, 1983; Hoffman, 1999).

  ![Figure 2: Response to regulative demands - Shell destructed the Brent Spar oil rig as it was forced to by a campaign of Greenpeace.](image)

  BBC News, November 25, 1998:
  The destruction of the Brent Spar will cost Shell £43m in total, compared to the £4.5m cost of dumping it.

- **Normative legitimacy** of a business is achieved by conforming to norms and doing what is generally considered “right”, “just”, or “appropriate” (Suchman, 1995). The norms and values that a business conforms to stem from diverse groups in society such as associations (DiMaggio & Powell, 1983; Meyer & Rowan, 1977).

  ![Figure 3: Response to normative demands - A food manufacturer installs solar panels on a silo. The business is not forced to do so, but renewable energy is judged as morally appropriate.](image)

- **Cognitive legitimacy** is achieved by conforming to standard models (Suchman, 1995). Businesses do not seek cognitive legitimacy because they fear sanctioning mechanisms as they would in their quest for regulative legitimacy. They also do not seek cognitive legitimacy because they attempt to comply with values and norms as they would in the case of normative legitimacy. Cognitive legitimacy is more subtle. A pursue of cognitive legitimacy rather shows in strategies and structures that are copied from other organisations, independent of their “actual proof of superiority” (DiMaggio & Powell, 1983). The cognitive legitimation of a legitimacy as a central construct in the study of institutions (DiMaggio & Powell, 1991).

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strategy is often tapped by its prevalence (Ruef & Scott, 1998). For example, if a business adopts a label that is taken-for-granted in its industry, then it responds to cognitive demands.

In our research, we consider regulative, normative, and cognitive demands as the exogenous factors that influence the adoption of a sustainable purchasing strategy by a business. We agree that an isolated consideration of one of the three demands in the institutional environment may not be possible as they coexist (Hirsch, 1997). Especially, the suggested fault lines between normative and cognitive demands (cf. Scott, 2001, p.51) may be hard to detect. Consider that some researchers regard the certification of a business as a response to normative demands (Casile & Davis-Blake, 2002; Scott, 2001). Others view certification as a response to normative as well as cognitive demands (Robson et al., 1996, p.399) or even as an exclusive response to cognitive demands (Suchman, 1995, p.590). The appropriateness of these diverse categorizations apparently depends on the level of adoption of a certificate. If a certain accreditation has been reached by very few businesses in an industry, yet, then the accreditation provides these businesses with normative legitimacy (“doing what the best businesses do”). However, if the certificate is already taken-for-granted in an industry, then accreditation provides cognitive legitimacy (“not stepping out of the line, doing what everyone does”).

The case of certificates shows that the transitions between normative and the cognitive demands in the institutional environment are in flux and difficult to define.

The following example from a different research context suggests that regulatory, normative, and cognitive demands can coexist even though one type of demand can be more dominant at a time than another.

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Figure 4: Response to cognitive demands - An SME points out that its operations are in line with the standard models of the industry⁴.

We are DIN EN ISO 9001:2000 certified. […] [Furthermore], we are DIN EN ISO14001:1996 certified. Hence, we have documented that we have a qualified environmental management system.

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II.1.2 Introduction to institutional entrepreneurship

The logic of institutional theory, as presented in the previous section, presents businesses as rather passive entities: they appear to do whatever society demands of them. When a new demand arises in their institutional environment, they comply with it as they seek to maintain their legitimacy. Garfinkel (1967) criticized this view, which (in retrospect) appears to have been overemphasized in early studies on the compliance with normative demands (e.g., Parsons, 1937). Over time, Garfinkel’s critique has been considered and complementary research emerged. DiMaggio (1988) coined the notion of “institutional entrepreneurship”, arguing that businesses can actively influence the demands in the institutional environment. Figure 5 summarizes the resulting terminological distinction between institutional theory and institutional entrepreneurship.

Figure 5: Institutional theory and institutional entrepreneurship. Institutional theory examines the compliance of businesses with institutional demands. Institutional entrepreneurship examines how a business alters these.

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6 This distinction is common in basic research of that field, for example in the work of Scott (2001).
Examples of institutional entrepreneurship in the context of sustainable business strategies are provided in the following:

- **Institutional entrepreneurship of regulative demands.** Regulative legitimacy of a business can also be gained by influencing regulative demands. For example, a business can lobby for a change to existing regulations (Hillman & Hitt, 1999). As a result, the business operates in a regulatory context that is better aligned to its self-interest.

  
  
  
  
  
  The Guardian, June 8, 2005:
  
  Revealed - how oil giant influenced Bush
  
  President's George Bush's decision not to sign the United States up to the Kyoto global warming treaty was partly a result of pressure from ExxonMobil […] according to US State Department papers seen by the Guardian.

  
  Figure 6: Influencing regulative demands

- **Institutional entrepreneurship of normative demands.** Norms are not nonnegotiable (Aldrich & Fiol, 1994). A business can also change the “rules of the game” in order to influence what is considered appropriate in a community (North, 1991; Rivera & deLeon, 2004).

  
  
  
  
  It’s time to go on a low-carbon diet.

  
  Figure 7: Influencing normative demands - extract of a BP advertisement. The business has aligned its strategy with normative demands. Now it amplifies these.

- **Institutional entrepreneurship of cognitive demands.** If a business does not seek to comply with an industry standard, it can also engage in institutional entrepreneurship in order to change it. Hence, Sun Microsystems lobbied various actors to ensure that Java became a standard for internet technologies (Garud et al., 2002). Figure 8 illustrates that lobbying for industry standards is also important in the context of sustainable business strategies. Techniques include collaborating with another business in order to raise the bargaining power.

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8 Advertisement of British Petrol in the Financial Times, July 27, 2005
As new standards for an industry are created, businesses seek to ensure that the standard is in line with their own strategies\(^9\).

The three examples above illustrate that ExxonMobil, BP, and Toyota engage in institutional entrepreneurship because they want to raise the value (i.e. the profit-generating potential) of their strategies.

Consider the case of ExxonMobil. The business is more hesitant in investing in renewable energies than its European competitors Shell and BP. Therefore, it seeks to avoid an institutional environment that favours reduced emissions of greenhouse gases. BP pursues the opposite objective, given that it invests heavily in renewable energies. Toyota, finally, seeks to ensure that its approach to fuel cell technology will become the industry standard.

**Is institutional logic alone sufficient?**

We suggest that the institutional logic, as summarized in Figure 2 to Figure 8, is very helpful in analyzing the adoption of a sustainable business strategy. However, we question whether that logic alone is sufficient for examining the competitive implications of a sustainable business strategy.

- First, institutional entrepreneurship does have the objective of increasing the profit-generating potential of a strategy. However, that objective is in fact central to a very different theory: the resource-based view (RBV). If we want to gain a more complete insight of the means for raising the competitive advantage of a sustainable business strategy, then we need to introduce the logic of RBV and its recent extensions, cf. chapter II.2. Subsequently, we can integrate the insights of RBV and institutional entrepreneurship on how the profit-generating potential of a strategy can be maximized, cf. chapter II.3. By integrating institutional entrepreneurship and RBV, we follow the call of Wright & Peng (2005) to conduct research at the interface of institutional and resource-based logic.

- Second, if we find that institutional entrepreneurship is one mean for raising the profit-generating potential of a sustainable business strategy, then we should

\(^9\) Source of the citation in Figure 6: Kageyama, Y., 2005. GM fuel-cell tie-up coming soon. Business Week, July 16.
examine how institutional entrepreneurship is successfully conducted. To this end, it is particularly important that institutional entrepreneurship is targeted at the right institution (DiMaggio, 1988). Institutional entrepreneurship, however, only provides us with a framework for analyzing how businesses influence institutions (Hoffman, 1999; Scott, 2001; Zimmerman & Zeitz, 2002). It does not provide us with insights on how a business selects the institution it wants to influence. To this end, we need to consider insights from normative theories such as the Integrated Social Contracts Theory (ISCT). That theory analyzes the various (often unwritten) contracts that a business maintains with other actors. By integrating institutional logic and ISCT in chapter II.4, we follow the call of Dacin et al. (2002). Editing a special issue on institutional theory and institutional entrepreneurship in the Academy of Management Journal, they pointed out that future research should examine the interface between institutional logic and normative theories.

II.2 Resource-based view

II.2.1 Introduction to the resource-based view (RBV)

Our statement that the value (i.e. the profit-generating potential) of a strategy is central to the resource-based view is supported by the central proposition of RBV. That proposition is concerned with the antecedents of sustained competitive advantage of a business. Specifically, the proposition suggests that a strategy provides a business with sustained competitive advantage if it fulfils four criteria: the strategy must be valuable, rare, difficult to copy, and non-substitutionable (Barney, 1991; Prahalad & Hamel, 1990).

![Strategy, Capability, Ressource](Figure 9: Varying levels of analysis. While scholars test the central proposition of the resource-based view at different levels of analysis, they commonly draw on the same four criteria to examine sustained competitive advantage of an asset.)
Some scholars of the resource-based view speak of the “resources” of a business that need to fulfil these four criteria (Barney, 1991; Peng, 2001), others speak of the “capabilities” (Teece et al., 1997) or the “competences” (Prahalad & Hamel, 1990). Thus, scholars apply resource-based logic at different levels of analysis, cf. Figure 9. Still, in doing so, they commonly test the four criteria that Barney summarized in his 1991 paper. Essentially, these researchers and other resource-based scholars are concerned with identifying strategies (or resources, capabilities, or competences) that fulfil these four criteria (e.g., Berman et al., 2002; Dyer & Singh, 1998; Hart, 1995; Wright et al., 2001). To illustrate, let us consider the example of British Petrol (Figure 7) again. A scholar of the resource-based view would want to verify, whether BP’s strategy of developing renewable energy is a source of sustained competitive advantage or not. How would the resource-based scholar proceed in order to conduct that test? He would follow the methodology of Barney (1991). Barney suggests that a researcher should test first whether a strategy is valuable. If the strategy is valuable, then it is a source for competitive advantage. In order to test whether the strategy also provides sustained competitive advantage, the scholar would test next whether the strategy is also rare, difficult to copy and non-substitutionable. For example, in order to verify whether BP’s strategy of developing renewable energy is “rare”, the scholar could examine the percentage of BP’s competitors that pursue that strategy, too. In order to test whether the strategy is difficult to copy, the scholar could examine whether developing renewable energy is people-intensive and whether it requires skills that are difficult to teach (Hart, 1995). Finally, in order to examine whether the development of renewable energy is non-substitutionable, he would examine whether there are alternatives to renewable energy that fulfil the same purpose. However, how would the scholar examine whether developing renewable energies is valuable, whether it has a profit-generating potential?

II.2.2 The problem of defining value in resource-based research

Critics of the resource-based view suggest that the definition of the “value” of a resource (or a strategy) is exogenous to the resource-based view (Bowman & Ambrosini, 2000; Priem, 2001a, b). The ultimate consequence of that critique is that the resource-based view is tautological. If the theory says that a business draws competitive advantage out of a valuable strategy without defining the characteristics of a “valuable” strategy, then the theory does not say anything more than “a business is successful, it it pursues a successful strategy…” So what are the determinants of

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10 Clearly, he could apply the same test at the other levels of analysis as depicted in Figure 9, too.
the value of a strategy? How can these insights be integrated in resource-based research?

The proponents of RBV do acknowledge that “value” is not rigorously operationalized in Barney’s paper from 1991. Yet, they argue that it would be inappropriate to conclude that all theoretical RBV papers failed to discuss how the profit-generating potential of a strategy (hence, the strategy value) could be determined (Barney, 2001; Makadok, 2001). For instance, Barney’s contribution from 1986 focuses on the preconditions of strategy value. Barney’s 1986 paper, however, is theoretical. So is the contribution of Wernerfelt (1984), another cornerstone of resource-based research. These studies as well as the Canon case study of Prahalad & Hamel (1990) qualitatively address strategy value in specific contexts, like the electronics industry.

Yet, these studies do rarely account for the challenge of defining strategy value in hypothesis developing or hypothesis testing research. To date, applying resource-based logic in quantitative research remains particularly challenging. Even if a researcher only focuses on verifying whether a strategy provides competitive advantage and if he leaves out the test whether the strategy provides sustained competitive advantage. Why is this so?

Note that on the one hand, a quantitative verification of hypotheses demands that a researcher investigates a sample of several businesses in order to generalize his research results to a certain extent. On the other, RBV is “the theory of a (particular) firm” and “not the theory of the firm” (Madhok, 2002, p.539, emphasis in original). The challenge in applying resource-based logic to a sample of firms is to draw generalizations while appropriately making use of RBV - even though RBV is designed as the theory of a specific firm and not the theory of a representative sample of firms.

To illustrate, suppose that we recently conducted quantitative research in the energy industry. Imagine that we tested a hypothesis stating that businesses investing in renewable energy enjoy a competitive advantage in comparison to those that do not. Suppose we could confirm that hypothesis for the examined sample. Now, assume that a manager contacts us, today. His business was not included in our sample but he has studied the publication reporting our findings. He wants to inquire whether his business will gain a competitive advantage from developing renewable energy, too. We answer him that we found a positive correlation, but he is not satisfied with that answer. Instead, he asks us whether we could provide him with the results for those businesses in the sample that are similar to his. Surely, we could now split the sample by geographical regions or by the size of the businesses. Yet, are these theoretically grounded criteria? Geographic regions hint to a more fundamental
moderating factor: the state of the general business environment. The latter provides important information on the context of a business’s development of renewable energy. *Once we have information on the context of a business, we can examine why it draws competitive advantage out of a strategy.*

Consider the consequences of research that does not capture context-relevant information in the hypotheses and the resulting research model. We would gain research results that lend themselves to improper generalizations. In the words of Moorman & Slotegraaf (1999, p.239): “Current interdisciplinary research suggests that organizational capabilities have a direct, unconditional impact on firm performance.” Certainly, their critique cannot be expanded to the entire body of resource-based research. Yet, it highlights that the problem of context-less hypothesis testing research is not only inherent to the field of sustainable business strategies. To illustrate, consider Table 4.

**Table 4: Sample hypotheses on assets and business performance**

<table>
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<tr>
<th>Author</th>
<th>Research hypothesis</th>
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<tbody>
<tr>
<td>(Bae &amp; Lawler, 2000)</td>
<td>“The speed of firm activities and services for internal and external customers is positively related to firm performance”.</td>
</tr>
<tr>
<td>Bae &amp; Lawler, 2000</td>
<td>“The presence of a high-involvement HRM strategy is positively related to firm performance”.</td>
</tr>
<tr>
<td>(De Carolis, 2003)</td>
<td>“Regulatory competencies have a positive relationship with firm performance”.</td>
</tr>
<tr>
<td>(Waddock &amp; Graves, 1997)</td>
<td>“Improved Corporate Sustainability leads to better financial performance”</td>
</tr>
<tr>
<td>(Deephouse, 2000)</td>
<td>“A more favourable media reputation increases performance (of the firm)”</td>
</tr>
</tbody>
</table>

Such hypotheses lend themselves to misinterpretation. It does not suffice to characterize the sample of a study verbally. Instead, the essence of the context of a study needs to be conceptualized and integrated in any model on the linkage between a resource and competitive advantage.

Bae & Lawler (2000) find that the speed of firm activities is positively related to firm performance. We strongly assume that Bae & Lawler are aware of the research of Judge & Miller (1991). The latter found that decision speed is only related to business performance in high-velocity business environments. However, if such characteristics of the business environment are not considered in the hypotheses and the resulting research model, the research results lend themselves to misinterpretation. A similar statement can be made with respect to the research of Waddock & Graves (1997). “Using a greatly improved source of data on corporate social performance”, their study suggests that improved corporate social performance generally leads to better financial performance. Yet, reanalyzing these
data, McWilliams & Siegel (2000) highlight that the reported correlation was in fact a “misspecification”.

These difficulties can be avoided if scholars account for the determinants of strategy value in their research models: These determinants are complementary strategies, non-linearities, and exogenous contingencies.

In the following sections, we discuss each of these in turn. In each section, we illustrate our theoretical findings with the examples of Toyota’s development of fuel cell technology, cf. chapter II.1.2.

II.2.3 Complementary strategies

What determines the adoption of a new strategy? Resource-based logic suggests that a strategy should draw on the existing resources and capabilities of a business. Prior to the adoption of a new strategy, however, a business has already bundled its resources and capabilities to pursue other strategies. Therefore, not only isolated resources and capabilities explain the adoption of a new strategy. Furthermore, the current configuration, the clustering of the existing resources and capabilities, influences the adoption of a new strategy. If a business can link a new strategy, such as developing and marketing fuel cell technology, to an existing bundle of resources and capabilities, then the strategy-specific resource allocation can be minimized, cf. Figure 10. The figure shows that the larger the common bundle of resources and capabilities between two strategies, the smaller the strategy-specific investments. To illustrate, consider the graph on the left-hand side of Figure 10. Suppose that “focal strategy” refers to Toyota’s development of fuel cell technology for the automotive industry. That strategy requires, amongst others, the resources R1 to R3 (R1: managers with knowledge of the automotive industry, R2: electrical engineers, R3: chemical engineers).

Figure 10: Adoption of a new strategy. Leveraging resources between different strategies increases their profit-generating potential.
Now, suppose that Toyota begins to develop and market fuel cell technology for heating systems in houses, too. For that “complementary strategy”, it can draw on the resources R2 and R3, too. These resources now become leverageable, cf. the right-hand side of Figure 10. Madhok observes that “closely related activities economize on costs since resources and routines can be leveraged across them” (Madhok, 2002, p.537-p.538, emphasis added). In other words, a business can increase the profit-generating potential (i.e. the value) of a new strategy by relating it to existing, complementary strategies.

In the context of R&D management, Brown & Eisenhardt (1997) made a similar finding. They note that R&D managers lead their R&D unit successfully, if they carefully manage the transition between current and future product development projects. A smooth transition from one project to another allows reusing resources and capabilities that the R&D unit has developed for the previous project. Similarly, previous research on sustainability has documented the value of a broad base of resources and capabilities, which can be leveraged from one strategy to another. Christmann (2000) finds that the profit-generating potential of an environmental management practice depends upon the process innovation skills of a business. If the business already engages in the innovation of production processes, it needs to allocate fewer resources specifically to the adoption of a more environmentally friendly production. Knowledge that has been developed in the context of previous production process innovations can be built on for the adoption of a more environmentally friendly production\(^{11}\).

While one activity can be complementary to another, it can also hamper the development of other activities. Benner and Tushman (2002) describe that the adoption of a Total Quality Management (TQM) strategy is strongly associated with incremental innovations of a business. Yet, if TQM becomes the overriding paradigm of business strategy, more explorative innovations are hindered. Therefore, the authors argue that “process management activities [such as TQM] must be buffered from exploratory activities” in order to avoid an inappropriate imbalance between exploitative and exploratory innovation (Benner & Tushman, 2003, p. 238). This major finding of Benner & Tushman was only possible because the authors did not place a “narrow” focus on innovation management strategies in their study. Instead, they also investigated the effects of a complementary TQM strategy in their research model.

\(^{11}\) Note that Christmann speaks of “complementary assets” rather than “complementary strategies” when she refers to environmental management and process innovation. Her choice of terminology illustrates that resource-based logic is applied at different levels of analysis cf. chapter II.2.1. Her insights, however, are just as relevant as those of other resource-based scholars who prefer to apply resource-based logic to the “resources”, “capabilities”, “competences”, or “strategies” of a business.
Figure 11 summarizes our findings from the studies above. The adoption of a strategy is not only influenced by existing resources and capabilities but also by the current bundling of these in “closely related activities” that we call complementary strategies. Building on the notion of “closely related activities”, we define complementarity less broad than previous research. Like Milgrom & Roberts (1995), we suggest that strategies are complementary if the presence of one strategy enhances the profit-generating potential of the other strategies. Yet, additionally we require that the strategies draw on similar resources and capabilities, otherwise they could not be described as “closely related”. Based on these two requirements we can specify the influence of complementary strategies on the adoption and the outcome of a focal business strategy, cf. Figure 11. First, complementary strategies have a (partly) mediating influence on the adoption of a new strategy as they draw on similar resources and capabilities\(^{12}\). Second, complementary strategies exert a moderating influence on the outcome of a new business strategy. This is because they increase the extent to which resources and capabilities can be leveraged between the new business strategy and existing, complementary strategies. Therefore, we suggest the following:

A resource-based research model should include complementary strategies as these influence the adoption and the competitive advantage of the focal strategy.

---

\(^{12}\) Note that this finding would not hold if we failed to demand that “complementary” strategies draw on similar resources and capabilities. To illustrate, consider the pair of marketing and R&D strategies. While marketing enhances the profit generating potential of R&D (Nerkar & Roberts, 2004) it does not draw on similar resources and capabilities. For example, in the business of diamond retailing, the De Beers group possesses a high level of marketing skills. While it spends over $200m on marketing activities annually, it still cannot be described as an R&D intensive corporation.
II.2.4 Non-linearities

The preceding section has highlighted the influence of a complementary strategy on the competitive advantage of a focal strategy. As an example, we considered Toyota’s development of fuel technology in two different industries. In this section, we turn to the optimal level of resource allocation to a business strategy. Indeed, such optimal levels exist. Table 4 on p. 20 suggests that “more of the same leads to improved performance”. The studies that the table refers to suggest that by allocating more resources to a specific activity, a business can improve its performance. For example, Waddock & Graves’ central hypothesis suggests a linear relation between corporate social responsibility and firm performance. Consider for a moment that we were to apply this logic to the example of Toyota. In this case, we should expect that the sum of resources that Toyota allocates to fuel cell technology is proportional to the competitive advantage that the business will draw from this technology. Slotegraaf et al. (2003) however, might question this logic of “more of the same leads to improved performance”. Their research provides evidence for an inverted U-shaped relation between financial resources allocated to a research project and the project success. Hence, there may be an optimal level of resource allocation to the development of fuel cell technology at Toyota: both too little as well as too generous resource allocation could hamper the car manufacturer’s success in developing this technology. As Miller (1990) points out: “more of the same does not always lead to improved performance”. To illustrate this point further, consider two research findings from the literature on innovation management.

Katz examines the value of shared team experience in research teams (Katz, 1982). He finds that a team of researchers with shared team performance operates more successful than a research team without any shared team experience. Clearly, this is an intuitively appealing finding. However, from a certain level of shared team experience onwards, the team performance decreases again as the team becomes increasingly isolated from external information sources (Katz, 1982).

Similar effects have been reported in a study on R&D alliances (Rothaermel, 2001). From a resource-based perspective, R&D alliances of a business unit are valuable because alliances provide access to resources that a single R&D unit could not acquaint otherwise (Das & Teng, 2000). As no potential alliance partner can provide all desirable resources, the head of a R&D unit may decide to set up several strategic alliances. Yet, from some point onwards the increased transaction costs of managing several R&D alliances outweigh the marginal returns that the R&D unit can expect from entering further alliances (Rothaermel, 2001).

We find that in investigating the linkage between a strategy and business
performance, we need to account explicitly for effects of non-linear linkages. If we did not consider non-linearities in research models, we would fuel misinterpretations of the research findings. Those businesses that have already devoted significant resources to a strategy could be prompted to think that they could further increase their performance by allocating further resources to the strategy.

A resource-based research model should be examined for non-linearities in the linkage between the allocation of resources to a strategy and the resulting competitive advantage.

This conclusion appears closely related to the one we drew earlier concerning complementary strategies. Yet, the two points we raise are distinct from one another. A lack of complementarity among strategies arises from inappropriate relative resource allocation. For example, a car manufacturer can enhance the value of his car retailing strategy by balancing the different kinds of training offered to his car retailers appropriately. On the one hand, the car manufacturer needs to ensure that his retailers are properly trained for service & maintenance activities. On the other hand, the value of training such skills can only be fully exploited if the retailers also receive training in marketing their service & maintenance activities. Hence, the retailers’ profit generating potential is increased through balancing the relative resource allocation among his training of different activities.

However, the effects of non-linearity in performance gains arise from an inappropriate total resource allocation to the focal strategy. While we expect that the marketing of a service & maintenance strategy enhances its value, there is still a point beyond which a further training of service & maintenance skills does not generate an additional value, even if the retailers receive a training in marketing such activities. The question of balancing the relative resource allocation then turns into a question of total resource allocation.

To illustrate, consider the research on partnering and strategic alliances. As Peng observes, there “is a limit to the number and strength of network ties an individual or an organization can possess” (Peng, 2003, p.279). Hence, the dilemma of an R&D unit handling too many alliances can only initially be addressed by shifting resources to strategies complementing alliance activities. However, once a business reaches the “limit to the number and strengths of network ties”, it will simply have to reduce its resource allocation to alliance activities.
II.2.5 Exogenous contingencies

“In all high-quality resource-based work, researchers must begin by addressing the value of resources with theoretical tools that specify the market conditions under which different resources will and will not be valuable” (Barney, 2001, p. 43 emphasis added).

For example, if a firm has the ability to gain and sustain competitive advantages in a rapidly changing environment and then the market suddenly becomes stable and unchanging, the ability to be flexible is not likely to be valuable and thus not a source of competitive advantage. Put more broadly, the value of a particular set of capabilities must be evaluated in the market context within which a firm is operating (Barney et al., 2001, p.631).

These assertions of Barney followed the critique that the definition of value would not be provided by RBV, even though it is central to the theory (Priem, 2001a). While Barney did address the determinants of resource value earlier (Barney, 1986), exogenous contingency effects may have been granted too little attention in the early development of RBV. If researchers do consider characteristics of the business environment in a research model, these are often only investigated as “a ‘power of test’ to support the robustness, or lack thereof of models used” (Dobni & Luffman, 2003, p.583). Yet, by considering exogenous contingencies explicitly in hypotheses and the resulting research models, these effects could gain “more a of a managerial focus, and be used strategically, as a check and balance, in modelling and scenario analysis, and the resource allocation decisions that follow” (Dobni & Luffman, 2003, p.583).

In research on sustainable business strategies, important insights have been gained through considering exogenous contingencies. These results have contributed to the development of a contingent resource-based view, a literature body that examines the influence of the general business environment on the adoption as well as the outcome of a strategy (Brush & Artz, 1999). In the context of sustainable business strategies, researchers have gained novel results by applying a contingent resource-based view. For example, evidence has been provided that the growth rate of a market strongly moderates the adoption as well as the competitive implications of a sustainable business strategy (Aragon-Correa & Sharma, 2003; Goll & Rasheed, 2004; Russo & Fouts, 1997). These studies have implications for the example we referred to earlier: Toyota and its development of fuel cell technology. Toyota may well be more likely to allocate resources to fuel cell development, if the car market

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13 Hereby, and in the following citation, Dobni & Luffman address a specific contingency effect: the effects’ of a business’ deviation from ‘ideal’ strategies and structures that would be perfectly coaligned with its business environment.
is fast growing. This is because market growth provides a business with spare (“slack”) resources (Sharfman et al., 1988). Furthermore, market growth also raises the competitive advantage of a sustainable business strategy (Goll & Rasheed, 2004). This implies that we cannot analyze the competitive implications of investing in fuel cell technology without integrating insights on the business environment in the research model for we would fail to consider important information. This insight is accounted for in Figure 12.

Figure 12: Integration of the general business environment in a resource-based research model

A resource-based research model should include characteristics of the business environment as these influence the value of the focal strategy.

Clearly, the research on exogenous contingencies has enhanced our understanding of the determinants of a strategy’s value. It is striking, however, that this research stream has developed rather independently from the research on complementary in resource-based research. On the one hand, key contributions on exogenous contingencies (e.g. Miller & Shamsie, 1996) do not examine the relevance of complementary strategies. On the other hand, research on complementary strategies (e.g. Christmann, 2000) does not discuss the role of exogenous contingencies. Few authors have examined how exogenous contingencies influence the value of complementary strategies. Tripsas (1997), for example, distinguishes between those technological waves in an industry that diminish the value of complementary strategies and those that do not. Similarly, Teece (1986) notes that the value of a complementary strategy is dependent on a characteristic of the business environment. He suggests that the value of maintenance & service strategies (being complementary to the manufacturing strategy) is higher in mature than in emerging industries.
Thus, initial attempts have been made to establish a link between the research on exogenous contingencies and the research on complementary strategies. In reality, however, the influence of exogenous contingencies on complementary strategies is more complex than authors have considered it to date. The value of a focal business strategy could be enhanced by a large number of possible complementary strategies. Due to limited resources, however, managers need to make trade-off decisions and decide on how to spread resources among the complementary strategies. Hereby, the optimal resource distribution among complementary strategies could be very different in one business environment from another. For example, in the case of Toyota, we previously described the development of *fuel cell technology for the car industry* as a focal strategy. As an example for a complementary strategy, we introduced the development of the *same technology in the building industry*. Now, suppose that Toyota pursues a second complementary strategy. Suppose that while developing fuel cells for the car industry, Toyota has engineered a new system for the detection of voltage drops. That system could be developed further and be ultimately marketed to the *electronics industry*. Now the business has a choice between two complementary strategies. Due to limited resources, the business will need to decide whether it wants to prioritize the complementary strategy No. I (developing fuels cells for the building industry) or the complementary strategy No. II (developing a system for the detection of voltage drops for the electronics industry). That decision, however, cannot be made without analyzing exogenous contingencies. It may be that the overall car industry will become “more similar” to the electronics industry in the future. In this case, Toyota will be able to leverage more resources between the focal strategy and complementary strategy No. I than between the focal strategy and complementary strategy No. II.

### II.2.6 Summary of the resource-based approaches to value maximization

In chapter II.2 we have addressed insights of the resource-based view on maximizing the value of a sustainable business strategy. Traditionally, resource-based research has suggested that the isolated analysis of a strategy is a useful approach for explaining the competitive advantage of a business (cf. the critique of Moorman & Slotegraaf, 1999). In this chapter, however, we have made the

| Depending on the business environment, one complementary strategy can enhance the profit generating potential of a focal strategy more than another one does. Consequently, a resource-based research model should examine the optimal (i.e. profit-maximizing) resource allocation among different complementary strategies in a given business environment. |
following points:

1. The value (i.e. the profit-generating potential) of a sustainable business strategy for a business is dependent on the complementary strategies that the business pursues. Complementary strategies (that draw, per definition, on similar resources) raise the value of a sustainable business strategy.

2. It is important to examine the level of resources that a business allocates to a sustainable business strategy in order to make predictions on whether the strategy will provide a competitive advantage or not. Frequently, resource-based research assumes linearity in resource allocation to a strategy and the resulting competitive advantage, cf. p. 20. That relation, however, is nonlinear. Identifying the optimal level of resource allocation allows maximizing the value of a sustainable business strategy.

3. Research on a contingent resource-based view highlights that the business environment influences the value of a sustainable business strategy. Aligning a sustainable business strategy to the business environment helps to raise the value of the strategy.

4. Similarly, aligning the choice of complementary strategies to the business environment helps to raise the value of a sustainable business strategy.

Hence, resource-based research provides us with four approaches that we can draw on in order to raise the profit-generating potential of a sustainable business strategy (the 4th approach being a logic combination of the 1st and the 3rd approach).

Recall the approach that institutional entrepreneurship teaches us on how a business can further raise the value of a sustainable business strategy: through changing the business environment and aligning it with the sustainable business strategy, cf. chapter II.1.2.

How can we integrate these approaches to raising the value of a sustainable business strategy in a single theoretical framework? This is a question that we examine in the following chapter.

II.3 Integration of institutional entrepreneurship and a contingent resource-based view

The preceding chapter addresses a number of research streams of resource-based research. Each of these contributes insights on how the value of a sustainable business strategy can be raised. Yet, which of these research streams is best suited for integration with institutional entrepreneurship? Should we integrate institutional entrepreneurship with resource-based literature that focuses on non-linearities, cf. chapter II.2.4? Alternatively, should we integrate it with resource-based research on
complementary strategies, cf. chapter II.2.3? Above, we highlighted that the role of complementary strategies as well as the role of non-linearities should be considered in a resource-based research model. Furthermore, we called for consideration of the business environment as suggested by the contingent resource-based view. Yet, which of these three research streams provides the most elegant approach for integration with institutional entrepreneurship? We suggest that it is the contingent resource-based view for it is the only one of the three resource-based research streams acknowledging the role of exogenous contingencies. Institutional entrepreneurship, however, is precisely about changing exogenous contingencies. That consideration is at the outset of our integration of the institutional and the resource-based literature.

We begin the integration by classifying the literature bodies of institutional entrepreneurship and a contingent resource-based view in a framework, cf. Figure 13. That framework highlights that integration of the research streams demands a change to their current foci. For example, we will see that the contingent resource-based view typically examines the role of economic exogenous contingencies (like unemployment rate or market growth), while institutional entrepreneurship focuses on social exogenous contingencies (like public opinion). However, before addressing these necessary changes to current research foci in more detail, we should review how foci of the institutional and the resource-based literature already changed in the past and why they did so.

*Figure 13: Outset of a research model integrating resource-based and institutional logic*
In the following, we first discuss the past development of institutional entrepreneurship out of institutional theory, as indicated by arrow 1a) in Figure 13. Subsequently, we consider the development of the contingent RBV out of RBV, cf. arrow 2a). In a third step, we discuss the integration of the two research bodies in a research model (arrows 1b and 2b).

**Past development of institutional entrepreneurship out of institutional theory (arrow 1a)**

The first contributions to *institutional theory* have been particularly grounded in social logic, cf. Figure 13. These studies have emphasized that a business needs to conform to the demands of its institutional environment in order to enhance its survival chances (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). Following the call to consider the agency of organizations (DiMaggio, 1988), researchers have then begun to examine how a business can raise the value of its strategies by active selection and manipulation of the institutional environment (Oliver, 1991; Zimmerman & Zeitz, 2002). This emerging literature stream on *institutional entrepreneurship* has had two distinct influences (cf. arrow 1a in Figure 13).

First, institutional entrepreneurship has raised the awareness that conformance to as well as manipulation of the institutional environment are not exclusively grounded in social logic. Instead, the co-alignment of strategy and institutional environment can also be supported by economic logic (Dacin et al., 2002; Oliver, 1997a). Second, the literature on institutional entrepreneurship has lead to a more balanced consideration of the business and the institutional environment as interrelated variables. Particularly the research of Lawrence (1999) highlights such interrelations. The author introduces the notion of “institutional strategies”, defining these as “patterns of organizational action concerned with the transformation of institutions, fields, and the rules and standards that control those structures” (Lawrence, 1999, p.167). Increasingly, authors have considered the active contribution of organizations to institutional change (Durand & McGuire, 2005; Greenwood et al., 2002; Phillips et al., 2004; Tolbert & Zucker, 1996). However, in the examination of institutional change processes, the resources and capabilities that enable an organization to bring about institutional change have received little attention to date. This may explain why insights from institutional entrepreneurship are increasingly discussed by theorists while the managerial management literature has yet to identify institutional entrepreneurship as a topic.
Past development of the contingent RBV out of RBV (arrow 2a)

The critique that institutional entrepreneurship pays little attention to resources and capabilities is certainly not applicable to the resource-based view (RBV). That theory allows analyzing how changes to internal resource configurations influence the profit-generating potential of a strategy. Eventually, this emphasis of the resource-based view on business-internal aspects became so pronounced that scholars raised critique on RBV. A critique that sharply contrasts the one on institutional scholarship. Miller & Shamsie argue that “the resource-based view [must] begin to consider the contexts within which various kinds of resources will have the best influence on performance” (Miller & Shamsie, 1996, p.519, emphasis added). In a response to such calls, researchers have suggested a contingent resource-based view (Aragon-Correa & Sharma, 2003; Brush & Artz, 1999). This research stream has increased the attention that resource-based scholarship devotes to the business environment, cf. arrow 2a) in Figure 13.

Thus, while institutional entrepreneurship has raised the attention on strategic, economic logic and the actions of a business, the contingent resource-based view has introduced the role of the business environment to resource-based research. In the following section, we first suggest the further development of the contingent resource-based view to allow for integration with institutional entrepreneurship. Thereafter, we discuss the suggested research direction of institutional entrepreneurship in order to enable integration with a contingent RBV.

Further development of the contingent RBV (arrow 2b)

In chapter II.2.5, we introduced past research on the contingent resource-based view. In this section, we now highlight our own approach in developing that contingent RBV further so that we can integrate it with institutional entrepreneurship.

Note that theories of strategic management such as the resource-based view have been criticized for lacking consideration of the social business environment (Friedland & Alford, 1991). In order to respond to such critique, contingent resource-based research could examine the social exogenous contingencies in greater detail (cf. the arrow 2b) in Figure 13. Oliver (1997b) supports this research direction, stating that social constraints influence optimal resource allocations.

Previous research, however, has typically been limited to examining how the presence of static social constraints influences the efficiency of resource allocations (e.g. Davies & Walters, 2004; Oliver, 1997a). Less attention has been placed on the moderating influence of variations of one social exogenous contingency. An interesting exception is the research of Majumdar & Marcus (2001). They analyze
the influence of environmental regulations on the productivity of businesses. However, instead of distinguishing between the absence and the presence of such regulations, they focus on their design. They find that flexible regulations are associated with increased business productivity while rigid regulations can be linked to a decrease in productivity. Due to this distinction, the researchers have contributed to a debate that had previously been characterized by a more simplistic focus: whether environmental regulations would be economically desirable or not. Consequently, we argue for contingent resource-based research that considers variations of societal constraints, specifically variations over time.

Further contingent resource-based research could analyze the moderating influences of the social business environment in more detail. Particularly, the influence of varying societal constraints on the efficiency of competing complementary strategies could be examined. The research model that we develop in chapter III provides an example for this type of contingent resource-based research.

**Further development of institutional entrepreneurship (arrow 1b)**

On the one hand, as suggested in the previous section, the contingent resource-based view could benefit from a more differentiated analysis of the social business environment. However, on the other hand, we suggest that a specific type of institutional entrepreneurship could also be enhanced by logic that usually is characteristic for resource-based research, only. According to Lawrence (1999, p.167), some actions of institutional entrepreneurship are unintended while others are deliberate or intended. Our research contributes particularly to deliberate institutional entrepreneurship. We argue that deliberate institutional entrepreneurship can be rendered an even more tangible, strategic tool, if research does not only describe possible actions of institutional entrepreneurship. Furthermore, institutional scholarship could devote

14 In order to clarify the distinction between deliberate and unintended institutional entrepreneurship, consider the following example. In 1874 the engineer Christopher Sholes developed a typewriter with keys that jammed less frequently than the keys of previous typewriter models. To this end, he had developed a setting of typewriter keys with a large distance between letters frequently used; consequently, the typist was slowed down. Sholes certainly did not project this inefficient setting of the keys to be used beyond the typewriter age. It is in an example for unintended institutional entrepreneurship. On the other hand, if a company lobbies the government for different environmental regulations, then it engages in very deliberate institutional entrepreneurship.
more attention to the resources and capabilities that are necessary for a deliberate transformation of institutions. Such an analysis could help to further “unmystify” the process of institutional change. Insights from institutional entrepreneurship could then be integrated into the strategic, resource-based decision-making of managers more easily.

Only recently has research on institutional entrepreneurship begun to explore the role of resources. For example, Phillips et al. (2004) describe the capability of writing widely acknowledged texts as an important precondition for a successful transformation of institutions. Specifically, the authors argue:

Texts that are produced by actors who have a legitimate right to speak, who have resource power or formal authority, or who are centrally located in a field are more likely to become embedded in discourse than texts that are not (Phillips et al., 2004, p.643).

This insight is important as texts that are embedded in a discourse (i.e. texts that are widely acknowledged) support the institutional entrepreneur in transforming an institution (Phillips et al., 2004). In a similar vein, Maguire et al. (2004) have recently identified capabilities that facilitate institutional entrepreneurship. Their study suggests that profound technical know-how enables an actor to influence institutions. In their study, it is experience in the treatment of AIDS that allows individuals to transform a non-governmental organization for the rights of people living with AIDS.

We argue that if the research on institutional entrepreneurship begins to examine the role of resources and capabilities, then it could significantly benefit from resource-based logic. Researchers could start to analyze the value of resource acquisition for institutional entrepreneurship in different institutional contexts. A clearer understanding of optimal (i.e. efficient) resource configurations for institutional entrepreneurship could lead to a development of more tangible, strategic tools that draw on the literature of institutional entrepreneurship.

Further research on institutional entrepreneurship could analyze the value of resources and capabilities for institutional entrepreneurship in the context of varying societal constraints. In chapter III, we provide an example for this type of research.
Integration

Figure 14 highlights a middle-range research model that draws on the contingent resource-based view and institutional entrepreneurship. Like the generic resource-based research model shown on p. 27, the model includes not only resources and capabilities of the focal strategy. Furthermore, the model includes exogenous contingencies as well complementary strategies. As exogenous contingencies, we consider social contingencies - the institutional environment. By considering the institutional environment as an exogenous contingency, the model enables the inclusion of institutional logic in resource-based research. In line with contingent resource-based logic, the institutional environment influences the adoption and the competitive advantage of the focal strategy as well as the value of complementary strategies. However, through dedication of resources to institutional entrepreneurship, the business can also influence the institutional environment in its interests.

Figure 14: Complementary perspectives of the contingent resource-based view and institutional entrepreneurship in the research model. For a specification of the model, cf. Figure 16 on p. 51.

The model does not suggest that either exogenous contingencies or complementary strategies are more relevant for strategy adoption and outcome. Instead, the role of both is acknowledged - although their relative importance may be different at different points of time.

II.4 Integration of a social contract theory

Thus far, our research model provides access to both societal-institutional and economic-rational logic. Yet, we acknowledge that Figure 14 is still subject to another critique of sociology. It has been argued that “in [dominant organizational theories], society is reduced to either an abstract environment or an interorganizational field (Friedland & Alford, 1991, p.235)” . The institutional environment clearly is such an “abstract concept” unless we begin to specify whose
regulations, norms, and standard models are influenced by institutional entrepreneurship.

In the following, we argue that there are two reasons for thinking of institutional entrepreneurship as an action of influencing social contracts rather than an action of influencing a disembodied institutional environment.

**Clarifying the target of institutional entrepreneurship**

First, the notion of a social contract considers that there are actual addressees whose norms and standard models are influenced if we talk about institutional entrepreneurship. Such a contractarian view “pierces the corporate facade and forces to talk about people [...]” (Bradley et al., 1999, p. 36). By thinking of the business as a nexus of contracts, we can analyze the institutional pressure on an organization as well as institutional entrepreneurship in a more targeted manner than if we speak more broadly of institutional fields or institutional environments.

We should not forget that any institutional entrepreneurship is targeted at specific persons or a group. In order to render institutional entrepreneurship a strategic tool, it is important that institutional entrepreneurs know whose “minds” they target specifically in the diffuse institutional environment. Existing values are inherently linked to a community. Actions to impact these values require significant capabilities such as negotiation tactics (Lax & Sebenius, 2003), capabilities in text generation (Phillips et al., 2004), and profound context-relevant knowledge and experience (Maguire et al., 2004). As a strategy, institutional entrepreneurship would result in an inefficient application of capabilities, if it was not targeted at the specific community that embraces these values.

Consider Lawrence’s research on the strategies of institutional entrepreneurship (Lawrence, 1999). According to the author, one such strategy is professionalization, the creation and transformation of an industry association. He describes this strategy as a “member of a larger set of strategies that deal with issues of membership and meaning in collectives”. [...]. “Membership strategies involve the definition of rules of membership and their meaning for an institutional community” (Lawrence, 1999, p.171, emphases added). Thus, Lawrence points out that norms and symbols do not exist detached from societal groups; instead, they are tightly embedded in these. The notion of a social contract embraces this close association as a social contract is defined as “a mutual agreement between specific groups or elements within a society” (Oxford English Dictionary, 1989, emphasis added).

A social contract is a mutual agreement between specific groups or elements within a society.
How can we recognize such social contracts? Clearly, the identification of a social contract as well as its contractors should be one of the first steps in institutional entrepreneurship that targets at changing a social contract. In searching for social contracts, we should be aware that they are not only discernible in the beliefs but also in the actions of the contractors (Donaldson & Dunfee, 1999). Often, the members of a specific group (the contractors or the subjects of a social contract) as well as the agreement at stake (the object of a social contract) are easily discernible - even though researchers have not considered making use of a social contract theory in their arguments. To illustrate, consider the following two examples of contributions to institutional theory where the subjects and objects of a social contract are apparent.

The first study is on deinstitutionalization in the Japanese job market (Ahmadjian & Robinson, 2001). Here, the authors find that “in much of the period [following World War II], large Japanese companies had an implicit contract with their employees to provide them with employment until the retirement age of fifty-five” (Ahmadjian & Robinson, 2001, p. 624). “A firm that downsized and signalled a willingness to break with long-held implicit contracts of permanent employment was perceived to be a “bad company”” (Ahmadjian & Robinson, 2001, p. 628).

In this study, which is based on institutional theory, the subjects of the contract are employers and employees, while the employment conditions are the object of the contract.

As another example, consider the research of Westphal and Zajac (2001) next. The authors examine to what extent the power of a CEO influences how a corporation responds to institutional demands. In this study, it is interesting to examine how the authors measure CEO power: they measure the share of the board members appointed after the CEO as a proxy. The reasoning of the researchers is that “norms of reciprocity should lead outside board members to feel socially obligated to support the CEO who was responsible for nominating them to the board […]” (Westphal & Zajac, 2001, p. 212). Hence, in this example, we can identify a social contract between a CEO and a manager for an appointment to the board in exchange for support of the CEO.

Clearly, in other institutional studies that focus on the cognitive (rather than the normative or regulative) demands in the institutional environment, the contours of a social contract are less obvious. If a norm becomes taken-for-granted and no contractor ever challenges it, then it may go unnoticed that this norm is still embedded in a very specific community. For example, a label on accounting practices may be taken-for-granted in an investment community. The same label, however, may be unknown and of little interest to environmental pressure groups.
While a label may be widely adopted in an industry, it may still be known to and taken-for-granted by a specific group of stakeholders, only. The contractarian view helps to avoid treating such taken-for-granted norms and symbols as the disembodied characteristics of an institutional environment. By viewing a standard model as an implicit and even unconscious agreement between a business and a particular stakeholder group, we are reminded that institutional entrepreneurship is not only targeted at objects (such as rules, norms, labels, standards, and gestures) but also at subjects - specific persons who take these objects for granted.

We argue that viewing a business as a nexus of written and unwritten social contracts is beneficial for research on institutional entrepreneurship. A contractarian view reminds us that institutional entrepreneurship is not only targeted at detached rules, norms and standard models. Instead, institutional entrepreneurship is targeted at specific groups embracing these.

**Integrating a normative inquiry**

The second reason for integrating the social contract perspective in research on institutional entrepreneurship is that the former allows accessing the vast research body on business ethics. Although both institutional scholarship as well as the research on business ethics research societal demands, scholars in both fields typically do not consider insights from the “neighbouring” field. Consequently, business ethics and institutional theory currently evolve in parallel rather than benefiting from one another. This development had not always been anticipated. Reviewing his forty years of research on institutional theory and business ethics, Selznick points out that moral is a cornerstone of institutional theory:

> “An institutional theory of the firm is a voice of resistance to this culture of shortsightedness, offers guides to thinking about corporate responsibility, and brings into question the goal of maximizing profits or returns on capital. In this way, institutional theory speaks to issues of social concern and does so without accepting conventional models of organization or the unreflective premises of management (Selznick, 1996, p.272, emphases added).

However, we suggest that social concerns, corporate responsibility, and moral today are far less central to studies on institutional theory and institutional entrepreneurship than Selznick had envisioned. As another scholar of institutional logic points out, “we [...] need to direct more attention to the systematic study of the normative basis of exchange relations among the members of particular organizational fields (Powell, 1988, p. 116, emphasis added). Further scholars back
this call as they see “great potential in encouraging scholars to explore the moral dimensions of institutions and institutional change” (Dacin et al., 2002, p.52).

Typically, a contribution to institutional theory or institutional entrepreneurship does not examine the moral dimensions of an extant norm (here: an observable norm or “real-world” norm). Instead, scholars describe the influence of an extant norm on the actions of organizations as well as the attempts of organizations to influence these constraining norms through institutional entrepreneurship. An integration of moral and descriptive approaches is rarely pursued (Swanson, 1999). The complementary perspective of a normative inquiry, however, could allow institutional scholars to distinguish better between the influence of “morally desirable” and “morally undesirable” norms on the actions of organizations. Likewise, the moral perspective could allow researchers to distinguish between “morally desirable” and “morally undesirable” actions of institutional entrepreneurship. This distinction could add a new and relevant dimension to research on institutional entrepreneurship for it may well be that a business seeks to manipulate a morally legitimate norm in a different manner than it seeks to manipulate a morally illegitimate norm.

Hence, viewing institutional entrepreneurship as an action of influencing social contracts helps not only clarifying the target - the contractors or subjects of the social contract. Furthermore, it provides researchers with a linkage to the theories of business ethics, specifically social contract theories like the Integrated Social Contracts Theory, ISCT (Donaldson & Dunfee, 1999; Donaldson & Dunfee, 1994). This particular social contracts theory figures among the most promising moral theories to date (Hasnas, 1998; Soule, 2002). It could provide institutional scholars with a principle for determining the moral appropriateness of institutional entrepreneurship.

Although the link between institutional logic and a normative theory, such as ISCT, is compelling, the means for linking the normative and the descriptive analysis of institutions remain under-researched. In the following, we address this research gap. We suggest that four issues require attention before a study that draws on institutional theory or institutional entrepreneurship can be complemented by insights from a moral theory such as ISCT.
II.4.1 Scope of institutional and normative research streams

The first issue we need to address before integrating institutional and normative research streams relates to the scope. To this end, we distinguish between a descriptive, an instrumental, and a normative scope of the research bodies (Donaldson & Preston, 1995). One scope of institutional logic is certainly descriptive. Institutional theory describes how organizations conform to rules, norms, and standard models (DiMaggio & Powell, 1983; Meyer & Rowan, 1977). This descriptive aspect of institutional logic helps to expose the societal-institutional constraints that a business considers in its decision-making. As all businesses in an industry are exposed to similar constraints (such as demands of the media or NGOs), they tend to adopt similar strategies and structures and eventually become more similar (DiMaggio & Powell, 1983). Thus, the emphasis of this descriptive aspect of institutional logic is on conformance. This perspective provides explanations on why businesses pursue similar actions.

The second, emerging scope of institutional logic is instrumental in nature and stresses the agency of organizations. Institutional entrepreneurship does no longer view organizations being only able to conform to societal-institutional obligations. Instead, research on institutional entrepreneurship examines how organizations can influence rules, norms, and standard models in their own interest and thus influence what is considered as legitimate in their institutional environment (DiMaggio, 1988; Oliver, 1991; Phillips et al., 2004; Zimmerman & Zeitz, 2002).

Normative theories, such as social contract theories, provide the third scope. These theories help to determine whether it is morally appropriate that an organization conforms to an extant norm and whether it is morally appropriate that an organization takes actions to influence a norm.

Institutional logic is descriptive as it helps to analyze the conformance of businesses with societal-institutional demands (institutional theory). The logic is also instrumental as research on institutional entrepreneurship helps to determine how businesses influence these demands. Normative theories are normative in the sense that they provide a principle for determining the moral appropriateness of the phenomena studied by institutional theory and institutional entrepreneurship.

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15 While adopting this taxonomy from Donaldson & Dunfee, we place a slightly different emphasis on what constitutes an instrumental perspective.
II.4.2 Definition of normative legitimacy: perspective of institutional theory and institutional entrepreneurship

Now that we have clarified the different scopes of institutional logic and normative theories, we can develop a definition of “normative legitimacy”, a concept central to both research bodies.

In the language of institutional theory and institutional entrepreneurship, a business gains “normative legitimacy” through aligning its strategies with extant norms (i.e., observable, “real-world”, or existing norms). This alignment can either be achieved by conforming to extant norms, selecting an institutional environment with different norms or by changing the extant norms so that they align better with the strategy and structure envisioned by a business.

In the language of normative theories, “normative legitimacy” is gained by aligning strategies and structure of a business with ideal norms. These ideal norms can be different from the extant norms. “A normative theory […] is normative in so far as it purports to say what is ethical, not what members of some group think is ethical” (Bishop, 2000, p.564 emphasis added).

Clearly, a definition of normative legitimacy needs to be developed carefully as it needs to reflect the above-mentioned differences in scope.

If we study the impact of “real world” norms (extant norms) on the actions of a business, then our definition of normative legitimacy is necessarily grounded in institutional logic. Nevertheless, the definition also needs to provide access to a moral evaluation of the extant norms and the actions taken by a business.

As a possible definition of normative legitimacy from the institutional viewpoint, consider Suchman’s proposal for a definition first. The author suggests that “legitimacy is a generalized perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions” (Suchman, 1995). This definition has proved very helpful for empiric contributions to institutional theory and institutional entrepreneurship as it embraces the regulative, normative, as well as the cognitive elements of organizational legitimacy (cf. the research of Bansal & Clelland, 2004; Grewal & Dharwadkar, 2002).

Still, Suchman’s definition is less suited for a complementary moral inquiry as his conception remains at the aggregate level (confirm the notion of a generalized perception). Yet, even in institutional research, the concept of normative legitimacy is not always viewed as a unitary concept (Ruef & Scott, 1998). Instead, the normative legitimacy of a business results from the consideration of many, possibly conflicting norms (Maguire et al., 2004; Thornton, 2002). The fact that several institutional scholars acknowledge conflicts among extant norms is an important
precondition for a moral inquiry as conducted in the research on business ethics (Margolis & Walsh, 2003; Selznick, 1992). Some researchers have even suggested that the appreciation of conflicts is a key task of research in social sciences.

“Institutional contradictions are the most important political conflicts in our society; it is through these politics that the institutional structure of society is transformed. A key task for social analysis is to understand those contradictions and to specify the conditions under which they shape institutional and individual action” (Friedland & Alford, 1991, p. 258). “If the institutional constraints on behaviour are not specified, the social sciences risk becoming ideologies of the institutions they study” (Friedland & Alford, 1991, p. 260).

Therefore, we require a definition, which acknowledges that the normative legitimacy of a business is dependent on different extant norms. Building on an earlier definition of Meyer & Scott\(^\text{16}\) (1983, p.201) we propose the following:

From the perspective of institutional logic, normative legitimacy refers to the degree of normative support for a business – the extent to which the array of extant norms provide explanations for its existence (based on Meyer & Scott, 1983).

With the acknowledgement of an “array of extant norms”, we can unlock the generalized perception of the appropriateness of a business’ actions and study the specific - and possibly contradictory - norms that are salient in a research context. With a normative theory of business ethics, we can then identify whether these extant norms conform to ideal norms or not.

To illustrate how this approach could be conducted, consider the research of Thornton. She examines the decision-making of senior management in a publishing group and finds evidence for opposing editorial and marketing norms (Thornton, 2002). On the one hand, editors have an obligation towards academia as the “gatekeepers of knowledge”. On the other, editors have an obligation towards the financial community to generate revenue and profits.

In this research context, insights from institutional entrepreneurship could be used to analyze those actions a publishing group can take in order to influence its social contracts with the academic and the financial community. Through application of a

\(^{16}\) Meyer & Scott (1983, p201) suggested that “organizational legitimacy refers to the degree of cultural support for an organization – the extent to which the array of established cultural accounts provide explanations for its existence”. The strong point of this definition is that it goes beyond the aggregate view Suchman (1995) suggests. However, Meyer & Scott’s definition of organizational legitimacy has a certain bias towards one of the three aspects of organizational legitimacy, the cognitive legitimacy.
normative theory, it would be possible to investigate whether the social contracts with the financial community and the academics can be morally approved. Thus, it is possible to question the desirability of an extant norm. The implications are likely to enrich the academic debate. While a business may improve its long-term survival chances by conforming to a dominant, extant norm in its industry, it may violate an ideal norm in doing so (Warren, 2003).

II.4.3 Definition of normative legitimacy: perspective of a normative theory
Following the determination of normative legitimacy from the viewpoint of institutional logic, we can now select a normative theory for the definition of normative legitimacy from the perspective of business ethics. Once this definition has been developed, we can integrate the institutional and the normative approaches.

Within business ethics, the Integrated Social Contracts Theory (ISCT) is judged as one of the most promising normative theories (Bishop, 2000; Soule, 2002; Spicer et al., 2004). While a detailed comparison of ISCT and other normative theories is beyond the scope of this research, we argue that ISCT is well suited for our purpose of complementing institutional research with insights from business ethics. First, the literature on ISCT is among few research streams of business ethics that actually provide a definition of the normative legitimacy of a business (Donaldson & Dunfee, 1999, p. 46). Second, the unit of analysis of ISCT matches institutional theory better than the two other major theories of business ethics, the stockholder theory and the stakeholder theory (Bishop, 2000; Hasnas, 1998). These two normative theories are concerned with the interests of social groups, while ISCT is concerned with the norms of social groups (Bishop, 2000, p.568). Norms and legitimacy are concepts that are explicitly addressed in institutional theory as well as ISCT, yet these concepts are less central to stakeholder theory and to stakeholder theory.

ISCT:17 key principles and definition of normative legitimacy
ISCT provides a principle for determining the moral appropriateness of a business’ actions. The theory explicitly acknowledges that an economic community (such as a business or an industry) has a moral free space in establishing norms for its members (Donaldson & Dunfee, 1999; Donaldson & Dunfee, 1994). From the perspective of ISCT, the normative legitimacy of a community stems from authentic and legitimate norms. Hereby, a norm is judged authentic, if it is supported by the beliefs and the actions of a majority of the members of a community. Furthermore,

17 A more extensive review of the Integrated Social Contracts Theory (ISCT) is provided in the Annex.
authencity demands that members have the right to influence the norms of their community (i.e. the right to “raise voice”) as well as the right to leave the community (i.e. the “right to exit”). This implies that a non-smoking policy of a business is only an authentic norm if the majority of employees support it and if employees disliking it can influence this norm or if they can take the ultimate decision of leaving the business (Donaldson & Dunfee, 1999). In order to be legitimate, the norm must not violate ideal norms. Donaldson & Dunfee suggest that a clue for the existence of an ideal norm is its support in the writings of major philosophers, religions, as well as international guidelines such as the UN Human Rights Act.

II.4.4 Critique of ISCT
As any theory of business ethics, ISCT has been challenged in the past. Critics of a contractarian view of business ethics find that such theories of social contract overemphasize the role of obligations. It has been argued that a social contract theory cannot provide explanations for any caring and “human” behaviour that exceeds a conformance with hypothetical contracts (Held, 1993).

However, note that ISCT does not assume that social contracts develop exclusively out of efficiency considerations. Instead, this social contract theory bases on the assumption that “all other things being equal, economic activity that is consistent with cultural, philosophical, or religious attitudes […] is preferable to economic activity that is not” (Donaldson & Dunfee, 1999, p.28).

As Hartman et al. observe, “another major criticism of ISCT is that any hypernorms [i.e. ideal norms] identified by researchers may only represent those of the ruling elements of society” (Hartman et al., 2003, p.208).

This critique would be justified, if ISCT suggested that an ideal norm is identified by examining international standards and laws, only. However, Donaldson and Dunfee explain in detail that not political thought (such as international guidelines) but rather a convergence of political and religious as well as philosophical thought serve as a clue to an ideal norm. Concerns have also been raised about the concept of “exit and voice” in ISCT (Bishop, 2000; Hartman et al., 2003). It has been noted that a business could simply render a norm authentic by firing those employees who dislike it. In this case, a business would achieve a forced exit of employees. Similarly, some organizations and nations could simply fail to provide individuals with the right to exit. Donaldson

From the perspective of the Integrative Social Contracts Theory, a business gains normative legitimacy through authentic and legitimate norms.
and Dunfee, however, point out that “coercion invalidates implied consent” (Donaldson & Dunfee, 1994, p. 263). Thus, according to ISCT, a norm cannot be authentic if it has been established on the grounds of forced exit of community members.

We find that critics of ISCT overemphasize
- the efficiency considerations that explain the creation of social contracts and
- the empiric aspects of this normative theory. Note that it is a convergence of philosophical, religious, and political thought that serves as a clue to an ideal norm.

Furthermore, we should acknowledge that ISCT does not view coercion as a legitimate mean for gaining a majority’s support of a norm.

We do acknowledge that ISCT is not capable of providing quantitative answers to questions of business ethics such as “how many hours constitute a reasonable workday? How much pay is adequate?” (Hartman et al., 2003, p. 208). Yet, we are not aware of a normative theory that could provide such universal moral calculus. As moral rationality of humans is bounded (Donaldson & Dunfee, 1999, p. 28), it may be a very challenging endeavour to develop such a theory. The fact that ISCT can “only” provide guidance on questions that do not concern universal rights clearly does not render the theory obsolete. Instead, the theory acknowledges that it is not possible to provide specific answers to questions of business ethics without any knowledge of the context (Donaldson & Dunfee, 1999, p. 32; Sorrell, 1987)\(^\text{18}\).

No doubt, more research is necessary on norms that may not be violated in any context, the ideal norms (Soule, 2002; Spicer et al., 2004). Donaldson and Dunfee do not provide an extensive list of these ideal norms; instead, they provide a principle for determining these. The lack of the extensive list, however, does not render ISCT obsolete. Instead, it is a call for more research identifying ideal norms.

II.4.5 Integration of a moral evaluation in institutional research

In the preceding sections, we have introduced the scopes of institutional research as well as research on normative theories. We have argued that institutional logic provides a descriptive as well as an instrumental scope while normative theories have the normative scope required for a moral evaluation of actions. We have subsequently developed definitions of normative legitimacy from the perspective of institutional logic as well as from the perspective of a specific normative theory, the

\(^{18}\) “This is not to deny that some extremely general moral prescriptions hold for all economic practices” (Donaldson & Dunfee, 1999, p.32).
Integrated Social Contracts Theory (ISCT). In a fourth step, we can now examine how a contribution to institutional theory or institutional entrepreneurship can be complemented by a moral evaluation. Hence, we can develop an integration of the institutional and the normative inquiries. To this end, consider Figure 15, showing a model with three layers. This model links the institutional logic with the normative logic. The two upper layers of the model are grounded in institutional logic while the lowest layer is grounded in institutional logic as well as the logic of a social contract theory. The highest layer addresses the “generalized perception” (Suchman, 1995) that the actions of the business are legitimate. This overall normative legitimacy (from the perspective of institutional logic) is gained if the business has acquainted the single elements of normative legitimacy that are relevant in its institutional environment. For example, in Thornton’s study on publishing groups, these single normative legitimacies are the editorial and the marketing legitimacies of publishing groups (Thornton, 2002). Similarly, in a study on union representatives, we expect that these representatives would need to acquaint two elements of normative legitimacy: one element of normative legitimacy that results from their conformance with the social contract agreed with the employees and another element of normative legitimacy that results from conformance with the social contract agreed with the management board.

**Figure 15: Normative legitimacy of a business results from conformance with its social as well as economic contracts.**

Each element of the aggregate normative legitimacy is acquainted through conformance with economic, social, or ecological contracts. As indicated earlier, norms are not disembodied but tightly embedded in communities. These communities develop implicit contracts on what is viewed as appropriate or not. Conformance with these contracts provides a business with specific elements of normative legitimacy. For example, a business may be considered as economically legitimate by its shareholders if it achieves the economic performance target that had been set.

*Once the implicit contract underlying a specific element of normative legitimacy is identified, the business can engage in institutional entrepreneurship for it knows whose minds it seeks to target in order to influence a specific norm. Furthermore,*
the identification of a contract provides the means for a moral investigation through a social contracts theory such as ISCT. In a study that examines the moral appropriateness of a business’ conformance with, or change of, extant norms, the route of investigation is likely to travel from the perspective of institutional logic (top of Figure 15) to the perspective of ISCT (bottom of Figure 15).

*In a first step*, we should identify whose normative legitimacy is at the centre of an investigation. For example, researchers can examine the normative legitimacy of an industry, a business, or a business unit. This first step is summarized by Ruef & Scott as the determination of the level of legitimacy in a study (Ruef & Scott, 1998). In the top layer of the model in Figure 15, we have specified the normative legitimacy of a business as the relevant level of normative legitimacy for our research.

*In a second step*, we can determine the single elements of the aggregate normative legitimacy. For example, Ruef and Scott (1998) apply institutional theory to a study on hospitals. They identify two distinct elements of normative legitimacy that a hospital can acquire: the managerial and the technical legitimacy of a hospital. Similarly, in a study examining the pollution prevention efforts of a business, the relevant elements of normative legitimacy are likely to be the ecological and the economic legitimacy of such actions. In the second layer of the model in Figure 15, such different elements of normative legitimacy are indicated as normative legitimacy (1) to (3). They represent the elements of normative legitimacy that a researcher may identify in his specific research context.

*In a third step*, the sources of each element of normative legitimacy are examined, cf. the bottom layer of Figure 15. The sources of normative legitimacy are those parties that can provide a business with a specific element of normative legitimacy by stating that the business has fulfilled its duties. To illustrate, in the context of sustainable business strategies, the ecological legitimacy of a business can be acquainted from its industry association as well non-governmental organizations (NGOs). Thus, several contracts can underpin one element of normative legitimacy. Following the identification of the contracts, we begin, in a fourth step, with the moral evaluation of the contracts. Building on the Integrated Social Contracts Theory, we first study the authencity of the contract. Thus, did a majority of businesses agree on the ecological standards set by the industry association? Does the examined business have the opportunity to influence the examined industry standard as well as to leave the industry association?

In a fifth step, we examine the actual content of the contract. We verify whether the actions that the contract prescribes violate ideal norms, the “hypermnorms”.
Following these steps of the investigation, we gain a multilevel model of normative legitimacy that is grounded in both institutional theory as well as a specific normative theory, ISCT.

<table>
<thead>
<tr>
<th>Multilevel model of normative legitimacy</th>
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<tr>
<td>• Level of normative legitimacy (e.g. industry, business, or business unit)</td>
</tr>
<tr>
<td>• Element of normative legitimacy (e.g. economic or social legitimacy)</td>
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<tr>
<td>• Source of normative legitimacy (e.g. shareholders or unions)</td>
</tr>
<tr>
<td>• Authenticity of the contract</td>
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<tr>
<td>• Conformance of the norms of the contract with ideal norms</td>
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This model provides a new set of research questions for institutional theory and institutional entrepreneurship. For example, in research on the social obligations of a business: does a business conform to a social contract that violates an ideal norm (i.e. a hypernorm) in a different manner than it conforms to morally legitimate social contracts, which do not violate hypernorms? Does a business choose different means for institutional entrepreneurship, depending on whether the social contract that it influences is authentic or not? Does a business seek to manipulate morally legitimate social contracts in a different manner than it seeks to manipulate morally illegitimate contracts?

These questions hint to a rich research agenda that is uncovered by complementing research on institutional theory with a normative inquiry.

*In the following chapter, we provide a first sample application.* In deriving proposition 9 of this thesis, we follow the above approach for determining those contracts that are relevant in examining the adoption of a sustainable purchasing strategy.
III  Research model

Summary

In this chapter, we propose answers to the research questions from chapter I. To this end, we first specify the generic model from Figure 14 on p. 35. We detail the complementary strategies that we consider in our research: first, an exploitative innovation strategy and second, an explorative innovation strategy. We discuss the influences of these innovation strategies as well as the influence of regulative, normative, and cognitive demands in the institutional environment on the adoption and the outcome of a sustainable purchasing strategy. Furthermore, we investigate the resources and capabilities that allow a business to engage in institutional entrepreneurship and to influence its contracts with society on the minimal requirements regarding a sustainable purchasing strategy.

III.1 Specification of the research model

For our empiric research context, we specify the research model from Figure 14 (p. 35) in three ways.

First, the focal strategy, the strategy at the centre of our analysis, is specified from a sustainable business strategy to a sustainable purchasing strategy. A definition of these two strategies is provided in chapter I.5.

Second, we specify the nature of the “demands in the institutional environment” that we consider as social exogenous contingencies in the research model. A large research body of institutional theory and institutional entrepreneurship suggests that regulative, normative, and cognitive demands of the institutional environment should be considered (e.g. Aldrich & Fiol, 1994; DiMaggio & Powell, 1983, 1991; Hoffman, 1999; Scott, 2001).

Third, we specify the complementary strategies we consider in our research (hence, the strategies that complement our focal strategy, a sustainable purchasing strategy). Note that researchers have pointed to an association between the management of sustainability and corporate innovation strategy (McWilliams & Siegel, 2000; Waddock & Graves, 1997). Thus, there is reason to assume that a business’ innovation strategy may complement its sustainable purchasing strategy. In previous research models, however, the researchers have not distinguished between different innovation strategies. Instead, they have used proxies such as R&D intensity (McWilliams & Siegel, 2000) or industry type (Waddock & Graves, 1997). To date, only Gilley et al. (2000) have distinguished the influence of different innovation strategies in examining the economic outcome of a sustainable business strategies (Gilley et al., 2000). In their study, the authors distinguish between process-driven and product-driven greening
initiatives. While providing interesting insights, the framework of process vs. product driven innovation strategies has proven less popular than other innovation strategy frameworks to date. A linkage with the research body on innovation management can be established more easily if we distinguish between *exploitative* and *explorative* innovation strategies.

**Definition of explorative and exploitative innovation strategies**

The distinction between the adjectives *explorative* and *exploitative* originates from the literature on organizational learning (Cohen & Levinthal, 1990; Lenox & King, 2004; March, 1991).

Learning, analysis, imitation, regeneration, and technological change are major components of any effort to improve organizational performance [...]. [Hereby,] the essence of *exploitation* is the refinement and extension of existing competences, technologies, and paradigms. Its returns are positive, proximate, and predictable. The essence of *exploration* is experimentation with new alternatives. Its returns are uncertain, distant, and often negative (March, 1991, p.85, emphasis added).

Note that in research on innovation management, scholars distinguish between a strongly related set of notions: *incremental* and *radical* innovation (Dewar & Dutton, 1986b; Hill & Rothaermel, 2003; Nerkar & Roberts, 2004; Tushman & Anderson, 1986).

*Incremental* innovation introduces relatively minor changes to the existing product, exploits the potential of the established design, and often reinforces the dominance of established firms. [...]. *Radical* innovation forces them [businesses] to ask a new set of questions, to draw on new technical and commercial skills, and to employ new problem-solving approaches (Henderson & Clark, 1990, p. 9, emphasis added).

It is very interesting to note that Henderson & Clark use the verb “to exploit” in order to describe *incremental* innovation even though their study draws on the literature on innovation management and not on the literature on organizational learning. An explicit integration of organizational learning and the literature on innovation management has recently been achieved by Benner & Tushman (Benner & Tushman, 2002; Benner & Tushman, 2003). The following sentences highlight that the authors consider the pairs *exploitative vs. explorative* and *incremental vs. radical* as tapping the same phenomenon in the context of innovation management:
The notion of balance between exploitation and exploration, or between incremental and radical organizational change, has been a consistent theme across several approaches to research in organizational adaptation (Benner & Tushman, 2003, p. 238).

Process management techniques accentuate incremental, exploitative innovation at the expense of exploratory innovation (Benner & Tushman, 2002, p. 676).

When we refer to an **exploitative innovation strategy** in our research, we mean an innovation strategy that is marked by *exploitation*. When we refer to an **explorative innovation strategy**, we refer to an innovation strategy marked by *exploration*. Hereby, we build on March’s definition of exploration vs. exploitation, cf. the preceding page.

The research model that results following the introduction of these complementary strategies is pointed out below. The single linkages of the model will be discussed in the following propositions.

**Figure 16: Research model for the adoption and outcome of a sustainable purchasing strategy.**
III.2 Adoption of a sustainable purchasing strategy

Mediating influence of exploitative innovation strategies (P1)
Continuous innovation is at the core of the adoption of a sustainable purchasing strategy. For example, pollution prevention in a value chain can be achieved through incremental process innovation. Hart notes that pollution prevention requires "extensive employee involvement and continuous improvement" (Hart, 1995). Managers at 3M confirm that a sustainable business strategy, innovation and employee involvement are interrelated. A sustainable business strategy requires the support of employees at any level in the organization (Reed, 2002). According to 3M, neither innovation nor the implementation of a sustainable strategy can be relegated to a group of employees. Instead, innovation and a sustainable value creation are "two jobs that belong to everyone" (Reed, 2002). Benner and Tushman detail that it is in particular the exploitative innovation mode that requires the involvement of all employees (Benner & Tushman, 2002). An incremental innovation of processes, for example, can only be achieved, if those employees handling the process report their suggestions for improvement. Similarly, a sustainable business strategy can only be realized, if the employees act according to environmental and social performance goals in their daily decision-making.

Hence, there is evidence that the corporate capability of employee involvement is associated with exploitative innovation (Benner & Tushman, 2002). The very same capability is also associated with the adoption of a sustainable business strategy (Rothenberg, 2003). This means that we have identified one capability that is central to both, a sustainable purchasing strategy as well as an exploitative innovation strategy. Consequently, an exploitative innovation strategy meets an important criterion for a classification as a complementary strategy, cf. chapter II.2.3 on p. 21. If we now want to show that the presence of this complementary strategy facilitates the adoption of a sustainable purchasing strategy, then we require evidence that a sustainable purchasing strategy is associated with exploitative innovation. That evidence has been provided (Porter & Linde, 1995). As both an exploitative innovation strategy and a sustainable business strategy require similar skills, we conclude that exploitative innovation strategies should partly mediate the linkage between employee involvement and the adoption of a sustainable strategy by the functions of a business. In order to facilitate the empiric verification of that proposition, we specify it with respect to purchasing.

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19 Explorative innovation, however, is typically pursued by a separate group of specialists, only (Hill & Rothaermel, 2003).
Proposition 1: Capabilities of a business such as employee involvement are positively related to the adoption of a sustainable purchasing strategy. Exploitative innovation strategies partly mediate this relationship.

Mediating influence of explorative innovation strategies (P2)
Certainly, exploitative innovations have paved the way to significant improvements of social and environmental business performance. However, his type of innovation is not sufficient to address the ecological problems businesses need to address in the future (Ashford, 2002; Hart & Milstein, 1999). Often, it is necessary to redesign products, processes, and organizational structures in a fundamental manner. Such radical innovations require a concentration of specialists having the freedom to experiment. This freedom can be gained by partitioning the organization structurally and by "shielding" explorative from exploitative innovation efforts (Ettlie et al., 1984). To date, scholars have suggested two different approaches to shielding exploratory from exploitative innovation. In deriving Proposition 2, we will discuss the first approach in detail. That first approach is marked by designing structurally ambidextrous organisations that engage in continuous, incremental improvement while funding a separate, centralized centre for more explorative innovation efforts (Benner & Tushman, 2003; Dewar & Dutton, 1986a). In research on sustainable strategies, scholars have argued for creating these separate centres that design future sustainable business strategies. In an analysis of the Dutch dairy industry, Mauser (2001) finds that the environmental performance of those dairies with a separate department for managing environmental issues exceeds the environmental performance of their competitors without such a specialized department. Dutton & Ashford (1993) provide a possible explanation for this finding. If a separate department oversees issues regarding social and environmental management, its head can advocate his issues more effectively than if he has to rely on several middlemen for the purpose of issue communication. Due to the creation of a department for social and environmental affairs, its head gains the business-internal legitimacy to advocate his suggestions. Furthermore, if senior management supports the creation of a separate department for social and environmental issues, we might expect less evidence of “organizational silence” (Morrison, 2000), a fear of employees to address issues of social or environmental problems arising from the business’ operations.

Note, that managing a loosely coupled department demands certain capabilities of senior management that are independent of the tasks this department carries out. For example, if a centre for basic research is coupled to the organisation too tightly, its profit-generating potential for the business decreases. If the centre is coupled too loose,

20 An overview on the second approach is provided in the following footnote.
its profit-generating potential decreases as well (Hill & Rotheraemel, 2003). On the one hand, if senior management pays too little attention to the work of an innovation centre, it may miss important opportunities for product development. On the other hand, if it blindly pursues product developments envisioned by an innovation centre, it may pursue costly strategies that cannot be linked to other, existing strategies.

The same challenges arise in the management of a department for social and environmental issues. We therefore propose that the creation of such departments is facilitated, if senior management already has experience in the management of explorative innovations.

To illustrate, note that Xerox is widely known as a business generating radical innovations. These radical innovations are developed in separate centres such as the Palo Alto Research Centre. However, Xerox has also become an industry leader in the adoption of sustainable business strategies. Separate centres such as the Xerox Eco Manufacturing Centre in Sydney develop strategies for a sustainable product provision. Both of these centres require from Xerox the capability to shield researchers in separate departments from routine activities and still integrate their insights in the development of new products and processes.

**Proposition 2:** Capabilities, such as the management of loosely coupled business units are related to the adoption of a sustainable purchasing strategy. Explorative innovation strategies partly mediate this relationship.

The relevance of considering complementary strategies can be illustrated for the example of Proposition 2. Note that the above-mentioned capability to manage a loosely coupled business unit could also be used for very different purposes than an explorative innovation strategy. For example, the successful functioning of an IT support centre could draw on the same capability. In this case, however, the overlap between an IT support strategy and a sustainable purchasing strategy would be smaller.

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21 For the sake of completeness, we sketch a second approach to deriving Proposition 2. Note that the above reasoning is based on structural ambidexterity of an organisation as a factor that facilitates the adoption of a sustainable purchasing strategy as well as the adoption of an explorative innovation strategy. The essence of structural ambidexterity is to maintain specialized departments for radical innovation rather than integrating radical innovation approaches in the line operations. That approach to organizational design is not with critique. Some scholars argue that contextual ambidexterity should be central to designing organizational structure (Gibson & Birkinshaw, 2004). The essence of contextual ambidexterity is to integrate radical innovation (and other specialized activities such as rendering processes more sustainable) directly in the line operations. Still, assuming that an organization is designed contextually ambidextrous, we would still conclude that an explorative innovation strategy as well as a sustainable purchasing strategy require a common base of capabilities - a key characteristic of complementary strategies, cf. chapter II.2.3. It is only the common base of capabilities that would be different from the case of the structurally ambidextrous organization: a contextually ambidextrous organization demands particularly the capability to provide managers with the appropriate extent of time frames for explorative innovation - decoupled from their daily line activities.
than in the case of an explorative innovation strategy and a sustainable purchasing strategy. Thus, a sustainable purchasing strategy can prove more valuable for a business if it already has the capability to manage a loosely coupled business unit efficiently. Yet, the strategy can prove even more valuable if the business already exploits this specific capability for an explorative innovation strategy. We conclude that the value of a new business strategy can only be fully appreciated if resources and capabilities as well as existing strategies are being considered.

In the next proposition, we turn to our other demand on resource-based research, the integration of exogenous contingencies in a research model, cf. chapter II.2.5. To this end, we examine the moderating influence of regulative, normative, and cognitive demands in the institutional environment.

**Moderating influence of the institutional environment (P3)**

The chemical industry provides an example for an industry where the institutional environment has played an important role for the establishment of more sustainable business practices. In 1989 the Chemical Manufacturers Association created the “Responsible Care” industry standard. Throughout the 1980s, a number of disruptive events led to a normative demand for more environmentally friendly and safer business practices in the chemical industry. According to Hoffman (1999), such disruptive events included the Bhopal catastrophe in India in 1984, the discovery of the ozone hole in 1985 and the Exxon Valdez spill in 1989. Due to these events, the chemical industry faced increasing pressure from governments, non-governmental organizations, as well as insurance companies to establish more environmentally friendly and safer business practices. King & Lennox (2000) suggest that regulative, normative as well as cognitive forces could have led to the development of the “Responsible Care” standard. Hoffman (1999) specifies that the standard was established at the beginning of a period where environmental management in the chemical industry became taken-for-granted. While regulative and normative forces dominated the early adoptions of the new industry standard, later adopters may simply have mimicked their competitors in signing up to the standard. Thus, in the beginning the adoption may have appeared as “doing what is necessary”, hence a response to regulative demands. It may also have been considered as “the appropriate thing to do”, thus, a response to normative demands. For later adopters, however, it may simply have been an issue of “doing what the competitors do”, a response to cognitive demands.

Additional evidence for the role of institutional demands is provided in an international cross-industry study undertaken by Bansal and Roth (2000) in the late 1990s. The authors conducted interviews with managers from food retailers, car manufacturers, electronic companies, and oil companies. In these interviews, many managers
described “legitimacy in the eyes of stakeholders”, as a key trigger for their businesses’ involvement in environmentally friendly practices.

Christman (2004) backs the relevance of cognitive and normative demand for the adoption of sustainable business practices. She suggests that codes of conduct in the chemical industry, such as the one developed by the Business Charter for Sustainable Development, led to a standardization of a business’ operational environmental standards. Such codes of conduct can present a normative demand (Casile & Davis-Blake, 2002) or a cognitive demand (Suchman, 1995, p.590), depending on their diffusion in an industry.

In the food industry, the effects of similar demands can be observed. In 2003, the WWF in Germany triggered a campaign targeted at food operating businesses that did not sign up to initial industry talks on the creation of a standard regarding the sustainability of palm oil sourcing. The joint talks by the members of the Roundtable on Sustainable Palm Oil (RSPO) institutionalized environmental and social concerns regarding the palm oil supply chain. Due to the participation of global food manufacturers in the RSPO talks, other businesses that did not join the RSPO became increasingly exposed to normative as well as cognitive demands.

**Proposition 3:** Regulative, normative, and cognitive demands in the institutional environment increase the likelihood that a business will use its resources and capabilities to adopt a sustainable purchasing strategy.

### III.3 Outcome of a sustainable purchasing strategy

The first three propositions suggest that the adoption of a sustainable purchasing strategy can be explained by the business-internal context (innovation strategies) and the exogenous context (institutional environment) of a business. We argued that explorative and exploitative innovation strategies have a positive influence on the adoption of a sustainable purchasing strategy. Furthermore, we introduced institutional demands as moderating factors that facilitate the adoption of a sustainable purchasing strategy. In the following, we examine how these business-internal and exogenous factors influence the competitive advantage of a sustainable purchasing strategy.
Moderating influence of the institutional environment (P4)

A key tenet of institutional theory is that businesses enhance their long-term survival chances by complying with the demands of the institutional environment (Meyer & Rowan, 1977). This founding statement of institutional logic has been refined over the years. First, researchers have noted that compliance with demands can also be generated by influencing the nature of demands in the first place (Aldrich & Fiol, 1994). Secondly, and particularly relevant in this context, researchers have argued that the legitimacy of a business also provides benefits within shorter periods than suggested by the notion of “long-term survival chances”. Hence, Deephouse (2000) finds that the reputation of a bank in the media is associated with the bank’s Return On Investment in the same financial year. Hence, the legitimacy of banks, from the perspective of the media, is linked to rather immediate competitive advantages. Bansal & Clelland (2004) also report immediate benefits of legitimacy. The authors find an association between news coverage praising the ecological legitimacy of a business and improved stability of the business’ stock rate\(^{22}\). If there were no regulatory, normative, or cognitive demands with respect to environmentally friendly business practices, then any (non)compliance of a business would be unnoticed and have no influence on the stakeholders’ judgement of a business.

**Proposition 4:** In the presence of regulatory, normative, and cognitive demands in the institutional environment, a business will draw more competitive advantage from a sustainable purchasing strategy than in the absence of such demands.

Hence, previous research has already provided evidence regarding the influence of the institutional environment on the competitive implications of a sustainable business strategy. The influence of different innovation strategies on the outcome of a sustainable purchasing strategy, however, is less well understood. Previous research suggests that R&D intensity has a positive influence on the linkage between a sustainable business strategy and the economic business performance (King & Lenox, 2002; McWilliams & Siegel, 2000; Waddock & Graves, 1997). R&D intensity, however, is an aggregate concept that can cover up diverse innovation strategies. To date, a distinction between different innovation strategies has only been undertaken in the analysis of the ecological implications of a sustainable business strategy (Hart & Milstein, 1999). We extend this research as we distinguish between the influences of explorative and exploitative innovation strategies on competitive advantage.

\(^{22}\) Specifically, the authors measure the stability of a stock by assessing its unsystematic risk.
Moderating influence of exploitative innovation strategies (P5)

An exploitative innovation strategy draws on the existing knowledge of a business. It leads to increased efficiency and yields incremental but largely predictable improvements (March, 1991).

Christmann (2000) examines one specific innovation, the development and implementation of pollution prevention technologies. She finds that these increase the cost advantages that a business draws from an environmental strategy. Hereby, Christmann assesses pollution prevention technologies with one construct. Consequently, her results do not necessarily suggest that exploitative technological innovations have a positive moderating influence on the cost advantage from an environmental strategy. The pollution prevention technologies of a business could be the result of either an exploratory or an exploitative innovation strategy. In order to ensure that Christman’s research provides evidence with respect to an exploitative innovation strategy, further moderators need to be considered. One such moderator is the process management skills of a business. Christmann finds that the more developed a business’ process management skills, the larger the cost advantage it gains from pollution prevention technologies. Drawing on the research of Benner and Tushman (2002), we can analyze the role of technological innovation in greater depth. Benner and Tushman find that process management skills are positively associated with an exploitative innovation strategy while negatively associated with an exploratory innovation strategy. This implies that the presence of process management skills accentuates the effects of exploitative innovations while it dampens the effects of more explorative innovations. Consequently, if process management skills have been found to increase the cost advantage from the innovation of pollution prevention technologies (Christmann 2000), then the research of Benner & Tushman suggests that the observed technologies are likely to have been based on an exploitative innovation strategy. This suggestion is substantiated by the fact that Christmann’s research draws on data from the chemical industry. Broadly implemented improvements of the chemical industry’s environmental performance have been described as being incremental rather than exploratory in nature (King & Lenox, 2000).

Previous research suggests there are two reasons for moderating effects of an exploitative innovation strategy. First, it facilitates the implementation of gradual improvements of ecological and social business performance. If gradual innovations already constitute an element of the corporate culture, then the stepwise innovation of processes and products can be framed as a practice that is in line with the corporate culture (Dutton & Ashford, 1993; Howard-Grenville & Hoffman, 2003). Consequently, fewer resources need to be spent on the business-internal
communication of a need for gradual innovations improving the ecological and social business performance. Yet, there is a second mechanism suggesting a positive moderating effect of exploitative innovation strategies. The presence of these innovation strategies also reduces the need for resources that directly contribute to the implementation of a sustainable business strategy. While the resources required for business-internal communication are irrational costs that may not figure on a project plan, there are also measurable, rational costs, such as staffing, that can be reduced in the presence of an exploitative innovation strategy.

To illustrate, at Nestlé the agricultural services unit has traditionally tested new agricultural production techniques that have helped the supplying farmers to gradually raise the efficiency of their operations. Today, this business unit increasingly tests and communicates practices that are explicitly designed to improve the economic as well as ecological performance aspects of farming. If Nestlé had not previously conducted research on means for raising the efficiency of agricultural production, then the increasing attention to ecological aspects of farming operations would have demanded higher resource allocations. These savings in resource allocation to a sustainable purchasing strategy present a competitive advantage as Nestlé’s competitors cannot enjoy these savings in implementing a sustainable purchasing strategy.

**Proposition 5:** Exploitative innovation strategies have a positive moderating effect on the association between a sustainable purchasing strategy and the resulting competitive advantage.

**Moderating influence of explorative innovation strategies (P6)**

The moderating mechanisms of explorative innovation strategies are different from those of exploitative innovation strategies. Schulz (2001) observes that exploitative innovations trigger different intrafirm knowledge flows than explorative innovations. While knowledge on incremental innovations spreads horizontally from one business unit to a peer business unit, more exploratory information passes from the inventing business unit to its supervising business unit. Schulz points out that this divergence of knowledge flows is rational. The merits of an exploitative technological innovation and the potentially benefiting business units are relatively easy to discern. Inventors can directly inform their colleagues in these peer business units, thus omitting the increased transaction costs of integrating the supervising business unit in the knowledge flow (Williamson, 1975). Ultimately, a business can even minimize transaction costs by integrating the inventing and the benefiting business unit in a single unit. Hence, in the case of Nestlé, the personnel responsible for testing and assimilating new agricultural production techniques works within the same business unit as the personnel responsible for the improvement of the agricultural supply chain’s
ecological and social performance does. Knowledge on exploratory information, however, is not passed from peer unit to peer unit, as the inventing unit may not even be aware of potential applications of its invention by other business units. In order to judge the relevance of exploratory innovations and to identify potentially benefiting business units, knowledge on these innovations is passed on vertically from the innovating to its supervising business unit. This supervising business unit takes on the role of a clearinghouse, evaluating an exploratory innovation and creating an umbrella by linking the inventing and the potentially benefiting business unit (Hansen & Lovas, 2004; Schulz, 2001). Consequently, explorative innovations moderate the economic outcome of a sustainable business strategy through (at least) two mechanisms. First, knowledge flows on exploratory improvements of ecological and social business performance is likely to flow vertically just as knowledge on exploratory technological innovations does. If senior management already has experience in evaluating exploratory technological innovations, it will experience less difficulties in evaluating exploratory improvements of the ecological and social business performance (Cohen & Levinthal, 1990; Nerkar & Roberts, 2004). To illustrate, at Nestlé the same supervising business unit that is responsible for the funding of R&D centres also provides the funding for the unit developing sustainable purchasing strategies. Experiences in the evaluation and funding of exploratory research projects can thus be transferred to exploratory projects in the context of sustainable purchasing. Second, if senior management already grants R&D centres a large search scope, we expect it to support increased search scopes in the management of sustainability as well. Researchers have noted that a search scope can be increased both spatially and temporally. An increase of the spatial research scope enables effective improvements of the business’ ecological performance that may not have been achieved through a combination of more local knowledge (Katila & Ahuja, 2002). To illustrate, Dow addresses environmental hazards of its chlorine-processing operations by building on the knowledge of Dow’s biochemistry research unit. In the occasion of a spill of chlorine derivates, Dow applies bacteria on the affected ground that can quickly degrade the chlorine derivates. Hence, through an increase of search scope beyond the solutions offered by “classical” chemical engineering, Dow has identified an effective mean to respond to an environmental hazard of its operations. Similarly, an increase of the temporal research scope can lead to more effective sustainable business strategies (Katila, 2002; Katila & Ahuja, 2002; Nerkar, 2003). For example, Unilever employs agronomists who research and test cost-efficient practices of natural weed control. The scope of this research is

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23 http://tech.inel.gov

24 www.unilever.com/environmentsociety
to minimize the need for synthetic pesticides by planting specific combinations of crops on adjacent fields. In doing so, Unilever builds on temporally distant (“old”) knowledge and still helps to reduce the farmers’ expenses for synthetic herbicides. 

If Unilever did not engage in exploratory technological research, we expect that its search scope for more sustainable business practices would have been smaller and would have resulted in less cost-effective strategies.

**Proposition 6:** Explorative innovation strategies have a positive moderating effect on the association between a sustainable purchasing strategy and the resulting competitive advantage.

Thus, we argue that exploitative as well as explorative innovation strategies raise the competitive of a specific sustainable business strategy, a sustainable purchasing strategy. We have departed from previous research by examining how different modes of innovation influence the competitive advantage of a sustainable purchasing strategy. However, while this distinction presents a contribution to the literature on corporate sustainability, it does fail to address a fundamental dilemma. How shall management distribute resources between explorative and exploitative innovation approaches? Previous research suggests that both, too exploitative as well as too explorative innovation strategies decrease the performance of innovation management (Hill & Rothaermel, 2003; Katila, 2002; Katila & Ahuja, 2002; March, 1991; Nerkar, 2003). Based on this research body, we expect that exploitative and explorative innovation strategies do not equally moderate the outcome of a sustainable business strategy. In some circumstances, the moderating effect of exploratory innovation strategies could prevail, in other circumstances an exploitative innovation strategy might act as a stronger moderator. In the following, we argue that the nature of the demands in the institutional environment influences the moderating effects of explorative and exploitative innovation strategies. Hence, we analyse varying social exogenous contingencies in order to evaluate the profit generating potential of different complementary strategies. In doing so, we provide an example for the type of contingent resource-based research that we have called for in chapter II.3.

The influence of the institutional environment on the moderating influence of explorative and exploitative innovation strategies (P7)

Social expectancies regarding an issue gradually develop from normative to cognitive demands (Greenwood et al., 2002; Hoffman, 1999). While normative expectancies focus on what a business should do in order to be judged as legitimate, the cognitive expectancies are even more prescriptive as these focus on how a business should pursue its actions. For example, Total Quality Management was first described in the
literature as a management practice that a business should pursue in order to be regarded as legitimate by the industry and its customers. At this stage, the exact design of a business’ Total Quality Management (TQM) system was of little interest. Instead, the usage of various TQM methods such as the “Plan, Do, Check, Act” cycle or quality circles granted a business with the legitimacy of being quality-oriented (Zbaracki, 1998). With the introduction of the ISO 9000 certificate, the expectations concerning TQM became narrower. At this stage, selected TQM practices did not provide legitimacy anymore. Instead, businesses required a certificate (Guler et al., 2002).

Reviewing the development, Zbaracki (1998) points out that early adopters “implement whatever works for them”. Later adopters, however, choose to introduce a more narrowly conceived TQM” (Zbaracki, 1998, p.604, emphasis added). Similarly, we expect that the early adopters of a sustainable purchasing strategy demonstrate more flexibility and greater innovativeness than late adopters who only aspire a certificate for their purchasing strategy.

We argue that the early adoptions of a sustainable purchasing strategy - in an institutional environment dominated by normative demands - will demand similar capabilities from a business as it usually requires for explorative innovations. The business will need to invest fewer resources in the development of a sustainable purchasing strategy, if it already possesses capabilities such as the management of loosely coupled business units that it can use to experiment on new sourcing strategies. In a cognitive institutional environment, however, when a common industry standard has already been established for sustainable purchasing strategies, there is no need for such experimentation. Instead, the business will primarily require the skill to efficiently adapt its strategies to the demands of the certificate. Hence, we expect that an exploitative innovation strategy, which is characterized by “paradigms” (March, 1991, p.85), will prove especially valuable for a business if it implements a sustainable purchasing strategy in a phase of cognitive demands in the institutional environment.

This proposition sheds some additional light on the research on the trade-offs between explorative and exploitative innovation. Previous studies suggest that both, an excessive focus on exploitative innovation as well as an excessive focus on explorative innovation lead to a decreasing business performance (Hill & Rothaermel, 2003; Katila & Ahuja, 2002; Nerkar, 2003). While we build on this research, we further consider the possibility of varying exogenous contingencies. We conclude that a strong emphasis on explorative innovation may be appropriate in one institutional environment while a strong emphasis on exploitative innovation may be more appropriate in another institutional environment25.

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25 Hereby, we focus on the distinction of a normative vs. a cognitive inst. environment as any influence of the regulative inst. environment is dependent on the design of the regulations (Majumdar & Marcus,
**Proposition 7:** The moderating effect of exploitative innovation strategies (P5) will be stronger in an institutional environment dominated by cognitive demands than in an institutional environment dominated by normative demands.

The moderating effect of explorative innovation strategies (P6) will be stronger in an institutional environment dominated by normative demands than in an institutional environment dominated by cognitive demands.

**Outcome of a sustainable purchasing strategy: resource-based perspective (P8)**

The preceding propositions suggest that different innovation strategies enhance the competitive advantage of a sustainable purchasing strategy. Does this imply that there generally exists a positive linkage between a sustainable purchasing strategy and competitive advantage? Meta analyses provide empiric evidence that it does “pay” to allocate resources to a sustainable business strategy (Margolis & Walsh, 2003, Orlitzky, 2003). However, as Margolis & Walsh caution, each successive study on the linkage between corporate social performance and corporate financial performance reveals “the inevitable inadequacies of empirically tackling the question” (Margolis & Walsh, 2003, p. 278).

Indeed, what the research body on the outcome of sustainable business strategies can offer is an investigation of the benefits that businesses gain from pursuing a sustainable business strategy, today. What this research body cannot address, is the question whether there generally exists a positive association between resource allocation to a sustainable business strategy and competitive advantage.

Empirically, the linearity of this association has been questioned by Wagner & Schaltegger (2004). We complement their research as we examine the theory questioning that linearity. To this end, we draw on the resource-based view. Note that the adoption of a new strategy initially requires resources and capabilities that can (partly) be leveraged from other strategies. For example, we previously cited Toyota and its strategy of developing fuel cells for the car industry. In that context, we pointed out that developing fuel cells for the construction industry is a complementary strategy. The two strategies were judged as complementary because they require a share of common resources that can be leveraged from one strategy to another, cf. the left-hand side of Figure 17. It is important to note, though, that the relative share of leverageable resources decreases once one of the two strategies begins to dominate the other, cf. the right-hand side of Figure 17. This would be the case if Toyota began to raise its resource allocation to one of the two strategies. Toyota might well foster the development of the focal strategy (developing fuel cells for the car industry) by
increasing its resource allocation to R2 (the number of electrical engineers employed) and resource R3 (the number of mechanical engineers employed), cf. the right-hand side of Figure 17. These extra resources R2 and R3, however, would not be leverageable to Toyota’s complementary strategy (developing fuel cells for the construction industry) any longer. These extra resources could only be fully exploited by both strategies, if Toyota simultaneously invested in all other resources that are specific to its strategy in the construction industry (these strategy-specific resources are summarized as R4 in Figure 17).

At some point, the very same problem arises with resource allocations to a sustainable purchasing strategy. We previously noted that the capability to manage a loosely coupled department is beneficial for an explorative innovation strategy as well as a sustainable purchasing strategy (Proposition 2). If, however, a business decides to significantly increase its resource allocation to a sustainable purchasing strategy and to design an ‘unprecedented’, sustainable purchasing strategy, then the business will require even better developed capabilities in managing a loosely coupled business unit for designing such a sustainable purchasing strategy. If, at the same time, the business maintains its existing, explorative innovation strategy, then it will only fully benefit from further development of this capability for a single strategy.

Figure 17: Adoption of a new strategy. Initially, the adoption of a new strategy (here: the focal strategy) can increase the share of resources that can be leveraged from one strategy to another. However, from some level of resource allocation to the new strategy onwards, the total share of “leverageable” resources decreases again.

As a consequence, the returns of further resource allocation to a sustainable purchasing strategy diminish as the applicability of resource allocations becomes narrower (e.g. Mishina et al., 2004; Slotegraaf et al., 2003). It could be argued that a business could maintain a high share of “leverageable” resources and capabilities by increasing resource allocations to its explorative innovation strategy simultaneously. However, as the resources of a business are finite (e.g. Leonard-Barton, 1992), the
business may not be able to raise resource allocations to several strategies at the same time. Therefore, **there is an optimal level of resource allocation to a sustainable purchasing strategy. At that very level, the share of resources that can be leveraged from a sustainable purchasing strategy to other strategies of the business is maximized.** Higher, as well as lower, resource allocation to a sustainable purchasing strategy would only decrease the share of leverageable resources and thus decrease competitive advantage. This is because competitive advantage arises from strategies that build on a high share of similar resources and capabilities (Barney, 1991; Madhok, 2002).

**Proposition 8:** From a resource-based perspective, there is an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and competitive advantage.

**Outcome of a sustainable purchasing strategy: institutional perspective (P9)**

Does the institutional logic support the proposition of an inverted U-shaped relation? To date, the bulk of research on sustainable business strategies suggests linear strategy-outcome relations with the majority of observances suggesting that the relation is positive (Orlitzky et al., 2003). The threat of a theory development that draws on these findings is that it is likely to “sidestep the underlying tensions between social and economic imperatives that confront organizations” (Margolis & Walsh, 2003, p.280).

In order to reveal these tensions more clearly, we now complement the institutional logic with a contractarian perspective (Bradley et al., 1999; Donaldson & Dunfee, 1999). Without such an integration of a contractarian view, we could argue that there are norms and standard models hindering very little as well as exceptionally high resource allocations of a business to a sustainable purchasing strategy. Through consideration of a contractarian view, however, we can acknowledge the fact that the norms and standard models are controlled by different groups. In integrating the contractarian perspective, we follow the first three steps of the approach that we developed in chapter II.4.5.

*The first step* is to identify the level at which we examine our focal strategy. In our context, we examine the sustainable purchasing strategy of single businesses in the European food industry (rather than examining the purchasing strategy of a global industry or of individual managers).

*In a second step,* we unbundle the array of legitimacy and analyze its single elements, cf. chapters II.4.2 and II.4.5. Thus, we identify the single aspects of legitimacy that a sustainable purchasing strategy in the European food industry needs to fulfil in order to be judged as legitimate by the stakeholders.

- Drawing on the triple-bottom line, we identify two major elements of legitimacy: on
the one hand, the *societal (i.e. the ecological and social) legitimacy* of a business’ purchasing strategy and on the other, its *economic legitimacy*.  

*In a third step*, we identify the sources of legitimacy. In our context, the societal legitimacy of a business’ purchasing stems from the business’ compliance with the *societal contract*. The control of a business’ compliance with this contract is exerted by groups such as the government, industry associations, or NGOs. These parties ensure that the business fulfils a certain minimum of ecological and social purchasing performance, thereby fulfilling minimal expectations of society. 

The economic legitimacy, however, stems from compliance with the *economic contract*. Shareholders are not primarily concerned with ecological or social aspects of a sustainable purchasing strategy but its economic implications. If those financial resources devoted to a sustainable purchasing strategy eventually lack the market deployment budget or the corporate R&D budget, then the shareholders will demand to restrict the resource allocation to a sustainable purchasing strategy. Thus, the economic contract hinders a business to allocate too many resources to a sustainable purchasing strategy, cf. Figure 18.

![Figure 18: Social contracts restrict the range of possible resource allocations.](image)

In order to illustrate the influence of the societal and the economic contract on corporate decision-making, consider the research of Kassinis & Vafeas (2002). The authors examine the influence of board composition on the likelihood of environmental prosecution of a business. They find that a business is less likely to be subject of environmental prosecution if its board of directors comprises academics, members of the clergy or politicians - thus directors representing the societal contract of a business. However, if the board primarily comprises directors working in the industry - thus, directors representing the economic contract - then the business will be more likely to be subject to environmental prosecution (Kassinis & Vafeas, 2002).
Stakeholders (and their representatives on the board of directors) tend to assess a business’ obedience with respect to one of the two contracts, only. While NGOs assess obedience with respect to the societal contract, shareholders assess obedience with respect to the economic contract. Consequently, each of these stakeholder groups can only grant either societal or economic legitimacy. If a business wants to ensure both kinds of legitimacy, it needs to obey to the economic as well as the societal contract. This leaves management with a restricted range of resource allocations where the overall legitimacy of the business is maximized. If legitimacy is source of competitive advantage (Oliver, 1997b), then the business can afford neither “too little” nor “too high” a resource allocation.

Proposition 9: From an institutional perspective, there is an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and competitive advantage.

Resources for institutional entrepreneurship (P10)

If the function that relates resource allocation to competitive advantage is nonlinear, then the question is how the function can be “shifted”. Thus, how can managers ensure that further resource allocation to a sustainable purchasing strategy still increases rather than diminishes a business’ competitive advantage? Institutional entrepreneurship suggests that the competitive advantage of a sustainable purchasing strategy can be raised by influencing the societal and the economic contract. If a business shifts those constraints that restrict its resource allocation to a sustainable purchasing strategy, then the optimal level of resource allocation shifts as well, cf. Figure 19. Yet, influencing different contracts (and the minds of the people contracting to these), requires different resources and capabilities (Maguire et al., 2004). What are those resources and capabilities that enable successful institutional entrepreneurship?

To the best of our knowledge, that question has not been addressed by previous research. However, in integrating the contingent resource-based view and institutional entrepreneurship in chapter II.3, we highlighted that this question needs to be addressed, if institutional entrepreneurship is to become a managerial tool and not a phenomenon that is relevant to the academic community, only.

In our research context, we find that one specific resource (namely social capital of the business among the contractors of the societal contract) is important for successfully influencing the societal contract. The more social capital a business enjoys among the

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26 Social capital is a resource that comprises three dimensions (Nahapiet & Goshal, 1998) which are all relevant for influencing the demands of contractors. First, the structural dimension of social capital addresses the number of relations that a business maintains with representatives of a stakeholder group (e.g.: which representatives of
contractors of the societal contract, the easier it will find to influence the societal contract. In Figure 19, the possible influence of a business on the societal contract is reflected by the length of the arrow $\mu$.

For influencing the economic contract, however, the business requires social capital among the contractors of the economic contract. The more of this social capital a business possesses, the easier it will find to influence the economic contract. Again, the possible influence of a business on the economic contract is reflected by the length of the arrow $\phi$ in Figure 19.

Drawing on the contingent resource-based logic that we developed in chapter II.3, we might expect that different types of social capital be of different value in different institutional environments. Indeed, researchers have already provided evidence for a contingent value of social capital. At the individual level, the value of a senior manager’s social capital has been described as being contingent upon industry diversification (Geletkanycz et al., 2001) as well as the number of managers executing the same tasks (Burt, 1997). At the organizational level, the value of corporate social capital has been described as contingent upon the stage of an economy’s institutionalization (Peng, 2003). In these studies, however, researchers have used aggregate measures of social capital. Thus, the studies provide an insight on the

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the societal contract does the business maintain relations with?). The relational dimension probes the nature of these relations (are the relations characterized by trust?). The cognitive dimension addresses common grounds (e.g.: does the business have the same vision as the representatives of the societal contract? does the business ‘speak the same language’?).
overall value of social capital but not on the value of different types of social capital among different groups or contractors. An exception is the research of Gulati & Higgins (2003). The authors find that a young business’ networks with investment banks are valuable in unpredictable markets while networks with venture capital firms are particularly valuable in predictable markets. We build on this research and suggest that different types of social capital are of different value throughout the development of institutions. For the development of the corresponding proposition, we consider the case of sustainable purchasing strategies again.

As noted earlier, a business’ obedience with respect to its economic contract is controlled by its shareholders. This statement holds independently of whether an industry standard (a label) with respect to ecological and social purchasing performance has been defined in an industry or not. In both cases, higher resource allocations to ecological & social business performance need to be approved by the shareholders. If the business enjoys social capital among its shareholders, then it will gain their support for higher resource allocations to a sustainable purchasing strategy more easily.

However, for influencing the societal contract (and the minds of people demanding a certain minimum of resource allocation), the business requires different types of social capital at different points of time. Before a common industry standard has evolved, a business’ obedience with respect to the societal contract is judged by NGOs (Hoffman, 1999). This phase characterizes an institutional environment dominated by normative demands. Yet, in a “cognitive” institutional environment, obedience with respect to the societal contract is increasingly controlled by industry associations (Hoffman, 1999). In this phase, industry representatives join forces in the establishment of a standard. If a business seeks to influence this arising standard, it requires social capital in the industry. Thus, through cooperation with NGOs, a business can succeed in turning the sustainable purchasing of a raw material into a desirable or appropriate action. Yet, for the development of a broader industry standard that ultimately develops due to such normative demands, the business needs to succeed in cooperating with other businesses. Otherwise, the industry will develop a standard that the business that exerted the normative pressure, has no influence on.

**Proposition 10:** In an institutional environment dominated by normative demands, social capital among NGOs supports the business in influencing the societal contract.

In an institutional environment dominated by cognitive demands, social capital in the industry supports the business in influencing the societal contract.
IV  Theory verification - case studies

In this chapter, we highlight our approach to verifying the propositions presented in chapter III. Selecting a narrative case study method, we subsequently describe the adoption and the implementation of a sustainable purchasing strategy by four European food-operating businesses. For each of these case studies, we provide a narrative account. These narrative accounts are each analyzed for evidence supporting or opposing each of the propositions we developed in the previous chapter.

IV.1 Methods

The choice of our methods for theory testing is based on the nature of the propositions that we want to verify. Drawing on Mohr (1982) as well as Pye & Pettigrew (2005), we distinguish between two types of theories explaining the adoption of a new business strategy. The first type, variance models, are widely used in strategic management research (e.g. by Dyer & Singh, 1998). Such variance-based theory models are based on the logic that more of a variable x or y increases the value of z (Langley, 1999). In our research model, propositions P5 and P6 provide examples for this type of theory. However, process models, differ in that they additionally consider the role of time-dependent changes, cf. Figure 20. In this type of theory, “one core concept (stage or step) is highlighted at any given time” (Ofori-Dankwa & Julian, 2001, p. 420). Consequently, such research “is concerned with understanding how things evolve over time and why they change in this way” (Langley, 1999, p. 692). Examples of process theory include the punctuated equilibrium model of organizational transformation (Tushman & Anderson, 1986). In our research model, propositions P7 and P10 are based on a process model of theory. In these propositions, we predict that corporate assets are of different value at different points of time. Hereby, we distinguish between the stage of an institutional environment dominated by normative demands and its subsequent stage of an institutional environment that is dominated by cognitive demands (Greenwood et al., 2002; Hoffman, 1999). Thus, our theory includes process-related propositions.

Furthermore, our theory is strongly context-specific as all but propositions P1 to P7 and P10 refer to the business-internal as well as the external context of a sustainable purchasing strategy. Pettigrew (1990) argues that a comparative longitudinal case study method is optimal for verifying such “processual”, “contextualist” theories.

27 Recall that proposition P5 and P6 describe the influence of innovation strategies on the linkage between a sustainable purchasing strategy and competitive advantage.
Figure 20: Variance model and process model of theory (Langley, 1999; Mohr, 1982)

On the one hand, this method allows the researcher to track time-dependent changes of a strategy. On the other, the researcher gains a rich understanding of the business environment. Consequently, the researcher is put in a position where he can analyze how “context is a product of action and vice versa” (Pettigrew, 1990, p.270). Clearly, this is a precondition for verifying proposition P3 and P10, which jointly predict an interrelation of business strategy and institutional environment.

While researchers have acknowledged the high accuracy of the narrative account method, concerns have been raised regarding the complexity of data handling as well as difficulties in drawing generalizations from the data (Pettigrew, 1997). Romanelli & Tushman (1986, p. 619) call for a middle-range approach that maintains the richness of context-related data while categorizing it in order to facilitate generalization. We therefore complement the method of comparative narrative accounts with a highly structured content analysis. Following the presentation of each narrative account, we analyze it with respect to evidence for every one of the 10 propositions that we developed in the previous section. The following section describes our design of a comparative case study method in more detail.
IV.1.1 Case study design

It has been argued that the research design of a case study should particularly comprise five elements (Yin, 1994):

A. Research Questions
B. Propositions
C. Unit(s) of analysis
D. The logic linking data to propositions
E. The criteria for interpreting the findings

In the following paragraphs, we report on our approach with respect to the first three elements of the case study design. The last two issues (D & E) will be addressed in the section on data analysis (p. 77).

Research Questions

The research questions that the case studies address are those research questions we derived in chapter I. From a deductive perspective, the propositions regarding these questions have been developed in chapter III. In this chapter, we verify these propositions from an inductive perspective.

Propositions

It has been suggested that case study research should begin as close as possible to the “ideal of no theory under consideration and no hypotheses to test “ (Eisenhardt, 1989, p. 539). However, other researchers have argued that “hypotheses [ ] sharpen the focus” (Stake, 1995, p. 16) and increase the potential scientific influence of a process study (Pye & Pettigrew, 2005). From this viewpoint, “theory development prior to the collection of any data is an essential step in doing case studies” (Yin, 1994, p.28). We adopt this latter stance, as our purpose in applying a comparative narrative case study method is to verify the propositions developed in chapter III.

Unit(s) of analysis

Pettigrew points out that a key characteristic of processual research is to study processes at several levels of analysis (Pettigrew, 1990). As processes are embedded in a context, any “explanations of the relative performance of firms should be linked to higher levels of analysis (sector changes and alterations in national and international political and economical context) and lower levels of analysis (the drivers and inhibitors of change characteristic of different firms such as culture, history, and political structures)” (Pettigrew, 1997, p. 340). Drawing on this insight, we make use of an embedded multiple case design, cf. Figure 21 (Yin, 1994, p. 39). Our main unit of analysis is the business with our lower levels of analysis being the
individual managers and the higher levels of analysis being industry associations as well as the general societal context.

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<tr>
<th></th>
<th>Single-case designs</th>
<th>Multiple-case designs</th>
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<td>Holistic (single unit of analysis)</td>
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<td>Embedded (multiple units of analysis)</td>
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Figure 21: Selected design (table based on Yin, 1994)

In the single case studies, we study specifically the purchasing activities of a business. Among the range of supply chain activities, the case studies focus on the sustainability of raw material production. Transport, storage and processing are not being considered as elements of a sustainable purchasing strategy in this research.

Figure 22: Selected focus in the supply chain

We only consider the purchasing of raw materials that are sourced as the ingredients of food products. The case studies exclude the sourcing of packaging, food additives, as well as agricultural raw materials that are not being processed.

Figure 23: Focus among the products sourced by a food operating business
IV.1.2 Case selection

Considerate case selection is vital for ensuring the construct validity as well as the internal validity of the case studies. In quantitative research, construct validity examines the degree to which a scale measures what it claims to measure (Churchill, 1979). In case study research construct validity is determined throughout two research phases: the case selection and the data analysis. Throughout the case selection, we determine construct validity by selecting cases that are suited for verifying those strategies and contexts we want to study. This implies that we select cases of European food operating businesses that have actually adopted a sustainable purchasing strategy. Drawing on our definition of a sustainable purchasing strategy (cf. chapter I.5), we ensure throughout case selection that the business’ purchasing strategy does provide social and ecological benefits along with the traditional goals of the businesses.

In order to satisfy this demand, we only select cases of businesses that have established a sustainable purchasing strategy in collaboration with external stakeholders such as industry associations or NGOs. This “filter” increases the likelihood that the business has considered stakeholder demands in establishing its purchasing strategy. More importantly, due to a business’ collaboration with external parties, we gain access to multiple sources of evidence. If we are in a position to study documents written by multiple parties, we can ensure the construct validity of the case studies (Yin, 1994).

In order to satisfy the external validity of the case studies and to allow a generalization of our findings, we use theoretical sampling (Eisenhardt, 1989; Teagarden & von Glinow, 1995). Hence, we alter control variables from case study to case study in order to draw conclusions on the processes and contexts of a wide range of businesses. These control variables are listed in the following:

First, previous research suggests that the ownership structure influences the decision of a business to adopt a sustainable purchasing strategy (Mauser, 2001). We therefore control for the ownership structure in selecting the case studies.

Second, we control for the volumes. Those internationally operating businesses that purchase several percentage of an agricultural raw material’s worldwide production face different challenges than their local counterparts (Waddock & Graves, 1997).

Third, we control for the scope of a sustainable purchasing strategy. Some sustainable purchasing strategies generate an improvement of ecological and social performance, which is primarily of benefit for primary stakeholders. In this specific context, we define primary stakeholders as all natural and human capital that is no common good but used exclusively by one agricultural producer. To illustrate, if a producer reduces the soil erosion and improves health & safety regulations on his
farm he safeguards capital that is only used by him (and not shared with competing producers). However, other improvements of ecological or social performance generate equal value for secondary stakeholders. For example, if a business engages in the protection of the oceans, it achieves an improvement that is of equal ecological benefit for itself as well as the operations of other businesses. Similarly, if a business funds public education, it generates a social value that is of equal value for the business as well as its competitors.

<table>
<thead>
<tr>
<th>Improvement of ecological performance…</th>
<th>…of particular benefit for primary stakeholders</th>
<th>…of equal benefit for secondary stakeholders</th>
</tr>
</thead>
<tbody>
<tr>
<td>reduced soil erosion</td>
<td>protection of the oceans</td>
<td></td>
</tr>
<tr>
<td>Improvement of social performance…</td>
<td>social insurance for farmers' employees</td>
<td>funding of public education</td>
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</tbody>
</table>

**Table 5: Illustration of diverse objectives.** Sustainable purchasing strategies are designed to improve the ecological, social, and environmental performance of purchasing. However, the strategies of the food manufacturers differ in the range of desired ecological and social value creation.

Due to a collective action dilemma, the “motivation” of a business to implement any actions beneficial for secondary stakeholders may be lower than the business’ motivation to implement actions that are only beneficial for primary stakeholders (Prakash, 2002). Furthermore, there is evidence that the competitive implications of supporting the demands of secondary stakeholders are different from those of supporting the demands of primary stakeholders (Hillman & Keim, 2001). Therefore, we distinguish those sustainable purchasing strategies that provide a benefit for primary stakeholders from those providing an equal benefit for secondary stakeholders.

Considering these control variables, we select the following case studies: purchasing of palm oil by Migros, purchasing of fish by Unilever and Frosta, and purchasing of green coffee beans by Nestlé. Table 6 details how the case studies score on the control variables.
IV.1.3 Data collection

We structured the data collection for each case study in three phases. Throughout phase one, we researched the adoption of the business’ sustainable purchasing strategy by consulting texts published on the web pages of the business and its partners (such as industry associations, consultancies, or NGOs) who supported the adoption of the sustainable purchasing strategy. Furthermore, we researched the databases Factiva, Business Source Premier, and the European Case Clearing House. In each of these databases, we ran full-text queries on the name of the business (e.g., Migros) along with the agricultural raw material to be examined in the case study (e.g., palm oil). For the Nestlé case study, we further limited the full-text query in the Factiva database by adding the keyword “sustainability” or “corporate social responsibility”. This restriction was necessary due to the number of general newspaper articles reporting on Nestlé and its coffee-sourcing business unit.

During phase two, we conducted interviews with the actors who have been involved in the adoption of the sustainable purchasing strategy. The identification of these persons followed a snowball principle. Prior to the interviews, we sent the informants the table of events we had already compiled concerning the adoption of the sustainable purchasing strategy. While we did not communicate any theory of us in advance, the table helped to structure the interviews and served as a validation of the data previously gathered.

During phase three, we researched any discrepancies that had emerged while comparing the accounts of our interview partners with the data we had previously gathered. To settle the discrepancies, we consulted further business-internal and business-external texts that addressed particularly issues where the narrative account of our interview partners and the data we had previously gathered departed from one
another. Consequently, the third research phase served as a validation of the data collected during the interviews. This approach of confronting several data sources with one another helped us to gain the “true story” of the case study, the description of the events as well as their relationships (Pentland, 1999).

IV.1.4 Data analysis
We used a two-step approach for linking the data to the propositions. In a first step, we made use of pattern-matching for each case study. Hence, we “unpacked” each narrative account and related its pieces of evidence to the propositions of our research model (Yin, 1994). In order to make sure that we correctly identified causal relationships and to ensure the internal validity of our data analysis, this step was done in parallel by the principal researcher and a Masters student from the Rotterdam School of Management. For each case study, we noted any evidence departing from the research model and examined whether subsequent replications (the other case studies) would further contribute to this evidence. We chose to analyze the Migros case study first. This decision was made as we could draw on a very rich data pool (including business-internal meeting protocols) in analyzing this case study. Hence, we considered it likely that evidence for a theory departing from our research model could first be revealed by the data summarized in the Migros case study.

Following the Migros case study, we began to analyze the other three case studies. The sequencing of analysis was now opportunistic as we analyzed those cases where our data compilation was saturated first.

In a second step, we summarized the evidence of the single case studies that departed from the research model. Evidence that did hint to an alternative theoretical model was subsequently considered as the basis for alternating the research model.

In the following, we report on the four case studies, beginning with the case of Migros and its purchasing of sustainable palm oil.
**IV.2 Migros case study**

This case study describes the adoption of a sustainable purchasing strategy in the palm oil supply chain of the Swiss retailer Migros. The purchasing standard that Migros developed in collaboration with the World Wide Fund (formerly known as the World Wildlife Fund, WWF) has become the basis for an international standard on palm oil production today.

**IV.2.1 Narrative account**

A newspaper article evokes normative demands

During a short lunch break on November, 10\(^{th}\) 1999, Dr. Robert Keller was scanning the newspaper headlines. He had only few minutes left prior to a meeting with his senior R&D staff at the MIFA AG, Migros’ manufacturer of fats and detergents. Yet, when Keller was about to put the newspaper aside, he noticed an article that struck his interest.

In this article, Andreas Bänziger, a journalist researching news for the *Tages Anzeiger* in Asia, reported on the hardship of the native people of Borneo, the Penen people. The journalist wrote:

> Back in 1881, the Norwegian scientist and adventurer Carl Bock still described Borneo as an island that the monkeys could traverse by swinging from tree to tree, without ever placing a foot on the ground. Today, however, the native people of Borneo note that the monkeys have changed their habits. Rather than swinging from treetop to treetop, they now walk on the ground.

Who or what is to blame for this change? Certainly “the company”, the corporation with the licence to clear 700 000 hectares of rain forest in Borneo, an area equalling one sixth of the area of Switzerland. [ ].

For months, the Penan have tried to stop the encroachment of the bulldozers, they have tried to fight for their right of living in the forest - until they were chased away by the police with teargas.\(^{28}\)

Yet, as the journalist further explained, placing the blame on the timber industry and its global customers only meant taking a myopic stance. There was a second player whose resource demands continued to threaten the rain forest: the palm oil industry. Large producers of palm oil awaited the clearing of the rainforest by “the company”, then bought the ground and set up palm tree plantations. This link between palm oil plantations and deforestation of the rain forest, however, was largely unknown in Europe. Thus, the journalist further wrote:

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The unsuspecting consumers are in Europe. The very same environmentally conscious citizens who demand an import boycott of tropic woods originating from an unsustainable production enjoy the rainforest for breakfast. They put it on their lips and use it for keeping their hands tender.

Dr. Keller quickly understood the allusion of this closing sentence. Holding a PhD in chemical engineering, he was very well aware of the various uses of palm oil. At the MIFA AG, where he headed the Research & Development department, palm oil was used for the manufacturing of various products, including margarine. Other Migros-owned factories made use of palm oil in cosmetics products. However, while Keller was an expert in the industrial applications of palm oil, the ecological problems associated with the production of this raw material were new to him.

Robert Keller took the article aside and prepared for the R&D meeting. Yet, he was unsettled by the news. How would the Swiss consumers respond to such an article? Could it put the reputation of the retailer Migros at risk? After all, Switzerland’s largest retailer wholly owned the MIFA AG.

**Migros responds to the newspaper article**

In the following days, Robert Keller researched further on the palm oil story. He learnt that throughout 1997, vast, uncontrolled fires had swept through the rainforests of Indonesia and Malaysia. There was evidence that these fires had been fuelled by corporations that had bought licences for crop cultivation in the pristine rainforests\(^\text{29,30}\). In response, WWF International had triggered a pilot campaign in Europe. Robert Keller realized that WWF Switzerland had set up a webpage in the spring of 1998, already\(^\text{31}\). Designed as an information platform, this website provided the Swiss consumers with information on how they could approach retailers and manufacturers for demanding a certified origin of palm oil. To Robert Keller, it only appeared as a matter of time until this internet platform, in combination with the coverage in the Tages Anzeiger, would fuel inquiries of Migros’ consumers regarding the provenance of the retailer’s palm oil.

Robert Keller felt compelled to respond. Eleven days after the publication of the article in the Tages Anzeiger, he submitted a letter to the editor of the newspaper\(^\text{32}\). While acknowledging that the article on Borneo had addressed an issue of vital importance, Keller pointed out that the palm oil exports to European consumer

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\(^\text{31}\) www.checkyouroil.org, retrieved on April 21, 2005.

goods manufacturers did not contribute significantly to the ongoing deforestation of the rainforest. He wrote in his letter to the editor:

> European consumption [of palm oil] only accounts for a small share of the global palm oil demands. In fact, the European consumption of vegetable oils, such as palm oil and palm kernel oil, has dropped throughout the last years.\(^{33}\)

Nevertheless, while the above statement helped Migros to calm things down, the question remained whether a defensive approach was appropriate as the long-term strategy for answering demands for sustainable palm oil supply chains. Reflecting on this strategic choice later, Keller said:

> We had two alternatives at hand: either to pursue a defensive strategy or to get active. We decided to choose the latter.\(^{34}\)

Note that Keller had already provided a hint of the pursuit of the “active approach” in his letter to the Tages Anzeiger in 1999. In the closing line, he indicated:

> The destruction of the rainforest can only be averted by utilizing [its resources] in a sustainable manner. The cultivation of palm oil must be allowed. Nevertheless, we require more sustainable cultivation methods.\(^{35}\)

Yet, what where those “more sustainable” cultivation methods? How should Migros pursue the “active approach” of changing its current palm supplies? In an interview, Keller later recalled the following.

> At that time, it was clear that MIFA did not intend to boycott palm oil as a raw material since it represents a vital source of income for the producing countries. Furthermore, a boycott by MIFA or even by the entire Swiss consumer goods industry would not make a difference. The palm oil imports to Switzerland only add up to 10,000 tons annually - a small figure in comparison to the 23 million tons of annual palm oil production worldwide.”\(^{36}\)

Clearly, Migros was looking for another solution than a boycott of palm oil.

**Migros searches for a non-governmental organization (NGO) as a partner**

In the Tages Anzeiger article, the journalist had mentioned the Bruno Manser Fonds, a Swiss non-governmental organization. The founder of this NGO had been

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\(^{33}\) Ibid.


\(^{36}\) Ibid.
living with the Penans and had supported their interests. Peter Keller decided to contact this NGO in order to explore the options of Migros in sourcing sustainable palm oil. This contact, however, did not result in a long-term collaboration.

Yet, Migros did want to collaborate with an external partner in addressing the palm oil problem. As Fausta Borsani, the head of ethical and ecological projects at Migros, notes:

“The way we commonly work at Migros [regarding issues of sustainability] is that we identify a problem or an issue, then we identify partners to address the problem, we build up trust, experience, and a partnership.”

Collaboration with an external partner clearly was in line with Migros’ culture. Yet, which other party than the Bruno Manser Fonds could support Migros in this context?

Peter Keller contacted managers at Migros who regularly worked on issues regarding sustainability. He learnt that Migros had been collaborating closely with the World Wide Fund (WWF) since 1997, when Migros began purchasing wood products certified by the Forest Stewardship Council. Back then, Migros had been a founding member of the WWF Wood Group Switzerland.

Migros thus contacted the WWF in early 2000 in order to explore the possibility of a partnership for the creation of a sustainable palm oil supply chain.

**Migros collaborates with the World Wide Fund (WWF)**

On May, 11th 2000, a first meeting of Migros and WWF managers was held in Zurich. Robert Keller of Migros was joined by Willi Eisele, Migros’ purchasing manager for vegetable oils, and Andrea Ries, a member of the board of WWF Switzerland.

Prior to the meeting, Willi Eisele and Robert Keller felt slightly uneasy. They did not really know whether Migros and the NGO could find a common understanding of the palm oil problem. Robert Keller summarized these feelings in an interview:

“If you are not experienced in working with NGOs, then you tend to think of them as organizations that fight the industry and its supporting lobbies.”

Were these judgements justified? Would the WWF indeed take a confrontative
posture during the meeting with Migros? As the meeting took off, the concerns quickly vanished. The Migros managers learnt from the WWF that no NGO had developed criteria regarding the certification of sustainable palm oil to that date. In the meeting, the WWF openly acknowledged that no NGO really was in a position to tell the industry how they should cultivate palm trees in order to ensure their sustainability. A standard for the purchasing of palm oil (similar to the well-known Forest Stewardship Council) still had to be designed.

Robert Keller and Willi Eisele became interested in collaborating with the WWF on the palm oil issue. They agreed on another meeting with WWF’s Andrea Ries in July 2000 – this time the meeting was to be held in the offices of the WWF. The relief and the confidence that Migros’ managers felt after the meeting of May 11th, 2000 can be grasped in the meeting protocol of Migros. Summarizing the outcome of the meeting, Migros’ managers noted:

We were surprised, how cooperative the WWF is. They are seeking for a solution, they want to achieve a change, and they are not interested in a confrontation.

Motivated by the outcome of the first meeting, Robert Keller and Willi Eisele requested from Migros’ senior management the go ahead for collaboration on a joint project on sustainable purchasing of palm oil with the WWF.

In this very period, Migros also was in the process of redesigning the organization as well as the communication of its efforts in the management of social and environmental issues. On May, 9th 2000, Migros had launched the miosphere.ch webpage, a central access point for information on the retailer’s social and environmental projects. A position for a head of environmental and ethical projects had been set up in the Corporate Communications department. Mrs. Fausta Borsani, an agricultural engineer by training, gained the appointment to this position. Mrs. Borsani brought along extensive experience in the work of NGOs. Prior to joining Migros, she had worked for five years for the Siftung für Konsumentenschutz, a Swiss NGO advocating consumer rights. Thus, she was very experienced in the culture and strategy of NGOs.

Fausta Borsani, Peter Keller, and Willi Isele formed the team for the palm oil project. Their skills seemed to fit one another perfectly. Keller provided the long-term experience in senior management and R&D at Migros, Willi Eisele was knowledgeable about the palm oil purchases of Migros, and Fausta Borsani had a very good understanding of the thinking of NGOs.

Internally, the team gained support from the Marketing department for collaboration.

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41 The webpage was later renamed into engagement.ch.
with the WWF. On July 4th, 2000, in a meeting with the WWF, Robert Keller officially confirmed to Andrea Ries that Migros’ senior management had approved the collaboration with the WWF. Following the meeting, Andrea Ries began to inform her peers on the boards of other WWF country groups that a joint project on palm oil was initiated in Switzerland. For Andrea Ries and her colleagues, the Swiss market was to become a test-market for the implementation of a global standard for sustainable purchasing of palm oil.

Migros’ members of the palm oil team devised a budget for the single project phases, including the development of the criteria and the identification of suppliers. The development of the criteria then dominated the work of Migros and the WWF throughout the following months. It was a very challenging process as the criteria ultimately had to be applicable and relevant to the palm oil production in several countries. As no standards on sustainable palm oil production existed worldwide, the project members had to consult various sources to develop an integral standard. Still, by early November 2000, Migros and the WWF had jointly established a draft list of seven criteria for palm oil production. Now, the viability of these criteria had to be assessed in practice. Migros thus asked its two palm oil suppliers to join Migros and the WWF in their next meeting.

**Migros negotiates prices for sustainable palm oil with its suppliers**

Migros first invited both of its palm oil suppliers at the same time and asked them whether they could adhere to the criteria for sustainable palm oil production. Both suppliers suggested that they could, but they calculated that they would need to raise their prices for a ton of palm oil by 30%.\(^{42,43}\)

Given these figures, Migros noted that it might simply be too costly to purchase palm oil complying with all seven criteria from the outset. Fausta Borsani said that

> “[our] objective has to be to render palm oil sourcing more socially and environmentally responsible while keep it affordable (thus: sustainable)”\(^{44}\)

In order to facilitate further price negotiations, Migros decided to conduct the subsequent talks with the two suppliers separately. Furthermore, the 2\(^{nd}\) tiers, the owners of palm oil plantations, were directly included in these talks.

On a business fair in Nuremberg on February, 16\(^{th}\) 2001, Fausta Borsani thus had a meeting with one of the palm oil suppliers as well as the 2\(^{nd}\) tier, two brothers owning a palm oil plantation in Colombia. Fausta Borsani told the brothers that

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\(^{42}\) Meeting protocol of Migros. November 16, 2000.

\(^{43}\) Meeting protocol of Migros. December 14, 2000.

\(^{44}\) Meeting protocol of Migros. February 16, 2001.
Migros would be willing to pay a surcharge for palm oil from their plantation even though the cultivation methods of the brothers did not fulfil all seven criteria, yet. In exchange for the surcharge, the brothers agreed to achieve an alignment of their operations to all seven criteria within the next three years. However, it was agreed that once the plantation of the brothers would fulfil all criteria, no further surcharge would arise to Migros.

Based on this business model, the three parties could agree on a surcharge that was significantly smaller: thereof, the brothers were granted a 65% share. The remaining 35% of the surcharge resulted from increased logistics costs as the “sustainable” palm oil had to be separated from the produce of other plantations during transport and storage. Similar supply contracts were subsequently established with Migros’ second palm oil supplier and plantations in Ghana and Brazil.

**Migros minimizes the costs for purchasing sustainable palm oil**

At $230, the overall surcharge had now been lowered to a range that was just tolerable for Migros. As Migros had no intent to lower its margins, the retailer pursued two strategies to balance the increased purchasing costs\(^{45}\).

First, Migros raised the prices of margarine manufactured by MIFA. Hereby, care was taken to maintain price leadership. Consequently, the price of some product groups was raised significantly while the price of other margarine products was maintained, depending on the price gap between Migros products and those of competitors.

Second, Migros drew on the Research & Development skills of its food engineers and redesigned several product recipes. Wherever possible, palm oil was being replaced by sunflower oil. Yet, great care had to be taken as sunflower oil demands different processing technologies than palm oil. Because sunflower oil needs to be hardened for processing in food products it could not substitute all palm oil supplies to Migros.

Albeit these limitations, Migros succeeded in lowering its purchasing volume of palm oil by one third. Due to his position as the head of MIFA’s R&D, Robert Keller supervised the changes from palm-oil based products to sunflower-based products\(^{46}\).

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\(^{46}\) Meeting protocol of Migros. September 23, 2002.
2nd NGO supports Migros’ implementation of sustainable palm oil purchasing
With the implementation of the two strategies described above, the palm oil project now approached a stage where the first supplies of sustainable palm oil could be purchased and processed by Migros. In April 2001, the WWF pointed out to Migros that it would now become necessary to involve an expert NGO that had experiences in the fine-tuning of the purchasing criteria as well as the auditing of plantations. The WWF suggested to Migros that it would facilitate the contact with such an NGO. Andrea Ries contacted her network of peer WWF country groups and asked for advice regarding an NGO with experience in establishing and implementing sustainable cultivation methods.

She learnt that ProForest, an NGO based in Oxford, could provide the necessary experience. Following a meeting with WWF Switzerland and Migros, Dr. Ruth Nussbaum, the co-founder of ProForest, agreed to support the project and to supervise the auditing of Migros’ palm oil suppliers in the following years.

In June 2001, the palm oil project progressed further as Migros’ board agreed on a three-step approach for Migros’ transition to sustainable palm oil supplies. First, Migros would switch its margarine production to sustainable palm oil. Second, Migros would switch the entire purchasing of its factories to sustainable palm oil supplies. Third, Migros would demand of external suppliers to process sustainable palm oil in their products only.

In July 2001, now that the project members had ensured the support of the suppliers, an internationally recognized auditor (ProForest), and the backing of Migros’ senior management, the MIFA AG could begin ordering supplies of sustainable palm oil.

Institutional entrepreneurship: Migros influences normative demands
As the first batches of sustainable palm oil from Ghana were processed by Migros’ MIFA AG, one aspect of the palm oil project gained increasing attention: Communicating Migros’ project to the institutional environment.

Recall that in November 1999, Migros’ Robert Keller had first been considering whether the “defensive” or the “pro-active” strategy should be pursued in response to the demands for a sustainable palm oil supply chain. In late 1999, Migros had found itself subject to normative demands in the institutional environment. By 2001, however, Migros’ was conforming to these. Therefore, Migros could afford to raise the normative demands for a sustainable purchasing strategy. This was done by Migros in three complementary ways.

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47 Meeting protocol of Migros, April 6, 2001.
First, Migros granted the WWF and other NGOs to present its palm oil project as a role model for other businesses:

On April 6th, 2001, the WWF informed Migros about the plan of three global NGOs (the WWF, Greenpeace, and “Friends of the Earth”) to conduct a joint campaign on the deforestation of the rain forests. One focus of that campaign was the role of palm oil in the “life cycle of deforestation”. Two further foci were placed on the link between paper production and deforestation and the “role of the Swiss banks in financing the ongoing deforestation”\(^{48}\).

While some Swiss businesses were soon to find themselves the target of that campaign, the Migros project could be presented as a best-practice example. Thus, while the campaign raised the pressure on Migros’ competitors, it increased the strategic value of Migros’ palm oil purchasing policy.

From the start of the campaign of the three NGOs onwards, Migros’ palm oil project gained widespread acknowledgement. The praise that Migros earned for the project culminated in an award that the retailer received at the Johannesburg Summit of the United Nations in August 2002.

Backed by the public recognition that Migros now enjoyed for the palm oil project, Migros engaged in a second, more active approach to institutional entrepreneurship: the retailer reported on the project in its own media.

To illustrate, in its annual report 2002, Migros published the account of a journey to the palm oil plantation in Ghana that was now supplying Migros. In the introductory paragraph of this account, the author first established the linkage between palm tree cultivation and the threat of deforestation in simple words, cf. the right-hand side of Table 7. That article was structured in a similar manner as the Tages Anzeiger article from 1999, cf. the left-hand side of Table 7.

<table>
<thead>
<tr>
<th>Tages Anzeiger article, 1999:</th>
<th>Migros annual report, 2002:</th>
</tr>
</thead>
<tbody>
<tr>
<td>The very same environmentally conscious citizens who demand an import boycott of tropic woods originating from an unsustainable production enjoy the rainforest for breakfast. They put it on their lips and use it for keeping their hands tender. …</td>
<td>We brush our teeth and the Orang-Utan dies. We enjoy an ice cream for dessert and the Sumatra-tiger is deprived of his habitat. We rub cream onto our skin and lead elephants and rhinoceros to misery….</td>
</tr>
</tbody>
</table>

Table 7: Institutional entrepreneurship. Now that a business conforms with demands for sustainable purchasing, it is in a legitimate position to raise these.\(^{49,50}\)

\(^{48}\) Meeting protocol of Migros. April 6, 2001.

In the following paragraphs, however, Migros’ annual report did not only amplify the normative demands that the Tages Anzeiger article had raised. Migros also changed the nature of these demands since it added in its annual report how vital palm oil was for the entire consumer goods industry. Further articles in Migros’ consumer loyalty magazine Brückenbauer also underlined that a sustainable purchasing of palm oil was morally desirable while a boycott of palm oil could not be a solution. Hence, one article in the Brückenbauer cited workers on a plantation that supplies Migros as saying “without the palm oil plantation we would starve”.

Despite the campaign of the three global NGOs and the articles in Migros’ own media, Fausta Borsani was well aware that any reputational advantage of Migros could only be short-lived as “people easily forget”.

Thus, it was agreed that a national poster campaign would follow. That poster campaign can be viewed as Migros third major approach in raising normative demands for sustainable palm oil purchasing. Note that the text beneath

Figure 24: Institutional entrepreneurship: palm oil purchasing is a problem, Migros is working on a solution.

50 Right-hand side of Table 7: Migros Jahresbericht 2002: 118.
52 Interview with Fausta Borsani. February 18, 2005.
the picture shown in Figure 24 first raises the reader’s awareness on the link between palm oil production and the deforestation of the rain forests. It closes with the hint that Migros’ agricultural raw material supplies do not contribute to that problem. Robert Keller says that it was also essential to mention the collaboration with the WWF in the communication of the project:

“Being seen as the partner of the WWF is worth gold if you are talking about the credibility of such a project.”

**Influencing normative demands only is not sufficient**

With the approaches to institutional entrepreneurship described above, Migros was acknowledged as the pioneer in purchasing sustainable palm oil. For three reasons, however, Migros did not seek to remain a pioneer without followers. First, Migros had promised to WWF Switzerland that it would welcome other businesses in joining the palm oil project. This had been an important precondition for the collaboration of WWF Switzerland with Migros. The WWF did not regard itself as the consultant of a single business; instead, it wanted to achieve change in the entire industry. To this end, it was not sufficient if only one retailer changed its purchasing policy; the support of multinational manufacturers was required as well.

Second, apart from the promise given to the WWF, ethical considerations of Migros played an important role in conducting the palm oil project. As Fausta Borsani pointed out in an interview:

> At Migros, we do not engage in ethical projects for the sake of publicity; instead we get active, because we want to have a good conscience. […] Ten years from now, a sustainable production of palm oil should be business as usual. We want to achieve a worldwide change of the palm oil production.

Third, Migros had to ensure the project would not become too costly. To date, Migros had to bear significant logistics costs as it was the only business demanding sustainable palm oil. Throughout the transport of the palm oil from Ghana or Colombia to Rotterdam, Migros’ palm oil had to be stored separately from the palm oil of other European customers. In Rotterdam as well as further down the supply chain, the oil also had to be handled separately. Due to the lacking economies of scales it was unsure how long Migros could pay surcharges that did not occur to other food manufacturers. Thus, it was in Migros’ interest to have other businesses...

53 A larger print of that poster is provided in Annex III.
55 Interview with Fausta Borsani. February 18, 2005.
adopt the same standard for sustainable palm at a later point of time.

Institutional entrepreneurship: Creating cognitive demands through the development of an industry standard
Increasingly, Migros complemented normative with cognitive institutional entrepreneurship. As Migros had gained the reputational benefits of the palm oil project, it increased its efforts to let sustainable purchasing of palm oil become a “common practice” in its industry. To this end, it examined different opportunities for creating an industry standard.
In early 2003, Willi Eisele, Migros’ purchasing manager for palm oil, began to contact Swiss food manufacturers in order to discuss joint palm oil supplies. Furthermore, he and Robert Keller contacted Swiss industry organizations in order to suggest that their members jointly purchase sustainable palm oil, too\(^57\). On an international scale, Migros ensured that the sustainability of palm oil was put on the agenda of businesses and federations. Today, Migros is still “striving to win over other processors or producers of palm oil within the Food Business Forum, an independent global food business network, whose current chairman is Claude Hanser, the President of the Migros Board of Management.”\(^58\)
These numerous efforts, all had the objective of letting sustainable palm oil become “business as usual”, cf. p. 88. However, Migros’ key strategy for developing an industry standard for sustainable palm oil is the “Round Table on Sustainable Palm Oil” (RSPO).

Development of the Round Table on Sustainable Palm Oil (RSPO)
In 2001, Andrea Ries from WWF Switzerland had first contacted Dr. Reinier de Man, a Dutch consultant, to advise on the design of a platform of organizations with an interest in achieving a joint standard for sustainable palm oil. Dr. De Man could draw on a network of business contacts as he had experience in consulting corporations on sustainable agricultural supply chains.
By September 2002, De Man had gained the support of Unilever, traders (e.g., Cargill) and banks (e.g., Rabobank). These “new players” in the institutional environment held joint meetings with WWF Switzerland, ProForest and Migros in September and December 2002. The parties agreed that the first meeting of an international round table including NGOs, governmental bodies, retailers, manufacturers, as well as palm oil producers and traders should take place in August

\(^{57}\) Meeting protocol of Migros. February 6, 2003.
2003. Two working groups were set up for the preparation of this round table. In both working groups, Dr. Ruth Nussbaum from ProForest took on the role of an expert advisor. An organizing committee was set up to supervise the work of the round table. Fausta Borsani of Migros was elected as its treasurer.

In the following months, the parties succeeded in inviting participants from several dozens organizations to the meetings of the RSPO. Each member of the round table supported these multiplication efforts. Hence, Migros agreed to contact banks in Switzerland as the retailer enjoyed good relations with them.

On the first meeting of the RSPO in Kuala Lumpur on August 21-22, 2003, a letter of intent was signed by the representatives of numerous stakeholder groups. Fausta Borsani recalls how she was struck by the reputation that Migros enjoys. When she first met “new” participants of the RSPO in Kuala Lumpur, people typically did not have a precise idea of where Switzerland was on the globe; “Migros” and “Migros criteria”, however, were notions that were familiar to them.

Beyond Migros’ reputation, Fausta Borsani thought it extremely useful that Migros had already gained experience in purchasing sustainable palm oil when engaging in talks with other businesses at the RSPO. Due to Migros’ experiences, she was in a position to tell other managers that

“[products manufactured with sustainable palm oil] are in our stores, now. We are not talking about possibilities but reality instead”.

In general, I think it is very important to demonstrate the feasibility of our propositions. You cannot keep talks [of the round table] on an abstract level. You need to demonstrate that [your propositions] can be realized. (Emphasis in original)

While Migros’ experience and its reputation make it an important stakeholder of the RSPO, Fausta Borsani underlines that the work of the RSPO is based on consensus. All participants have to agree on the wordings of the criteria and any comment needs to be considered. Indeed, the comments concerning a first draft of the criteria for sustainable palm oil production have been numerous to date, thus hinting to the acceptance of the RSPO in the food industry. In January 2005, the participants of the RSPO posted a first draft of the criteria on the webpage of the Round Table.

60 By May 2005, RSPO comprised 59 ordinary members and 20 affiliate members.
62 Interview with Fausta Borsani, February 18, 2005.
63 Ibid.
Over 800 comments regarding this draft were received throughout the following weeks. The participants of the Round Table considered each of these in turn, deciding either to ignore the comment or to change the draft accordingly. Even though hundreds of comments regarding a first draft for the criteria have been considered to date, the current version of the RSPO criteria has maintained a similarity to those criteria that WWF Switzerland, Migros and ProForest had already developed. As Fausta Borsani points out:

[The current version of the RSPO standard] is something like a development of the Migros standard. Migros standards are at the basis of all of this64.

IV.2.2 Analysis
In the following, we verify whether the case study on Migros supports the propositions that we developed in chapter III. Our findings are summarized in a table at the end of chapter IV.2.2. The results of all four case studies are summarized in chapter IV.6, cf. p. 137.

Proposition 1 of this research suggests that the capability of employee involvement is positively related to the adoption of a sustainable purchasing strategy. Furthermore, it is argued that an exploitative innovation strategy partly mediates this relationship. We find that the Migros case study provides strong support regarding the role of employee involvement. All by himself, Robert Keller would not have succeeded in implementing the sustainable purchasing strategy. Keller provided the R&D skills, but his colleague Willi Eisele had the necessary knowledge of the players in the palm oil supply chain as he was responsible for purchasing the raw material (cf. p. 81). Similarly, the involvement of Fausta Borsani was of vital importance to the success of the project since she provided experience in networking with NGOs (cf. p. 82). However, we found no evidence that a mindset specific to exploitative innovations mediated the decision to adopt a sustainable purchasing strategy. Consequently, the case study provides only partial support for proposition 1.

Proposition 2 argues that capabilities in managing a loosely coupled business unit are related to the adoption of a sustainable purchasing strategy and that explorative innovation strategies partly mediate this relationship. Indeed, the case study documents that the Migros board proved skilful in managing the palm oil team, which operated like a loosely coupled business unit. Senior management only got involved in institutionalizing the project as an official Migros project and in

64 Interview with Fausta Borsani. February 18, 2005.
granting approval of important milestones such as the collaboration with the WWF (cf. p. 82). Similar to an R&D team, the members of the palm oil project operated with their own budget (cf. p. 83). The approach of Robert Keller in the weeks following the publication of the article in the Tages Anzeiger was very exploratory; note how he first attempted to establish contact with another NGO than the WWF (cf. p. 80). Not knowing how sustainable palm oil supplies could be achieved, he explored different options (cf. p. 80). Hence, there is evidence that elements characteristic of an exploratory innovation strategy facilitated the set-up of Migros’ team. Without his exploratory approach, Robert Keller might not have identified the appropriate partners for the palm oil project. Proposition 2 is supported.

**Proposition 3** suggests that a business is more likely to adopt a sustainable purchasing strategy if regulative, normative, and cognitive demands in the institutional environment are present. Clearly, the article that Robert Keller had read in the Tages Anzeiger summarized such normative demands as it marked the prevailing palm oil production as morally illegitimate (cf. p. 78). The WWF campaign from 1998 represented a more regulatory demand for sustainable palm oil (cf. p. 79) since it encouraged consumers (that Migros depends on) to inquire on the source of their retailer’s palm oil. Cognitive demands, however, did not play a role in Migros’ decision to adopt a sustainable purchasing strategy. Migros did not adopt a sustainable palm oil purchasing strategy because other businesses were also doing so. Migros itself was a pioneer. The data from the Migros case study thus support proposition 3 with respect to regulative and normative demands.

**Proposition 4** argues that a business draws more competitive advantage from a sustainable purchasing strategy if regulatory, normative, or cognitive demands for such a strategy are present. In the Migros case study, there is evidence that the palm oil project was positively noted in the institutional environment (cf. the UN award p. 86). Previous research suggests that such public recognition of environmental efforts positively reflects on the economic evaluation of a business (Bansal & Clelland, 2004; Deephouse, 2000). Note that a business receives an award if it complies with normative demands. Awards, however, are not awarded to businesses that simply do what they are forced to do (due to regulatory demands) or to businesses that do what every other business does (due to cognitive demands). Consequently, proposition 4 is only supported with respect to normative demands.

**Proposition 5** argues that a business draws more competitive advantage from a sustainable purchasing strategy if it also pursues an exploitative innovation strategy. Migros’ partial change from palm oil to sunflower oil supports this proposition. Necessary changes to the recipes were supervised by Robert Keller (cf. p. 83) who could draw on the existing knowledge of his researchers in conducting this task.
Had Migros not been able to conduct a partial change from palm oil to sunflower oil, then the introduction of sustainable palm oil supplies would have incurred higher costs. We conclude that proposition 5 is supported by the case study.

Proposition 6 suggests that a business draws more competitive advantage from a sustainable purchasing strategy if it also pursues an explorative innovation strategy. Indeed, search skills (that are of vital importance for exploratory research) played an important role in ensuring the success of the palm oil project. Had Robert Keller not searched for appropriate project partners (cf. p. 80 - 81), a team with such complementary skills (cf. p. 82) and reputation (cf. p. 88) could not have been realized. Similarly, the development of the first list of draft criteria (cf. p. 83) would have been more difficult without experience in the exploratory development of products (cf. p. 82). Proposition 6 is supported.

Proposition 7 argues that an exploratory innovation strategy is particularly helpful for increasing the competitive advantage of a sustainable purchasing strategy if the institutional environment is dominated by normative demands. An exploitative innovation strategy, however, is described as improving the competitive implications at a later point of time when cognitive demands prevail. The case study supports that exploratory search skills were important during the development of the standard in an institutional environment dominated by normative demands (cf. p. 78-82, particularly p. 82). Incremental improvements of the standard (as they are characteristic for exploitative innovations) were important at a later point of time when several dozens of organizations had already joined RSPO (cf. p. 90 - 91) and sustainable purchasing of palm oil was increasingly motivated by cognitive demands. We acknowledge, however, that exploitative innovation skills already began to play a role at the end of the phase of a normative institutional environment already when Migros was still the only retailer working on a sustainable palm oil standard (cf. the exploitative innovation of replacing palm oil with sunflower oil, p. 84). Thus, proposition 7 is partly supported as exploitative innovations began to play an important role at a slightly earlier point of time than we had anticipated.

According to Proposition 8, resource-based logic suggests an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and competitive advantage.

Clearly, Migros needed to consider carefully how many employees should implement the palm oil project. None of Migros’ three project members worked on the palm oil project fulltime, they all had further assignments as well (cf. p. 82). Even with such a small number of project members, Migros was still the first retailer worldwide to develop and adopt a standard for sustainable palm oil; a pioneering effort that was awarded by the United Nations (cf. p.86).
Proposition 9 suggests that the inverted U-shaped relation is also supported by institutional logic. This proposition is confirmed by a statement of Fausta Borsani (cf. p. 83). She notes that she needs to balance the economic business performance against the social and ecological business performance. These performance aspects, however, cannot be mathematically or logically balanced against one another as the corresponding measures are based on different dimensions and logics. By drawing on the logic of institutional theory, however, we understand that it is different obligations that Fausta Borsani needs to balance against one another. Proposition 9 is supported because Migros is constrained in its actions by its economic contract on the one hand and its societal contract on the other; none of the two can be completely ignored.

Proposition 10 suggests that social capital of a business is a vital resource for institutional entrepreneurship in an institutional environment dominated by normative demands. Later, however, in an institutional environment dominated by cognitive demands, a business’ social capital in the industry is more helpful for institutional entrepreneurship. The case study supports this proposition. The relevance of Migros’ successful collaboration with an NGO is outlined on pp. 80 - 85. Similarly, pp. 89 - 91 document the importance of Migros’ social capital in the industry in the following years when cognitive demands for a sustainable purchasing strategy arose.
<table>
<thead>
<tr>
<th>Proposition</th>
<th>Page</th>
<th>Support</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Capabilities of a business such as employee involvement are positively related to the adoption of a sustainable purchasing strategy. Exploitative innovation strategies partly mediate this relationship.</td>
<td>81, 82</td>
<td>Partly</td>
<td>Role of employee involvement supported; no evidence for a role of exploitative innovation.</td>
</tr>
<tr>
<td>2) Capabilities such as the management of loosely coupled business units are related to the adoption of a sustainable purchasing strategy. Explorative innovation strategies partly mediate this relationship.</td>
<td>80, 82, 83</td>
<td>Yes</td>
<td>The project team operated on its own budget, senior management only supervised milestones. Very exploratory search for solutions first.</td>
</tr>
<tr>
<td>3) Regulative, normative, and cognitive demands in the institutional environment increase the likelihood that a business will use its resources and capabilities to adopt a sustainable purchasing strategy.</td>
<td>78, 79</td>
<td>Partly</td>
<td>Role of regulative and normative demands supported (WWF campaign in 1998 and Tages Anzeiger article in 1999)</td>
</tr>
<tr>
<td>4) In the presence of regulatory, normative, and cognitive demands in the institutional environment, a business will draw more competitive advantage from a sustainable purchasing strategy than in the absence of such demands.</td>
<td>86</td>
<td>Partly</td>
<td>Only role of normative demands supported (award for Migros at UN congress in Johannesburg)</td>
</tr>
<tr>
<td>5) Exploitative innovation strategies have a positive moderating effect on the association between a sustainable purchasing strategy and the resulting competitive advantage.</td>
<td>84</td>
<td>Yes</td>
<td>Cost savings from incremental change of recipes (sunflower oil instead of palm oil)</td>
</tr>
<tr>
<td>6) Explorative innovation strategies have a positive moderating effect on the association between a sustainable purchasing strategy and the resulting competitive advantage.</td>
<td>80 - 83, 88</td>
<td>Yes</td>
<td>Exploratory search for solutions led to collaboration with WWF. WWF raised reputational benefit of the project.</td>
</tr>
<tr>
<td>7) The moderating effect of exploitative innovation strategies will be stronger in an institutional environment dominated by cognitive demands than in an institutional environment dominated by normative demands. The moderating effect of explorative innovation strategies will be stronger in an institutional environment dominated by normative demands than in an institutional environment dominated by cognitive demands.</td>
<td>78 - 82, 90 - 91, 84</td>
<td>Partly</td>
<td>When normative demands dominated (Tages Anzeiger article), Migros first searched very exploratory for a solution to the palm oil issue. Migros began to draw on its knowledge slightly earlier than could have been assumed - when normative demands were still dominant.</td>
</tr>
<tr>
<td>8) From a resource-based perspective, there is an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and the resulting competitive advantage.</td>
<td>82, 86</td>
<td>Yes</td>
<td>Fausta Borsani says she needed to balance competing demands.</td>
</tr>
<tr>
<td>9) From an institutional perspective, there is an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and the resulting competitive advantage.</td>
<td>83</td>
<td>Yes</td>
<td></td>
</tr>
<tr>
<td>10) In an institutional environment dominated by normative demands, social capital among NGOs supports the business in influencing the societal contract. In an institutional environment dominated by cognitive demands, social capital in the industry supports the business in influencing the societal contract.</td>
<td>80 - 85, 89 - 91</td>
<td>Yes</td>
<td>Migros first collaborated with WWF. Collaboration with other industry players only became relevant towards the end of the project.</td>
</tr>
</tbody>
</table>

Table 8: Analysis of the Migros case study
IV.3 Unilever case study

Unilever manufactures 20% of the global production of frozen fish. This case study analyzes the adoption and the outcome of a sustainability standard that Unilever has adopted for its fish supplies.

IV.3.1 Narrative account

At lunchtime on a September day in 1995, Michael Sutton entered the Graucho Club in London. Sutton was the head of the Endangered Seas program of the World Wide Fund (WWF) International, a position he had been assigned in early 1995. On that night, he was accompanied by Simon Bryceson, a consultant at Burson-Marsteller, the world-leading PR consultancy. Sutton was looking for a major industry partner in the fishing industry to support a market-driven code of conduct for the protection of marine fish stock. Bryceson had extensive experience in the collaboration of businesses and NGOs. Previously, he had consulted businesses in the timber industry on partnerships with NGOs. For the fishing industry, Michael Sutton envisioned a similar code of conduct as the successful Forest Stewardship Council (FSC) - ultimately he wanted to develop a Marine Stewardship Council (MSC). Sutton hoped Bryceson might know potential industry partners for such a MSC, so he informed him on the background of his project.

The WWF gets involved in a market-driven initiative for protecting marine fish

Bryceson learnt from Sutton that the Food and Agriculture Organization (FAO) of the United Nations was just about to publish new statistics on global fishery. These United Nations estimates described 44% of the marine fish stocks as exploited, 16% as overfished and 6% as completely depleted. This FAO report was also about to reveal that “while some 80 million tonnes of fish are landed each year, 20 million tonnes are thrown over the side of boats, dead”. These 20 million tonnes were so-called bycatch that was either undesired by fishermen or exceeding their quota.

The problems of overfishing and unintended bycatch were issues that the FAO had already been working on throughout the past years. In 1992, the organization had begun to take first steps for negotiating an international Code of Conduct for Responsible Fisheries. Now, in September 1995, the member states of the United Nations were about to reach a consensus on the single criteria of this code of conduct.

To Michel Sutton, the question was whether this government-driven approach of the

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FAO was able to enforce the protection of marine fish stock. If so, should he spend the WWF’s project budget on lobbying governments to support this code of conduct? Michael Sutton was sceptical. Holding not only a degree in wildlife biology but also a Master’s degree in law, he knew too well what to expect from a code regulated by governments. He had previously worked as a senior advisor to the United States Secretary of State and had witnessed the difficulties of legal bodies in ensuring the protection of the marine resources. Offshore the 200 miles zone surrounding coastal states, there was a vast legal no-man’s land where resource protection efforts had shown little effect to date.

Indeed, the course of the government-driven code of conduct seemed to confirm Sutton’s fears. From the outset, the code was entirely voluntarily; only 12 of the 20 largest fishing nations signed it and four states actually ratified it.67

As Michael Sutton explained, he was seeking a different approach. He pointed out that:

> The market is becoming more important in economic issues. There are limits to regulation and the market has to start trying to solve the problem rather than contributing to it. […] Enforcement is difficult, but the market reaches everywhere.68 69

Simon Bryceson agreed that collaboration with the major players in the global fishing industry, rather than a regulatory approach, would be the way forward. While he was not aware of a potential industry partner at this very moment, he promised to get back to Michael Sutton soon.

**Unilever’s involvement in protecting marine resources (I): emphasis on normative demands**

Caroline Whitfield, who used to work for Unilever throughout the 1990s, recalls how she got in touch with Simon Bryceson and Michael Sutton in September 1995:

> I was international Category Manager for frozen fish at Unilever. This position comprised responsibility for new product development. Being responsible for the fish business, I was concerned that we were becoming part of the problem of getting fish out of the sea and not part of the solution. Birds Eye Walls [Unilever’s brand for frozen fish in the UK] and Iglo are very family-friendly brands and I thought it is just incompatible that we would be taking the last fish out of the sea while marketing our products as being good for growing children. So I spoke to my PR person, Richard Cox from the consultancy Burson-Marsteller, and he introduced me to Simon Bryceson who was working for

67 Ibid.


Burson-Marsteller, too.

Simon and I sat down, we started to talk about my concerns, and we noticed that there was a tremendous link between his viewpoints and mine [emphasis not added]. One week earlier, literally, Michael Sutton, the head of the fisheries program at the WWF, had posed a similar question to Simon: “Are there any companies who would be considering issues around fish sustainability?” So Simon arranged a meeting for the two of us.

Within Unilever, I began collaborating with Andre van Heemstra who was the chairman of Langnese & Iglo Germany at that time. Anthony Burgmans, Unilever’s European director for frozen foods in this period and a great personal friend of van Heemstra, also became involved in the project⁷⁰.

This account of Caroline Whitfield suggests that Unilever and the WWF independently contacted Simon Bryceson as both were investigating ways for protecting marine fish stock. While Caroline Whitfield emphasizes the role of her personal concerns, Simon Bryceson paints a complementary picture.

**Unilever’s involvement in protecting marine resources (II): emphasis on regulative demands**

Simon Bryceson, who consulted Caroline Whitfield of Unilever, points to additional factors that drove Unilever’s interest in marine resource protection. Simon Bryceson recalls:

[In 1995], Greenpeace was pressuring Unilever in Germany. Greenpeace told Unilever that they wanted it to label all Iglo products with the precise location of where the fish had been caught.

This demand was unworkable, given the supply chain configurations in the fishing industry. It was a classic example of Greenpeace taking its own interest and assuming that its interest would be reflected by the wider consumer.

The implication, rather than the explicit threat of Greenpeace, was that Greenpeace would start a campaign against Unilever if the corporation did not label its products in the manner that Greenpeace demanded […].

In Germany, Unilever’s managers were holding talks with Greenpeace. They thought that if they continued to dialogue long enough, Greenpeace would change its position. But I have been in this business for a long time and I knew this would not happen. […]

Given that Greenpeace’s demands were impossible, the logical thing to do was

⁷⁰ Interview with Caroline Whitfield, May 23, 2005.
to find other conservation groups who would be prepared to enter a discussion[…].\textsuperscript{71}

These excerpts of an interview with Simon Bryceson, today an independent consultant on “issues management”, match the logic of institutional theory. His account suggests that Unilever’s interest in marine resource protection was driven by concerns about the organization’s legitimacy. This viewpoint is supported by Michael Sutton, too. Yet, as the following interview excerpt outlines, Michael Sutton identified an additional factor explaining Unilever’s interest in marine resource protection:

There was a lot of angst amongst the Unilever managers. They felt the pressure from Greenpeace. However, they also realized that it makes sense to source fish in a sustainable manner\textsuperscript{72}.

**Unilever’s involvement in protecting marine resources (III): emphasis on resource-based considerations**

The above finding of Sutton (“they […] realized that it makes sense”) can be illustrated by a statement of Anthony Burgmans who noted on a press conference in April 1996:

\begin{quote}
As one of the world's largest purchasers of fish, it is in Unilever's \textit{commercial interest} to protect the aquatic environment from fishing methods that will ultimately destroy stocks\textsuperscript{73} [emphasis added].
\end{quote}

Simon Bryceson suggests that Unilever was right in viewing marine fish stock as a valuable resource. Marine fish stock had to be protected from depletion in order to sustain Unilever’s business model. Yet, while Bryceson acknowledges this rationale, he characterizes it as a “\textit{post-hoc rationalization}”:

Anthony Burgmans is right in pointing out that it makes sense to engage in resource conservation, but that is a post-hoc rationalization.

What I often realize is that companies engage in resource protection and then they realize all the good reasons for having done so. But that is never the case.

Companies shift on these kind of issues because they are forced to shift\textsuperscript{74}.

Hence, Simon Bryceson reemphasizes the role of regulative demands in explaining why Unilever began to engage in marine resource protection.

The statements of another expert, Prof. Jackie McGlade, head of the European Environmental Agency, complement these findings. She recalls that she already took

\textsuperscript{71} Interview with Simon Bryceson, June 7, 2005.

\textsuperscript{72} Interview with Michael Sutton, May 27, 2005.

\textsuperscript{73} Reuters News 1996. Unilever announces plan to save fish stocks. Reuters News, April, 22.

\textsuperscript{74} Interview with Simon Bryceson, June 7, 2005.
notice of Unilever’s efforts in the protection of marine fish stock in 1994, hence, one year before Greenpeace began pressuring Unilever. In 1994, Unilever had been searching for a scientist with experience in marine ecosystems as well as in fishing policies. Prof. McGlade fit that profile of Unilever as she had previously been the head of research on theoretical ecology at the Forschungszentrum Jülich in Germany. Furthermore, she had already advised the Canadian government on its fishing policies. She recalls that “technical managers” at Unilever contacted her as they were inquiring on the development of fish stock populations in the North Sea. Specifically, Unilever’s biologists were inquiring whether the depletion of marine fish stock would hinder the corporation from sourcing its current fish stock volumes in the future. Assigned as a consultant, Prof. Jackie McGalde discussed the likelihood of rising prices in the sourcing of haddock and other fish stocks with the experts at Unilever. Together, they discussed alternatives such as sourcing other fish than haddock - one of the most threatened species. Note that these scientific talks had already taken place before Unilever and the WWF became interested in a Marine Stewardship Council.

Prof Jackie McGlade recalls:

Following my discussion rounds with Unilever’s technical managers in 1994 and early 1995, there was a hiatus. It must have been in this period of calm that [Unilever’s] Caroline [Whitfield] took over the process of marine fish stock protection at Unilever. She established talks with the WWF […]. My next encounter with Unilever took place when the WWF had already come up in my conversations with Unilever’s biologists. Following my contacts with Unilever in 1994, I had become confident that Caroline took over a process that was operating on a very solid business case. [The forecasts of the ecosystem models showed a clear need for the protection of marine fish stock]75.

Altogether, these statements of Michael Sutton, Simon Bryceson, Caroline Whitfield, Anthony Burgmans, and Prof. Jackie McGlade suggest that regulative and normative demands as well as resource-based considerations led to Unilever’s development of the Marine Stewardship Council (MSC). The decisive trigger to move from “talks to action”, however, appears to have been the regulative demands of Greenpeace.

**Unilever and WWF found an institution: the Marine Stewardship Council (MSC)** Throughout the fall of 1995, Simon Bryceson, Michael Sutton, and Caroline Whitfield hosted talks on the development of the MSC. A number of workshops were held where the purpose and design of the MSC was discussed76. Prof. Jacqueline McGlade recalls

[76] Weir, A. 2000. Meeting social and environmental objectives through partnership. The experience of
her participation in the first of these workshops:

I was invited to the first planning meeting of a Marine Steward Ship Council. There was a broad range of people participating in this meeting: managers, conservationists from the WWF, and scientists. We discussed a series of issues:

What is the evidence of sustainable fishing? Why aren’t we seeing any progress [on marine resource protection] in the North Sea? Is sustainable fishing about people management or is it about the ecosystem? What are examples of well-managed, sustainable fisheries? Who had the authority of saying these were sustainable fisheries?

[Basically], we engaged in a discussion on underpinning an eco-label [for fish products] with science77.

These workshops were held from October 1995 onwards. They provided the basis for a joint Statement of Intent of the WWF and Unilever. On February 22nd, 1996, the two organizations eventually invited journalists to a press conference. They published a one-page statement of intent that included the following paragraph:

...Two global organizations have committed to tackle [the issue of marine fish stock depletion]. WWF wants a new approach to ensure more effective management of marine wildlife. Unilever NV/PLC is committed to long-term fish stock sustainability to ensure a future for its successful fish business.

- Different motivations but a shared objective: to ensure the long-term viability of global fish populations and the health of the marine ecosystem on which we depend.

The end objective of the partnership between WWF and Unilever is to establish, through consultation, an independent Marine Stewardship Council which will create market-lead economic incentives for sustainable fishing78.

Note that this paragraph included a seemingly casual phrase stating “different motivations but a shared objective”.

Why did the two organizations think it necessary to point out in a one-page statement that they had different motivations? It should be of no surprise that an NGO is guided by different motivations in its activities than a business is.

**Critique on the MSC by Unilever managers demands consideration**

There is evidence that Unilever as well as the WWF both felt compelled to point out that even though they were collaborating on this one project, they were still different
from one another. Michael Sutton points out that more conservative WWF members were critical of the collaboration with a business, first. Similarly, Simon Bryceson recalls that

“Unilever’s corporate hierarchy was not positive about the collaboration with the WWF, initially. They were afraid of it.”

Underlining that the two organizations had different motivations appeared necessary because Michael Sutton as well as Caroline Whitfield had to ensure the support of the more conservative colleagues in their organizations. The interview with Caroline Whitfield provides a hint to significant challenges that Caroline Whitfield had to master business-internally.

At the time [of the foundation of the Marine Stewardship Council], I also alienated a number of people who at the time thought: why is this initiative necessary?

Now, with the passage of time it seems to have been exactly the right thing to do. But it hindered my career at Unilever - to a degree. Because I was just a bit too radical, a bit too unpredictable. Nothing was assured to be nice, safe, and solid [with me and multi-stakeholder initiatives such as the MSC].

Given that both managers at WWF as well as Unilever were critical of the collaboration, Michal Sutton and Caroline Whitfield felt they had to generate results quickly. The Forest Stewardship Council (FSC) of the timber industry was considered a role model for developing the MSC. Yet, there was one aspect that the partners wanted to do better: they wanted the MSC to develop faster than the Forest Stewardship Council had done. Launched in 1990, the discussions on the criteria of the FSC had taken almost four years. This was not a time frame that Caroline Whitfield could communicate to critics at Unilever. Fast results were required. Michael Sutton recalls that Unilever’s managers were afraid that the MSC could be seen as a “talking shop” if its development took several years.

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79 Interview with Simon Bryceson, June 7, 2005.
80 Caroline Whitfield left Unilever one year after the foundation of the Marine Stewardship Council. Today, she is the CEO of Shetland Whiskey, a company that she founded in late 2002 (www.shetlandwhisky.com). Shetland Whiskey, is the fastest-growing whiskey distillery in the world. It employs over 30 people and exports Shetland Whiskey worldwide. The products of Shetland Whiskey have received 11 international awards to date, acknowledging the innovativeness and quality of the products.
81 Interview with Caroline Whitfield, May, 23, 2005.
First successes of the Marine Steward Ship Council: growing industry support
Unilever identified the sourcing of fish oil as an issue it could address quickly in order to drive forward the development of the MSC. Just like many other consumer goods manufacturers, Unilever had been purchasing fish oil hitherto. Fish oil was used as an animal fat in a variety of products, including cosmetics and convenience foods. Yet, the production of fish oil presented an additional strain on the marine ecosystem. Therefore, Unilever announced on April 22nd 1996 that it would “stop using fish oil derived from non-sustainable [...] fishing.”

According to Michael Sutton, this announcement immediately provided the desired effect:

Greenpeace was thrilled about Unilever’s decision regarding the fish oil, the Royal Society for the Protection of Birds was also excited. Unilever got immediate publicity, it had demonstrated that the private-public partnership [the Marine Stewardship Council] was working.

Fish-processing manufacturers and food retailers in Europe noticed this first success of the MSC and the reputational advantage Unilever could draw out of it. Particularly in the UK retail market, several businesses announced plans to join the MSC. In summer 1996, Sainsbury’s revealed plans to join the MSC and to gradually have its entire fish category certified by the MSC once all the criteria for sustainable fishing would be defined. Other retailers, including Marks & Spencer and Tesco, joined in these plans. Clearly, the industry’s interest in the MSC was vivid. For example, in May 1997, “nearly 100% of branded UK fish products were represented at a workshop” that Unilever and the WWF organized to seek input on the development of the MSC criteria. A number of European retailers felt increasing normative and cognitive demands to develop plans for the purchasing of MSC-certified fish. For example, in Switzerland, Migros expressed doubts on the MSC in January 1998. Eight months later, as the industry support for the MSC had grown, Migros announced its support of the MSC, cf. Table 9.

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83 Interview with Michael Sutton, May 27, 2005.
Table 9: The Marine Stewardship council enjoys growing support.\textsuperscript{87,88}

Unilever enjoyed significant publicity for the MSC initiative. Among the prizes that Unilever received, there was an award by the Bild Zeitung in Germany. Bild praised the initiative of “Captain Iglo” [hereby referring to the branding of Unilever’s fish products in Germany] and reported widely on the MSC\textsuperscript{89}. Ironically, coverage by Bild was precisely what Unilever Germany had feared when Greenpeace threatened to conduct a campaign against Unilever in 1995. Now, Unilever’s Iglo brand got free advertising by the Bild Zeitung instead.

**Difficulties in the implementation of the MSC: lacking support of the fishermen**

WWF and Unilever sought to drive forward the development of an independent organization, the Marine Stewardship Council, as fast as possible. This organization was to develop the MSC criteria and to train auditors in assessing the compliance of fisheries with the scheme. While this approach was similar to the one taken by the founders of the Forest Stewardship Council (FSC), there was one important difference: those companies and NGOs that had engaged in the FSC had developed the governance structure of the scheme themselves.

WWF and Unilever, however, decided to engage a consulting firm, Coopers and Lybrand (today: Price Waterhouse Coopers) in early 1996. The task of the consultancy was to “develop an organizational blueprint and implementation plan for the MSC\textsuperscript{90}”. While collaboration with a consultancy was unfamiliar to the WWF, it was in line with

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\textsuperscript{90} Sutton, M. Marine Stewardship Council. A powerful arrow in the quiver. Samudra, November: 33-34.
Unilever’s understanding on how a strategy can be successfully designed.

Coopers and LyBrand advised Unilever and the WWF to broadly consider stakeholder demands. Therefore, Mike Sutton announced in July 1996 that a worldwide series of workshops and consultations on the MSC would be conducted from fall 1996 onwards. The purpose of these workshops was to

introduce the MSC initiative to diverse stakeholders around the world, seek inputs and feedback on the emerging draft principles and criteria for sustainable fishing, and solicit the involvement of all stakeholders in marine fisheries.

Unilever and the WWF appeared to be doing it all right. They publicly stated and reiterated that they were seeking the support of all stakeholders to ensure the legitimacy of the MSC. As several industry players joined their plans, the MSC quickly gained legitimacy among branded manufacturers and retailers.

However, the relations of the MSC with those stakeholder groups that have less experience in media contacts and reputation management did not develop smoothly. The paradox was that Unilever and the WWF were inviting all stakeholders to join workshops from fall 1996 onwards. However, the first press conferences on the creation of a MSC in February 1996 were conducted by the two parties themselves - without other stakeholders. On the one hand, Unilever and the WWF publicly stated that they were seeking the input of other stakeholders. On the other, the press conferences had devoted significant room to brand the MSC as a project of Unilever and the WWF. Figure 25 illustrates the prominent role of the brands in the statement of intent from 1996.

Figure 25: Brands of WWF and Unilever in the founding document of the MSC

It might have been wiser to develop a brand for the MSC from the outset rather than emphasizing it as a “Unilever & WWF product” first. From this perspective, it may also have been unfortunate that Michael Sutton from the WWF described Unilever and the WWF as the “sponsors” of the project.

Given that the MSC became associated with two very well known brands, those

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91 Ibid.
92 Cf. p. 101 for an extract of this statement of intent.
stakeholder groups that had little experience in communicating their viewpoints feared that their perspective could never be properly considered in the development of the MSC standard. Hence, the representative of the fishermen union in France commented on the MSC:

…”Unilever and the MSC, of course, say that they will hold consultations on a broad basis and establish an independent body for the MSC. But it is most likely that certain actors will outweigh others. For instance, fishermen will find it more difficult to promote their case than environmental groups that are well established in the media and thus have an easier task to get their viewpoints across […].

If this policy of awarding quality labels to ecofriendly fish is to play a role in promoting responsible fisheries, then there must be a wider consultation, with fishermen participating right from the outset [emphasis added].

Note that the fishermen union avoided to describe the MSC as a standard for sustainable fishing. They were missing social aspects of the standard and therefore preferred to call it an ecolabel. The representative of the fishermen’s union further noted:

…the agreement between the powerful MNC [Unilever] and the famous international environmental organization seems to have ignored the fisher people, though it is precisely their future, which is at stake in this venture. […].

These documents [that have been published in relation to the MSC] primarily emphasize the environmental aspects of resource management, not the social aspects.

John Kurien, a researcher at the Centre for Development studies in India, shared these concerns. In an article describing the “view from the Third World on the MSC”, Kurien pointed out:

Ecolabelling of marine fish must be undertaken with the tacit co-operation of the fishworkers or organizations which represent their interests, and not through the lower level functionaries of the international marketing chain […].

A global initiative to achieve sustainable fishing needs to be far more broadbased. It has to encompass the participatory support of fish producers, the processing industry, governments, and the consumer [emphasis added].

Michael Sutton replied these critics on the MSC with an “appeal for co-operation”. He

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95 Ibid.
rationally explained that many fears that the critics of the MSC had raised were not justified. He explicitly invited those stakeholders that demanded a stronger consideration of social criteria to join the board of the MSC\textsuperscript{97}.

The only problem with his invitation was that stakeholder groups with little experience in media management felt that it should have been issued earlier. Arguably, some stakeholder groups, particularly the fishermen, did not fancy learning about the creation of a Marine Stewardship Council in the media. They would have wanted to be involved in the initiative earlier on.

Note that shortly after the initiation of the MSC project, Unilever had declared the objective of having all its fish supply chains certified by the MSC in 2005. Today, it is clear that this objective cannot be achieved: there are not enough fishermen willing to participate in the MSC scheme\textsuperscript{98}.

Consequently, the results of the Marine Stewardship Council are mixed. On the one hand, the initiative has enjoyed enormous support among retailers and manufacturers. For example, in the UK, Marks & Spencer, Sainsbury, and Tesco offer private label as well as branded fish products that are MSC certified. In the German market, Frosta, Unilever’s main competitor in the frozen products category, has adopted the label as well. Since 1998, the Marine Stewardship Council operates as an organization independent of Unilever and the WWF. Today, however, it is still associated with the two organizations, as they marketed the MSC foundation significantly. The support of fishermen for the MSC remains half-hearted.

\textbf{IV.3.2 Analysis}

In this chapter, we examine whether the Unilever case study provides evidence supporting the propositions of the research model.

For an overview on the single propositions, confirm the table at the end of this chapter.

\textit{Proposition 1} addresses the roles of employee involvement and an exploitative innovation strategy in facilitating the adoption of a sustainable purchasing strategy. In the case study, the relevance of employee involvement is supported. Caroline Whitfield, Unilever’s project manager of the MSC and head of its frozen fish category, noted that she was collaborating with local managers in Germany (p.98). This collaboration was essential as Unilever’s German managers had first sought collaboration with Greenpeace. According to Simon Bryceson, this approach of the German managers would have been very likely to fail (p. 98). Only through close collaboration with the country group that was targeted by Greenpeace, Caroline


Whitfield could establish a strategy that helped to bring the German managers out of Greenpeace’s line of fire. However, while we find evidence for the role of employee involvement in the adoption of a sustainable purchasing strategy, no evidence regarding an exploitative innovation strategy and its influence on the adoption of a sustainable strategy emerged. Thus, proposition 1 is partly supported.

Proposition 2 suggests that the capability of managing loosely coupled business units is related to the adoption of a sustainable purchasing strategy. An explorative innovation strategy is described as mediating the relationship. This proposition is supported because the biologists of Unilever were already concerned about the development of the fish stock populations before Caroline Whitfield got aware of the problem of fish stock depletion (p. 100). The biologists collaborated with the marine ecosystem researcher Prof. Jackie McGlade before market-driven managers were aware of the depletion of fish stock. Had Unilever’s general management not provided the biologists with the freedom of examining the future development of fish stock in 1994, when the problem was not on the corporate agenda yet, then the adoption of a sustainable purchasing strategy would have been more difficult. Note that scientists were later involved in the talks on the foundation of the MSC (pp. 100 - 101). The fact that Unilever’s biologists had researched the dangers of fish stock depletion before is likely to have facilitated the adoption of a sustainable purchasing strategy. Thus, Proposition 2 is supported.

Proposition 3 argues that regulative, normative, and cognitive demands in the institutional environment facilitate the adoption of a sustainable purchasing strategy. We find support for the role of regulative demands. As Simon Bryceson and Michael Sutton note, Unilever Germany was “pressured” by Greenpeace (pp. 98-99). Caroline Whitfield also points out that she was driven by normative considerations (p. 97). Proposition 3 is confirmed with respect to normative and regulative demands.

Proposition 4 suggests that regulative, normative, and cognitive demands in the institutional environment increase the competitive advantage resulting from a sustainable purchasing strategy. To verify this proposition, note that Unilever received a prize for the MSC from the Bild Zeitung in Germany (p. 104). A prize awarded by mass media is likely to have contributed to the reputation of Unilever. Reputation, in turn, is associated with competitive advantage (Deephouse, 2000). Prizes, however, are only awarded as a response to a business’ consideration of normative demands. Prizes are not awarded in response to a business doing what it is forced to do (regulative demands) or doing what every business does (cognitive demands). Proposition 4 is supported with respect to normative demands.

Proposition 5 argues that an exploitative innovation strategy has a positive moderating effect on the relationship between a sustainable purchasing strategy and competitive
advantage. We found no support for this proposition since the adoption (as well as the subsequent implementation) described in the case study was not marked by an exploitative innovation strategy. Unilever was a pioneer in protecting marine fish stock. It explored solutions by talking and collaborating with NGOs and marine ecologists.

Proposition 6 suggests that an explorative innovation strategy has a positive moderating effect on the relationship between a sustainable purchasing strategy and competitive advantage. A statement of Prof. Jackie McGlade, the head of the European Environmental Agency, supports this statement. She notes she had been convinced that the MSC was based on a solid business case (p. 100). Jackie McGlade had come to this conclusion in 1995 as her forecasts on the development of fish stock populations had shown that measures had to be taken to ensure the sustainability of fishing. Had Unilever not given its biologists the possibility to research fish stock development when it was not an issue of interest to the board yet, then Unilever would have begun developing the MSC less well prepared. Suppose that Unilever had initiated the MSC without scientific insight but only because of the pressure by a non-governmental association. In this case, the MSC could only have provided reputational advantage but no advantage from access to fish supply chain that are safer from fish stock depletion.

Proposition 7 suggests that the moderating influence of an explorative innovation strategy on the relationship between a sustainable purchasing strategy and competitive advantage is stronger in a normative institutional environment while the moderating influence of exploitative innovation is predicted to be stronger in a cognitive institutional environment. For verifying that proposition, note that Unilever’s Caroline Whitfield perceived normative demands for engaging in the protection of marine fish stock in September 1995, she described herself as “personally concerned” (p. 97). In this period, Unilever drew particularly on an explorative but not on an exploitative innovation strategy (cf. Proposition 1 and Proposition 6). Hence, the dominating role of an explorative innovation strategy in a normative institutional environment is supported. However, we cannot fully verify Proposition 7 as the MSC began to operate independently of Unilever and the WWF in 1998, when cognitive demands for a sustainable purchasing strategy arose.

Proposition 8 argues for an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and competitive advantage from the perspective of the resource-based view. The case study does not support this proposition. The reason is that Unilever’s strategy implementation could have been more successful if a greater share of Unilever’s fish supply chain could be protected from fish depletion, today (pp. 104 - 106). To this end, Unilever would have benefited from allocating more resources to talks with fishermen unions that oppose the MSC today.
Proposition 9 suggests that there is an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and competitive advantage from the perspective of institutional theory. Ironically, the institutional perspective confirms this proposition. Caroline Whitfield could hardly have spent more time on preparing the MSC business-internally and conducting more stakeholder discussions without further alienating her colleagues at Unilever who wanted Unilever to engage in such initiatives as little as possible. Her fellow managers wanted a predictable plan and no endless discussions. Hence, Caroline Whitfield could not allocate more resources on discussions with the fishermen, unless she was willing to face further critique by her colleagues at Unilever. Caroline Whitfield recalls that she already alienated managers at Unilever with the MSC project (p.102). These managers wanted her to avoid participating in an initiative such as the MSC. However, Greenpeace and the fishermen demanded even more attention of Unilever to ecological and social issues in the fish supply chain (p.106, p. 98). From an institutional perspective, Caroline Whitfield had to find a compromise between these divergent positions. The overall legitimacy of Unilever could only be maximized by finding a compromise between the demands of those parties demanding more resource allocation to a sustainable purchasing strategy and those parties demanding less or even no resource allocation to it. Consequently, there is an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and the overall legitimacy of Unilever. As the overall legitimacy of a business is directly related to competitive advantage (Oliver, 1997b), Proposition 9 is supported.

Proposition 10 posits that social capital among NGOs supports a business in influencing the societal contract as long as the institutional environment is dominated by normative demands. Later, when the institutional environment is dominated by cognitive demands, social capital in the industry is expected to support the business in influencing the societal contract.

In the Unilever case study, the MSC scheme takes on the role of the societal contract that acknowledges demands for sustainable fishing practices. Indeed, we find that Unilever first designed the MSC in collaboration with an NGO (pp. 96 -101). Throughout this phase, common values between Unilever and the WWF, such as the preference for a market-driven approach, facilitated the collaboration (p. 97). Other industry players only became involved at a later point of time (p.103). Their support was contingent on the trust they placed in Unilever as the industry sponsor of the MSC (p. 104). As common values and trust are two characteristics of social capital (Nahapiet & Goshal, 1998), Proposition 10 is supported.
Table 10: Analysis of the Unilever case study

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Page</th>
<th>Support</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Capabilities of a business such as employee involvement are positively related to the adoption of a sustainable purchasing strategy. Exploitative innovation strategies partly mediate this relationship.</td>
<td>98</td>
<td>Partly</td>
<td>Involving Unilever managers in Germany facilitated the adoption. However, an exploitative innovation strategy was not relevant for the adoption.</td>
</tr>
<tr>
<td>2) Capabilities such as the management of loosely coupled business units are related to the adoption of a sustainable purchasing strategy. Explorative innovation strategies partly mediate this relationship.</td>
<td>100 - 101</td>
<td>Yes</td>
<td>Unilever’s biologists worked loosely coupled from other business activities. Their basic research, in collaboration with Prof. McGlade, facilitated the MSC.</td>
</tr>
<tr>
<td>3) Regulative, normative, and cognitive demands in the institutional environment increase the likelihood that a business will use its resources and capabilities to adopt a sustainable purchasing strategy.</td>
<td>98-99, 97</td>
<td>Partly</td>
<td>Regulative demands (Greenpeace campaign) and normative demands (concerns of Unilever managers) confirmed.</td>
</tr>
<tr>
<td>4) In the presence of regulatory, normative, and cognitive demands in the institutional environment, a business will draw more competitive advantage from a sustainable purchasing strategy than in the absence of such demands.</td>
<td>104</td>
<td>Yes</td>
<td>Role of normative demands supported (prize by German Bild Zeitung).</td>
</tr>
<tr>
<td>5) Exploitative innovation strategies have a positive moderating effect on the association between a sustainable purchasing strategy and the resulting competitive advantage.</td>
<td></td>
<td>No</td>
<td>No evidence for relevance of exploitative innovation.</td>
</tr>
<tr>
<td>6) Explorative innovation strategies have a positive moderating effect on the association between a sustainable purchasing strategy and the resulting competitive advantage.</td>
<td>100</td>
<td>Yes</td>
<td>Unilever’s research revealed a competitive advantage from protecting fish stock as the threat of fish stock depletion was significant.</td>
</tr>
<tr>
<td>7) The moderating effect of exploitative innovation strategies will be stronger in an institutional environment dominated by cognitive demands than in an institutional environment dominated by normative demands. The moderating effect of explorative innovation strategies will be stronger in an institutional environment dominated by normative demands than in an institutional environment dominated by cognitive demands.</td>
<td></td>
<td>N.a.</td>
<td>Exploration proved more important than exploitation in this case study. Yet, proposition cannot be verified as MSC is independent of Unilever and the WWF since 1998.</td>
</tr>
<tr>
<td>8) From a resource-based perspective, there is an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and the resulting competitive advantage.</td>
<td>104 - 106</td>
<td>No</td>
<td>More resource allocation to talks with unions would have increased the number of MSC certified fisheries. Longevity of Unilever’s fish supplies would be better assured if more suppliers were certified.</td>
</tr>
<tr>
<td>9) From an institutional perspective, there is an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and the resulting competitive advantage.</td>
<td>98, 102, 106</td>
<td>Yes</td>
<td>Caroline Whitfield had to balance competing demands. Ignoring any of these would have reduced the organizational legitimacy.</td>
</tr>
<tr>
<td>10) In an institutional environment dominated by normative demands, social capital among NGOs supports the business in influencing the societal contract. In an institutional environment dominated by cognitive demands, social capital in the industry supports the business in influencing the societal contract.</td>
<td>96-101, 103</td>
<td>Yes</td>
<td>Unilever first collaborated intensively with the WWF, other businesses were only involved later.</td>
</tr>
</tbody>
</table>
IV.4 Frosta Case Study

This case study describes the adoption of a sustainable purchasing strategy by the Frosta AG, Unilever’s main competitor in the frozen fish category in Germany. Frosta is a German manufacturer of frozen foods with a turnover of Euro 300 Millions (in 2004) and approximately 1100 employees. The case illustrates that innovation management played an essential role in Frosta’s adoption of the Marine Stewardship Council (MSC), the label that certifies sustainable fish supplies.

IV.4.1 Narrative account

Frosta’s participation in talks on fish stock protection since 1995
In 1995, Greenpeace Germany prepared a campaign that was to raise the public awareness on the depletion of marine fish stock. In its efforts to avoid damage to the reputation of its brands, Unilever Germany entered a dialogue with Greenpeace Germany (cf. the Unilever case study). In order to structure this dialogue and to allow participation of further industry players, Unilever Germany decided to set up a “Forum for Sustainable Fisheries” in Germany. Unilever’s partners in setting up this program were Frosta and the industry association of the German fish-processing businesses. These three founding partners of the forum invited Greenpeace as well as scientists to discussions on sustainability in the German fishing industry. From late 1995 onwards, the partners have held discussions on how sustainable fishing could be achieved.

The range of stakeholders participating in this forum increased over time. Following the first meetings, fishers as well NGOs that advocate consumer rights, joined the talks. To Frosta, it came as an enormous surprise when Unilever declared in February 1996 that it was to develop a Marine Stewardship Council with the WWF. Such plans of WWF International and the senior management of Unilever had not been mentioned in the discussions of Germany’s “Forum for Sustainable Fisheries” earlier.

Why Frosta first decided not to adopt the Marine Stewardship Council
Hans-Joachim Hugo, the head of materials management at Frosta, highlights that two reasons hindered the adoption of the Marine Stewardship Council (MSC) by Frosta in the 1990s. First, throughout the late 1990s, the MSC had the taste of an initiative driven by marketing considerations of Unilever. As Hugo explains, Unilever was one of the two parties that were funding the MSC in this period.

99 Interview with Hans-Joachim Hugo, head of materials management at Frosta, on July 19, 2005.
100 Ibid.
Second, Frosta was sceptical of the influence of a MSC label on the brand value of Frosta. As Hugo points out:

Being a manufacturer of branded products, our prices were above those of products offered by discounters. Suppose that we had placed a MSC label on our packaging. If a manufacturer of private labels would have placed the same label on his product, then we would have given up differentiation in the market. The label would have made customers aware that our products as well as the products of the private label manufacturer are made out of the same raw materials, even though they taste differently.

Hence, competitive considerations of Frosta as well as certain scepticism about Unilever’s role in the MSC hindered the adoption of the label, first.

**Frosta decides to change its business strategy**

In 2001, the strategic context for MSC labelling changed for Frosta. As Friederike Ahlers, the head of Corporate Communications, and Dr. Andreas Bosselmann, the head of innovation management, explain, the Frosta brand had become increasingly stuck in a strategic “sandwich position” in the German market. On the one hand, Frosta products were more expensive than the products offered by discounters. On the other hand, Frosta was operating in some categories, such as frozen vegetables, where it could not attain the position of a market leader. Here, Frosta could only set prices that were 20-30% below those set by the market leader. A market analysis of Frosta confirmed that the discounters were increasingly moving into Frosta’s market segment as they began offering higher-quality products. Given that competition in its traditional market segment became fiercer, Frosta faced a strategic choice. Either, it could enter the low-price end of the market or it could move into the premium market of frozen foods.

**Frosta’s move into the premium segment: evidence for resource-based and institutional considerations**

The senior management decided to move the Frosta brand into the premium rather than the low-price category. This decision was facilitated by two factors. First, Frosta already had a strict “clean label policy” in place in 2001. As Dr. Bosselmann points out, a “clean label policy” implies that a business avoids using those food...
additives that need to be declared on the packaging of the final product, a strategy that is commonly pursued by food manufacturers. In Europe, food safety regulations only require that manufacturers list those food additives on their products that fulfil a technical purpose in the final product. Additives used in earlier stages of the production processes do not need to be listed.

Frosta identified an opportunity for drawing a strategic benefit out of its existing “clean label policy” by eliminating all food additives in its products, even those used by Frosta’s suppliers. This would allow Frosta to brand its products as being completely free of food additives - a clear differentiation from the products offered by competitors.

In addition to Frosta’s strategic asset - a clean label policy - a second factor facilitated the decision to move into the premium segment. As Dr. Bosselmann points out:

> Fortunately, there was an increasing number of consumers who raised questions on the origin and the processing of food. It became apparent that there was an increasing pressure on the food industry to make the recipes of food products more transparent. This pressure was exerted by consumers, politics, and the media. […] These groups also raised the demands for a sustainable resource usage in the food supply chain\(^{105}\).

Thus, both resource-based considerations as well as demands in the institutional environment facilitated Frosta’s decision to move into the premium segment of the market with a new strategy: to offer products that originated from sustainable production and were processed without any usage of food additives.

**The implementation of Frosta’s new business strategy**

The major challenge in implementing this new strategy was to develop specifications for the diverse raw materials that Frosta was purchasing. From early 2001 onwards, a core project team of Frosta systematically checked all the recipes for a possible use of food additives by the suppliers. In the diverse food supply chains, Frosta had to identify issues such as the sulphurisation of white wine, the use of stabilisers in cream, or the cementation of black olives. In total, Frosta had to develop over 240 new specifications with the suppliers in order to ensure that Frosta’s products were completely free of food additives. The development of these specifications and the identification of appropriate suppliers required a major share of the over 25,000 hours of development that Frosta spent on the implementation of its new strategy. While a core team of Frosta (including purchasing managers and

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\(^{105}\) Ibid.
food scientists) and internationally renowned restaurant cooks worked on the project, Friedericke Ahlers emphasizes that Frosta’s entire operations were affected by the implementation of the new strategy\textsuperscript{106}. For example, as Frosta decided to purchase fresh milk rather than milk powder for its production, the logistics function had to increase its storage capacities for chilled raw materials. Within production management, a number of processes had to be changed as well. For example, Frosta decided to purchase salt that did not contain anti-caking agents. Due to the lacking addition of this agent, the salt that Frosta now purchased clumped more easily. Therefore, Frosta’s production managers developed a grinding machine that broke the salt clumps before they entered Frosta’s production process\textsuperscript{107}.

As an element of the implementation of its new strategy, Frosta also came to discuss the purchasing of frozen fish again. As Dr. Bosselmann points out, consumers were aware that fish caught in the oceans was one of the few agricultural raw materials that could be expected to be free of food additives. Still, Frosta was pondering how it could achieve a differentiation from competitors in the purchasing of fish, too\textsuperscript{108}. In this context, it was decided to begin purchasing MSC-certified fish. Previously, Frosta had feared a loss of differentiation in the market, if it was to adopt the MSC labels (cf. p. 113). Now, Frosta had no reason to assume that the MSC label could damage the value of the Frosta brand. This is because Frosta decided to communicate its new strategy by labelling its products with the so-called “Reinheitsgebot von Frosta”, the purity law of Frosta\textsuperscript{109}. It helped to establish a unique market position. Even if a discounter was to acquaint the MSC label, too, Frosta could still differentiate itself from its competitors with the “Reinheitsgebot”.

\begin{figure}[h]
\centering
\includegraphics[width=\textwidth]{figure26.png}
\caption{The “Frosta Reinheitsgebot” label and the MSC label as depicted on Frosta’s frozen fish products}
\end{figure}

\textbf{A difficult kick-off for Frosta’s new strategy}

In October 2002, Frosta presented its new strategy to the public\textsuperscript{110}. Among food

\begin{footnotesize}
\textsuperscript{106} Interview with Friederike Ahlers, head of Corporate Communications at Frosta, on June 28, 2005.
\textsuperscript{107} Ibid.
\textsuperscript{108} Interview with Dr. Andreas Bosselmann, head of innovation management at Frosta, on July 20, 2005.
\textsuperscript{109} By using the notion of a “Reinheitsgebot”, Frosta deliberately referred to Germany’s famous purity law for the production of beer, which became effective in 1517.
\end{footnotesize}
retailers in Germany, the “Reinheitsgebot” products aroused great interest. Within weeks, the new Frosta products penetrated about 80% of the nation’s supermarkets\textsuperscript{111}. In comparison to its previous product ranges, Frosta’s frozen products had now become 30 to 60 Cents more expensive. However, senior management was confident that consumers would be willing to pay a premium for the “Reinheitsgebot” products. A series of sensory tests with consumers had demonstrated that the “Reinheitsgebot” products tasted significantly better than Frosta’s previous product ranges as well as the products offered by competitors\textsuperscript{112}. Still, the consumers were more price-sensitive than Frosta had expected. Rather than enjoying increased sales, Frosta suffered a 40% drop in its revenues. Decisive measures had to be taken. About 70-80 of the 1200 positions at Frosta were not prolonged\textsuperscript{113}. The size of Frosta products was reduced to ensure that shelf prices remained below the psychologically important barrier of Euro 3. Frosta also stopped purchasing MSC certified fish for its entire range of fish products as the one species of fish available under MSC certification was not suited for all recipes\textsuperscript{114}.

**Frosta’s strategy today: increasing market shares and institutional entrepreneurship**

Since 2004, changes to Frosta’s marketing strategy and cost savings have allowed the business to regain market shares and to become profitable again.

![Figure 27: Development of the Frosta shares](image)

Figure 28, taken from its webpage www.frosta.de, shows that Frosta engages in institutional entrepreneurship today. Not only has Frosta responded to the demands in the institutional environment to stop using food additives. Now that Frosta has responded to such institutional demands, it amplifies these in order to increase the

\textsuperscript{111} Saulnier, J. 2005, Reinheitsgebot quality has its price - and Frosta believes folks will pay it. Quick Frozen Foods International: 44 (4).

\textsuperscript{112} Interview with Dr. Andreas Bosselmann, head of innovation management at Frosta, on July 20, 2005


\textsuperscript{114} Today, Frosta selects MSC certified fish whenever it is available for the fish species figuring in the recipe of a Frosta product.
strategic value of the Frosta Reinheitsgebot.

As noted in the theory section of this dissertation, institutional entrepreneurship can only be successful, if a business possesses the appropriate resources for realizing its strategy of influencing the institutional environment, cf. chapter II.3. At Frosta, the resource that the business draws on is an extraordinary openness. Journalists and researchers who investigate the development of the “Frosta Reinheitsgebot” are provided with dates for an interview within days. Business-interna are openly communicated. As a result, the reports of the external observers confirm that Frosta’s “Reinheitsgebot” is indeed no marketing-gag but a profound change in the strategy of a food manufacturer. The credibility that the reports by external observers provide, allows Frosta to engage in institutional entrepreneurship and to appear credible when demanding to “get rid of food additives”.

Frosta’s openness in responding to questions by external observers combined with its actions of institutional entrepreneurship (cf. Figure 28) have placed the business in a comfortable position. Today, journalists accuse Frosta’s competitor, Unilever, of making use of food additives, while pointing to Frosta as an example for a business that has chosen to decline using these\textsuperscript{115}. Consequently, the institutional pressure on Frosta’s competitors rises, while the competitive position of Frosta is strengthened.

IV.4.2 Analysis

\textsuperscript{115} Cf. the following article: Heeg, T. 2005. Frosta erfindet das Reinheitsgebot für Fischstäbchen. Frankfurter Allgemeine Sonntagszeitung, June 5.
In this chapter, we analyze the Frosta case study for evidence regarding the propositions of the research model. Our findings are summarized in a table at the end of the chapter. For conclusions of all case studies, confirm chapter IV.6.

**Proposition 1** of the research model argues that employee involvement is associated with the adoption of a sustainable purchasing strategy. An exploitative innovation strategy is described as partly mediating this linkage. For verifying this proposition, we regard the purchasing of MSC-certified fish as evidence for a sustainable purchasing strategy. At Frosta, that purchasing policy became possible following the development of the “Reinheitsgebot” (p. 115). The development of the “Reinheitsgebot” strategy included a number of exploitative innovations, such as the development of new production machines (p.115). These exploitative innovations demanded employee involvement (p.115). Thus, employee involvement was an antecedent to the implementation of the “Reinheitsgebot” strategy (including its associated exploitative innovation strategy). The “Reinheitsgebot” strategy, in turn, let to the purchasing of MSC-certified fish. Thus, the “Reinheitsgebot” fully, rather than partly, mediated the purchasing of MSC certified fish. **Proposition 1** is supported.

**Proposition 2** suggests that the capability of managing a loosely coupled business unit is associated with the adoption of a sustainable purchasing strategy. An explorative innovation strategy is suggested to partly mediate this linkage. For verifying the proposition, note that the core team of Frosta developing the “Reinheitsgebot” had its own time budget as well as financial budget (p. 114). It operated loosely coupled from Frosta’s routine activities. The business engaged in exploratory research when it developed the first food recipes for industrial processing that did not require food additives (p.114 - p.115). Thus, Frosta’s capability to manage a loosely coupled business enabled exploratory research, a cornerstone in the development of the “Reinheitsgebot”. The Reinheitsgebot strategy, in turn, fully mediated the adoption of the purchasing of MSC-certified fish. **Proposition 2** is supported.

**Proposition 3** states that regulative, normative, and cognitive demands in the institutional environment facilitate the adoption of a sustainable purchasing strategy. Indeed, the interview with Dr. Bosselmann highlights that regulative and normative demands were present (p. 114). Thus, Proposition 3 is supported for regulative and normative demands. It is a very important to note, though, that these demands for sustainable purchasing had already been present for several years (p. 112). Only when Frosta began to engage extensively in new product development, did it “dare” to adopt the MSC label (p. 115). Thus, we cannot argue that either an innovation
strategy\textsuperscript{116} or institutional demands facilitated the adoption of Frosta’s sustainable purchasing strategy. Instead, the simultaneous presence of institutional demands and an innovation strategy led to the adoption of the MSC label.

Proposition 4 suggests that regulative, normative, and cognitive institutional demands increase the competitive advantage that a business draws from its sustainable purchasing strategy. This proposition is supported with respect to normative demands. Journalists praise Frosta for complying with normative demands while blaming Frosta’s competitors for not doing so (p. 117). Consequently, Frosta gains a reputational advantage (Deephouse, 2000). Proposition 4 is partly supported.

Proposition 5 states that an exploitative innovation strategy has a positive moderating effect on the linkage between a sustainable purchasing strategy and competitive advantage. Furthermore, Proposition 6 suggests that an explorative innovation strategy exerts the same positive moderating effect. Note that we consider it appropriate to analyze both of these propositions at a time. The implementation of the “Reinheitsgebot” of Frosta necessitated the creation of entirely new recipes (an explorative innovation requiring consultation with external experts, p.115) and changes to Frosta’s production machines (an exploitative innovation that could be realized with Frosta’s existing knowledge, p. 115). The “Reinheitsgebot” helped Frosta to embed its sustainable purchasing strategy, the purchasing of MSC certified fish, into a strategy that was difficult to copy for its competitors. In addition to being difficult to copy, the “Reinheitsgebot” strategy fulfilled all further characteristics of sustainable advantage (Barney, 1991). The strategy was rare in the market, it was difficult to substitute by another strategy that would fulfil the same purpose, and it was valuable (because it was in line with demands in the business environment, cf. the theory section of this dissertation, chapter II.2.5). Propositions 5 and 6 are supported.

Proposition 7 argues that the moderating effect of an explorative innovation strategy is stronger in an institutional environment dominated by normative than in an institutional environment dominated by cognitive demands. The opposite statement is made regarding an exploitative innovation strategy. We could not confirm this proposition as the MSC label has not reached the stage of being “taken-for-granted” in the German market\textsuperscript{117}. Frosta is the first German manufacturer of frozen products

\textsuperscript{116} (including exploitative and explorative innovations)

\textsuperscript{117} Note, that this is not true for the UK market. Here, Birds Eye Walls as well as the private label products of Sainsbury’s, Marks&Spencer, and Tesco are all MSC certified - hence, the MSC is taken-for-granted in the UK market, already.
to display the label. As the label is not commonplace, yet, we cannot make any statement regarding an institutional environment dominated by cognitive demands.

**Proposition 8** suggests that there is an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and competitive advantage from the perspective of the resource-based view. The case study provides evidence that Frosta has gained a competitive advantage by adopting a sustainable purchasing strategy for fish products and by shielding it from copycat attempts of competitors with the “Reinheitsgebot” strategy (p. 113, p. 115). The management of Frosta, however, had to realize, that it could not maintain the sensory quality of its fish products if they were all made of the one fish species that was available under MSC-certification (p. 116). Yet, sensory quality - the taste of products - is an obvious source of differentiation in the food industry. Thus, the competitive advantage arising from Frosta’s sustainable purchasing strategy increasingly came at expense of the taste of the products, another source of differentiation in the market. Proposition 8 is supported.

**Proposition 9** argues that the inverted U-shaped relation, as described in Proposition 8, is also supported from the perspective of institutional theory. For verifying that proposition, note that institutional theory posits that businesses need to maximize their legitimacy for survival (Meyer & Rowan, 1977; Scott, 2001). In the case of Frosta, the business gained on societal legitimacy by adopting the MSC label and the “Reinheitsgebot” strategy (p. 114, p. 117). However, at the same time it lost legitimacy among its shareholders, as the new strategy was not profitable first (p. 116). The business also threatened its legitimacy as a reliable employer as it had to lay off personnel to save costs (p. 116). In order to maximize its overall legitimacy, Frosta had to strike compromises and identify its optimal level of resource allocation to a sustainable purchasing strategy. Proposition 9 is supported as conflicting institutional demands hindered a linear relationship between resource allocation to a sustainable purchasing strategy and competitive advantage.

**Proposition 10** suggests that social capital of a business among NGOs is vital for influencing the societal contract in an institutional environment dominated by normative demands. However, in an institutional environment dominated by cognitive demands, social capital in the industry is considered a more valuable resource. In the Frosta case study, the societal contract of Frosta addressed transparency of recipes and a sustainable purchasing of raw materials. However, we found that media relations were far more important for Frosta in “changing the rules of the game” than either its NGO relations or its relations with competing businesses (p.117). Proposition 10 is not supported.
<table>
<thead>
<tr>
<th>Proposition</th>
<th>Page</th>
<th>Support</th>
<th>Comment</th>
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<tbody>
<tr>
<td>1) Capabilities of a business such as employee involvement are positively</td>
<td>115</td>
<td>Yes</td>
<td>Purchasing, production and logistics managers essential to implementation of the “Reinheitsgebot” strategy. Sustainable purchasing of fish a consequence of the “Reinheitsgebot” innovations.</td>
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<td>related to the adoption of a sustainable purchasing strategy. Exploitative</td>
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<td>innovation strategies partly mediate this relationship.</td>
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<td>2) Capabilities such as the management of loosely coupled business units are</td>
<td>114,</td>
<td>Yes</td>
<td>“Reinheitsgebot” project team had its own budget. The team engaged in exploratory research that facilitated the adoption of a sustainable purchasing of fish.</td>
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<td>related to the adoption of a sustainable purchasing strategy. Explorative</td>
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<td>innovation strategies partly mediate this relationship.</td>
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<td>3) Regulative, normative, and cognitive demands in the institutional</td>
<td>112,</td>
<td>Partly</td>
<td>Support for regulative and normative demands. Frosta only gave in to these demands when its strategy was difficult to copy (through innovation).</td>
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<td>environment increase the likelihood that a business will use its resources</td>
<td>114,</td>
<td></td>
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<td>and capabilities to adopt a sustainable purchasing strategy.</td>
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<td>4) In the presence of regulatory, normative, and cognitive demands in the</td>
<td>117</td>
<td>Partly</td>
<td>Support for normative demands. Journalists blame competitors for not following Frosta’s example.</td>
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<td>institutional environment, a business will draw more competitive advantage</td>
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<td>from a sustainable purchasing strategy than in the absence of such demands.</td>
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<td>5) Exploitative innovation strategies have a positive moderating effect on</td>
<td>115</td>
<td>Yes</td>
<td>Exploitative innovations (new production machines) and explorative innovations (new recipes developed with external experts) made Frosta’s sustainable purchasing of fish difficult to copy for its competitors.</td>
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<td>the association between a sustainable purchasing strategy and the resulting</td>
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<td>competitive advantage.</td>
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<td>6) Explorative innovation strategies have a positive moderating effect on</td>
<td>115</td>
<td>Yes</td>
<td>Exploitative innovations (new production machines) and explorative innovations (new recipes developed with external experts) made Frosta’s sustainable purchasing of fish difficult to copy for its competitors.</td>
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<td>the association between a sustainable purchasing strategy and the resulting</td>
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<td>competitive advantage.</td>
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<td>7) The moderating effect of exploitative innovation strategies will be</td>
<td>N.a.</td>
<td></td>
<td>Not applicable; Sustainable purchasing of fish is still a normative, not a cognitive, demand in the German market. No evidence that either moderating effect of exploitative or explorative innovations was stronger.</td>
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<td>stronger in an institutional environment dominated by cognitive demands than</td>
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<td>in an institutional environment dominated by normative demands. The</td>
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<td>moderating effect of explorative innovation strategies will be stronger in</td>
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<td>an institutional environment dominated by normative demands than in an</td>
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<td>institutional environment dominated by cognitive demands.</td>
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<td>8) From a resource-based perspective, there is an inverted U-shaped</td>
<td>113,</td>
<td>Yes</td>
<td>Market differentiation arising from a sustainable purchasing of fish increasingly came at expense of product taste.</td>
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<td>relation between resource allocation to a sustainable purchasing strategy</td>
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<td>and the resulting competitive advantage.</td>
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<tr>
<td>9) From an institutional perspective, there is an inverted U-shaped</td>
<td>114,</td>
<td>Yes</td>
<td>Conflict; societal demands for sustainable purchasing but lacking shareholder support.</td>
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<td>relation between resource allocation to a sustainable purchasing strategy</td>
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<td>and the resulting competitive advantage.</td>
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<td>10) In an institutional environment dominated by normative demands, social</td>
<td>117</td>
<td>No</td>
<td>Social capital of Frosta among NGOs and the industry was not essential for influencing the societal contract. Instead, Frosta changed rules of the game by being very open to journalists.</td>
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<td>capital among NGOs supports the business in influencing the societal</td>
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<td>contract. In an institutional environment dominated by cognitive demands,</td>
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<td>social capital in the industry supports the business in influencing the</td>
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<td>societal contract.</td>
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Table 11: Analysis of the Frosta case study
IV.5 Nestlé case study

Nestlé is the world’s largest coffee roaster. This case study analyzes the activities of Nestlé in ensuring a sustainable purchasing of green coffee beans. In order to examine the exogenous context of coffee purchasing, we begin by analyzing the collapse of the “International Coffee Agreement” in 1989.

IV.5.1 Narrative account

Collapse of the International Coffee Agreement (ICA):

On July 4th, 1989, the world’s largest market for coffee roasters, the USA, withdrew its support of the “International Coffee Agreement”, ICA. Throughout the previous decades, ICA had served as a mechanism that regulated the global market for green coffee beans. The Agreement had been developed in the early 1960s. Following the Cuba Crisis, the initiative had been strongly supported by Western governments.

Figure 29: The development of green coffee prices on the world market (Source: Nestlé)

At that time, the USA understood ICA as “a way to prevent poverty and communism from destabilizing its Latin American neighbors\textsuperscript{118}”. Now, in late 1989, as communism faltered, there was no political incentive for minimal coffee prices any longer\textsuperscript{119}. Following the resignation of a major partner of ICA, the market price for green coffee beans fell to an all-time low, the volatility of coffee prices significantly increased.

\textsuperscript{118} Wasserman, M. 2002. Trouble in Coffee Lands. Regional Review of the Federal Reserve Bank of Boston, 2\textsuperscript{nd} Quarter.

\textsuperscript{119} Ibid.
In an effort to reintroduce price ranges for the market of green coffee beans, a group of Mexican farmers entered collaboration with a NGO in the Netherlands. Jointly, they developed a label for Fair Trade coffee, Max Havelaar. Max Havelaar differed from ICA as it did not aim to set price bands for the green coffee market on a regular basis. Instead, it ensured the coffee-producing farmers a fixed minimum price for their production of green coffee beans. Unlike coffee traded in line with the ICA regulations, the price of Max Havelaar coffee was not to be adjusted to annual supply and demand fluctuations.

Within short time following its introduction to the European retail market, Max Havelaar gained a market share of 3-5%. The Fair Trade label had successfully entered a market niche. Max Havelaar’s most relevant influence on the European retail market, however, appeared to be of institutional rather than economic nature.

**Normative demands for minimum coffee prices replace the ICA**

Prior to the collapse of ICA, the institutional environment of the green coffee market had been characterized by regulative demands. Nestlé as well as its competitors had had to adhere to the price bands set by ICA when purchasing green coffee beans. Since the introduction of Max Havelaar, however, the world’s leading roasters increasingly faced normative demands for minimum prices in the purchasing of green coffee.

Nestlé explicitly acknowledges this societal influence of Max Havelaar. However, the business argues from an economic-rational perspective that Fair Trade is no appropriate approach for its own operations. As Patrick Leheup, Nestlé’s sourcing manager for coffee, points out:

> Fair Trade contributes to raise the awareness of the situation of the coffee farmers among the public [emphasis added]. However, Nestlé has to consider the Fair Trade approach from a mainstream viewpoint (and not the viewpoint of a niche sector). A comparison of the prices guaranteed to farmers by Fair Trade (FT) and the actual production costs demonstrates that Fair Trade encourages overproduction (cf. the following table).

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120 Cf. the webpage of the International Fair Trade Association, www.ifat.org, retrieved on June 21, 2005. Note that “Max Havelaar” is the title as well the main character of a largely autobiographical book written by the Dutch author Eduard Douwes Dekker who worked as a civil servant in the Dutch colonies throughout the 1850s. Writing under the pseudonym “Multatuli”, his book “Max Havelaar” reported on the abuse of workers on the coffee plantations in the Dutch colonies.

Despite its critique of Fair Trade in the mainstream coffee sector, Nestlé underlines that higher coffee prices are in line with its own strategic interests. In a response to Oxfam, which demands Fair Trade of roasters, Nestlé writes:

Nestlé is not in favour of a low coffee price environment as this is not only bad for farmers but also for Nestlé’s business, which is predominantly in soluble coffee. A higher green coffee price actually favours the competitive price of Néscafe as compared to normal roast-and-ground coffee. This is due to the fact that roast-and-ground coffee [of our competitors] is very sensitive to high prices, because its main added value is roasting.\(^{122}\)

In this letter to Oxfam, Nestlé further explains that it pursues several strategies in order to raise the coffee prices again. These strategies are introduced in the following three sections:

**Nestlé’s response(I): direct purchasing of coffee from farmers**

In 1986, Nestlé began to buy a share of its coffee supplies directly from the producing farmers rather than purchasing from coffee traders\(^{123}\). At this point of time, normative demands for minimum coffee prices were little pronounced. The International Coffee Agreement was still in place and the Max Havelaar brand did not exist yet. In this phase, quality management considerations appear to have facilitated Nestlé’s direct purchasing activities.

However, from 1989 onwards, Max Havelaar and other Fair trade labels established themselves as niche players in the European coffee retail market. As noted in the preceding section, Max Havelaar began to establish normative demands for a “Fair Trade” by the mainstream roasters. Throughout the early 1990s, Nestlé regularly had to justify its position regarding Fair Trade coffee. In 1994, Nestlé accounted for this

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development by publishing a special report on the coffee market as well as Nestlé’s contribution to stabilizing coffee prices\textsuperscript{124}. Hereby, direct purchasing was highlighted as one strategy for increasing the farmers’ income. Consequently, Nestlé’s direct purchasing scheme now fulfilled two purposes. On the one hand, it contributed to ensuring high-quality supplies of coffee; on the other, it allowed Nestlé to demonstrate its contribution in abating poverty among coffee-producing farmers.

Nestlé steadily expanded its direct purchasing activities throughout the early 1990s. Today, six out of 11 Nescafé factories in coffee-producing countries engage in direct purchasing\textsuperscript{125}. These purchases, a total of 110 000 t annually, represent about 14\% of the business’ total annual purchasing volume of green coffee. The prices that Nestlé pays to the direct-supplying farmers are dependent on the quality of their produce\textsuperscript{126}. In 2002, the average price that Nestlé’s Buying Centre in Thailand paid to farmers was 97 cts/lb. Throughout the same period, local traders only paid the farmers 35cts/lb to 50cts/lb\textsuperscript{127}.

Nestlé seeks to continuously improve the quality of the coffee supplies it receives. To this end, it pursues two types of strategies. First, Nestlé operates “demonstration farms” and “coffee-training centres” in Thailand as well as in several other coffee-producing countries. Nestlé points out that its “agricultural services department provides technical assistance and advice to the local farmers on these demonstration farms. The advice provided by Nestlé agronomists is free and there is no obligation of the farmer to then sell his coffee to Nestlé\textsuperscript{128}”.

In Thailand, Nestlé also runs a weekly radio show that teaches the local farmers how to raise the quality of their harvest and how to reduce their own production costs. For example, Nestlé teaches farmers how they can reduce their expenses for fertilizers by using the pulps of green coffee beans as an organic fertilizer on their plantations.

Overall, Nestlé places great emphasis on the interaction with farmers who it purchases agricultural produce from. The headquarters judge the performance of Nestlé factories based on the degree of consultations by factory personnel with farmers\textsuperscript{129}.

\textsuperscript{125} Interview with Patrick Leheup on February 2, 2005.
\textsuperscript{126} Nestlé 2004. Faces of coffee. The Nestlé coffee report. Vevey
\textsuperscript{127} Ibid.
\textsuperscript{128} Ibid.
Second, Nestlé operates coffee research centres in Ethiopia and France. Here, scientists develop seedlings that are particularly resistant to pests. The researchers also develop varieties of coffee plants that are designed to fit the specific conditions of the soil in the different producing areas. Seedlings of these new varieties are either sold to producing farmers or provided to them free of charge. Nestlé points out that the seedlings developed by the research centres also contribute to abating poverty of coffee farmers as they allow increasing the productivity of agricultural production.

**Nestlé’s response (II): institutional entrepreneurship - the Sustainable Agriculture Initiative (SAI)**

In the 1990s, the above activities of Nestlé - direct purchasing of coffee, the training of farmers, and agricultural research - marked the business’ major contribution to increasing the income of coffee farmers and ensuring an environmentally sound coffee production. Yet, the institutional environment of the coffee market gradually changed from the second half of the 1990s onwards. Previously, NGOs had been actors who criticized the mainstream roasters for not engaging in Fair Trade. Just like Nestlé, competing roasters had justified that they were not introducing a Fair Trade brand. In 2000, however, a major US roaster, Starbucks, entered talks on collaboration with a NGO130. In doing so, Starbucks reflected a general trend in the food industry towards collaboration in creating sustainable supply chains (cf. the Migros and the Unilever case study). Increasingly, it became taken-for-granted that large food operating businesses engage in *some activity* to improve not only the economic, but also the ecological and social performance of their agricultural supply chains. As sustainability increasingly became a “mainstream” concept, Nestlé as well as other major food manufacturers could not leave the definition of *sustainability* to NGOs and niche players in the markets. Instead, the corporations had to influence the public thinking on what sustainability means from their viewpoint, too.

In late 2000, the CEOs of Nestlé, Danone, and Unilever held a meeting and discussed issues concerning agricultural supplies and the concept of sustainability. They agreed to develop a “Sustainable Agriculture Initiative” (SAI), a platform for the exchange of precompetitive research results and project experiences. SAI also was to support the major food manufacturers in establishing criteria for sustainable agricultural production that the businesses could jointly communicate to the world market.

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Dr. Jaap van der Vlies of the TNO contract research consultancy moderated the discussions on the development of SAI. The following excerpt of an interview with him suggests that the three corporations held divergent views on the design of SAI. Particularly, Nestlé sought to avoid elements of SAI that were grounded in a stakeholder rather than a shareholder view of management. As Dr. van der Vlies points out:

Nestlé’s managers argued that SAI should become a part of “CIES - The Food Business Forum”. CIES is a lobby organization with direct links to private enterprises. Danone and Unilever rejected this proposition but it is still debated among the members of SAI today. […] The whole idea of involving stakeholders, which Unilever had demonstrated in the case of the Marine Stewardship Council, appeared somewhat terrifying to Nestlé. To some extent this may be due to past experiences with baby powder milk. Nestlé took a quite defensive position on stakeholder involvement […]. Dr. Hans Jöhr [Nestlé’s representative in the development of SAI] had much more difficulties in getting in line with his organization than Jan Kees Vis and Jean Yves Dupre, the representatives of Unilever and Danone. Explaining the concept of sustainability (People, Profit, Planet) to the superiors of Dr. Jöhr was more difficult than explaining it to the superiors of Kees Vis and Dupre […]

In the roundtable talks on SAI, Dr. Jöhr was joined by a second Nestlé manager, Irina DuBois, who is Nestlé’s President for Regulatory Affairs. Frequently, one could observe that discussions were taking place among the managers of Nestlé. These discussions were partly caused by cultural differences. Besides that, the organizational structure plays an important role. See, it makes a big difference which position you have in the organizational structure. For example, I recall that Kees Vis, Unilever’s representative, is a key leader of Unilever’s quality management department, which means that sustainability is an integral part of his tasks. At Nestlé, Dr. Jöhr is in the strategic purchasing department.131

- Frequently, stakeholders may and will criticize companies for their actions and policies, especially the large multinationals that subtract natural resources for their products. However, it is essential to listen to the criticisms and to maintain a stakeholder dialogue.

Despite apparent difficulties in the preparatory talks of SAI, Dr. van der Vlies views the development of SAI as a success, at least from the perspective of industry

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131 Note: He is the Corporate Head of Agriculture, responsible for Nestlé’s strategy in purchasing agricultural raw materials.
involvement. To date, 19 corporations from the food industry have joined SAI. It is interesting to note, though, that SAI appears to make a distinction between “founding members” and “other members” of the initiative, cf. Figure 30. On the webpage of SAI, the 19 members are listed according to this criterion. The reasons for this choice of terminology may be twofold. On the one hand, it may reflect differences in the hierarchical statuses of “founding members” and “other members”. On the other hand, it is possible that the “founding members” seek to maximize the public recognition for having developed SAI.

Figure 30: Are some members of the Sustainable Agriculture Initiative (SAI) more equal than others? Terminological distinctions on the webpage of SAI maximize the legitimacy of selected members.132

Indeed, this recognition has been provided to date. Investment funds such as Sustainable Asset Management (SAM) have described the SAI initiative as an important step taken by influential companies in order to “secure access to the top grade raw materials in the era of multiple tainted food scandals, a ballooning world population and shrinking resources”.133

Dr. Hans Jöhr of Nestlé was awarded for his stance on the management of sustainability and his contribution in developing SAI. A major NGO, the Rainforest Alliance, awarded him with an esteemed prize in May 2003134.

Nestlé’s response (III): participation in a further initiative
In addition to SAI, Nestlé is contributing to the Common Code for the Coffee Community (4C), a voluntary code of conduct that is to define social and ecological

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133 Johnston, M. 2002. Three food giants to reinvent agriculture, Sustainable Business Investor Worldwide, March
minimum criteria for the agricultural production of coffee worldwide. It may come as a surprise that the company engages in two initiatives that each address standards for agricultural production. SAI, however, is not without “rivals”. For example, the retailer Ahold has established a code of conduct for coffee production in Guatemala. Yet another programme has been initiated by the International Coffee Organization. None of these “unilaterally” developed codes of conduct is likely to develop into a standard that would be accepted by the entire mainstream coffee market. As William Simpson, a researcher on economic law, points out:

The different standards [for coffee production] that have been drawn up so far either cannot be approved by all of the interested parties or are not applicable to the mainstream coffee production. In the majority of cases, all these different labels only address specific aspects of the coffee sector […]\(^{135}\).

Recognizing this dilemma in 2001, two institutions set up a multi-stakeholder dialogue on the development of a Common Code for the Coffee Community (4C)\(^{136}\). Their objective was to facilitate the development of a minimum standard for any coffee farm not certified by Fair Trade labels.

The two founding institutions sought to ensure that 4C would consider the demands of all relevant stakeholders. In January 2003, they invited all stakeholders of the coffee sector to join three working groups for developing the ecological, social, and economic criteria of 4C, respectively.

From the outset, the 4C initiative enjoyed very broad support. The four largest roasters (Nestlé, Kraft, Procter & Gamble, and Sara Lee) all joined the working groups; so did Greenpeace, which focused on contributing to the working group on ecological criteria.

Each of these 4C working groups ultimately agreed on minimum standards for coffee production. On September 10\(^{th}\), 2004, the common code was presented to the public. 4C received enormous attention by the media\(^{137}\). Journalists emphasized that all major roasters supported the initiative, thus increasing the likelihood that the code of conduct would eventually be implemented worldwide.

Yet, Walter Zwald, the former head of the Swiss coffee trade association, criticizes that the roasters overemphasized their contribution to developing 4C. He suggests


\(^{136}\) The two institutions are the German Coffee Association (DKV) and the GTZ (Deutsche Gesellschaft für Technische Zusammenarbeit).

\(^{137}\) Including coverage by The Guardian, Süddeutsche Zeitung, Die Welt, and a front-page report by the Financial Times.
they wanted to distract from the institutional pressure they had come under. Zwald’s proposition of Fair Trade schemes “biting into the mainstream roasters” hints to two different kinds of pressure that the roasters have come under today. First, the Fair Trade labels have raised the institutional pressure on roasters. In the coffee sector, it is now taken-for-granted that roasters engage in initiatives improving not only the economic, but also the social and the ecological performance of coffee plantations. Over 20 different “sustainability” initiatives exist in the coffee sector today. All of the leading roasters are involved in at least one of these. A leading roaster would lose his legitimacy in case he should not participate in any of these. In other words: the institutional environment of the roasters is characterized by cognitive demands for participation in sustainability initiatives.

Second, the market pressure on roasters to improve the ecological and the social performance of coffee production has become considerate, particularly in the UK retail market. Here, Fair Trade coffee gained a 4% market share in 2004. Among the brands in the premium segment of the market, it even gained a 20% share. Even if institutional demands are ignored, these figures require attention in strategy development.

A move of Nestlé towards “Fair Trade”? Given the growing market for Fair Trade coffee, two competitors of Nestlé in the UK, Lavazza and Lyons Original Coffee, let their coffee supplies certify by the NGO Rainforest Alliance in early 2004. With that certification, the roasters committed themselves to pay farmers a 20% surplus on top of the current market price. However, unlike coffee produced under Fair Trade schemes, the label of the Rainforest Alliance did not require the roasters to pay a fixed minimum price for coffee purchases. As this scheme of the Rainforest Alliance matched the logic of liberalized markets better than the Fair Trade scheme, further roasters in the UK, including Kraft, quickly followed in their application for the Rainforest Alliance label. Nestlé UK was described as pondering over an ethical coffee launch in the UK in July 2004, too. Three months later, Nestlé UK was still expected to follow the strategy of

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140 McAllister, S. 2004. Who is the fairest of them all?: New ethical coffees have shunned Fair Trade Foundation approval in favour of the little-known Rainforest Alliance. The Guardian, November 24.

Kraft. The Swiss manufacturer was “understood to be preparing its own Fair Trade-style product under the Nescafé brand”\textsuperscript{142}. In October 2005, Nestlé then launched its first Fair Trade coffee in the UK market. Unlike its competitors, Nestlé chose to market \textit{Fair Trade} rather than Rainforest Alliance certified coffee, thereby meeting consumer demands most closely and avoiding the launch of a me-too product.

Overall, that case study suggests that Nestlé had first been more hesitative than other businesses in involving external stakeholders in its coffee purchasing strategy. However, this hesitation in involving stakeholders did not automatically imply that Nestlé was achieving less in improving the ecological and social performance of its coffee supplies. In 2002, Oxfam rated Nestlé as the second best mainstream roaster in managing sustainability, second only to Procter & Gamble. Oxfam\textsuperscript{143} as well as sustainability researchers\textsuperscript{144} particularly acknowledged Nestlé’s efforts in direct purchasing of coffee from farmers.

Given the changes in the business environment, however, stakeholder involvement is increasingly regarded as an important criterion for judging a business as “legitimate” and “responsible”. Given this long-term development, Nestlé may want to further expand its direct procurement scheme and to integrate external stakeholders even more proactively in order to secure and improve the consumers’ valuation of the business’ products.

\textbf{IV.5.2 Analysis}

\textit{Proposition 1} suggests that employee involvement is related to the adoption of a sustainable purchasing strategy and that an exploitative innovation strategy partly mediates this relationship. The case study provides no hint regarding the role of employee involvement. However, it was noted that Nestlé factories are assessed on the basis of their consultations with farmers (p. 125). Thus, the case study provides evidence for the importance of supplier involvement. The role of an exploitative innovation strategy is supported by the agricultural training centres of Nestlé (p. 125). On these sites, Nestlé teaches best practices to farmers. Exploitative, gradual innovations such as replacing fertilizers by coffee pulp allow the business to purchase more sustainable green coffee beans. \textit{Proposition 1} is partly supported.

\textit{Proposition 2} argues that the corporate capability to manage a loosely coupled


business unit is associated with the adoption of a sustainable purchasing strategy. An explorative innovation strategy is described as partly mediating this relationship. This proposition is supported by the case study (p.126). On the one hand, Nestlé’s agricultural research centres cannot be coupled too loose from other business activities. Otherwise, they could not develop seedlings that match Nestlé’s strategic plans in coffee purchasing. On the other hand, the agricultural research centres should not be coupled too close to other business activities, either. Otherwise, they could only develop seedlings that match the short-term business demands. Innovations of the coffee research centres allow Nestlé to purchase coffee that is more ecologically sustainable.

**Proposition 3** describes regulative, normative, and cognitive demands as facilitating the adoption of a sustainable purchasing strategy. To verify this proposition, note that Nestlé described its direct purchasing policy as well as its participation in roundtable talks on codes of conduct as recognition of normative demands for a sustainable coffee production (p. 124). Furthermore, the role of cognitive demands is supported. When Nestlé co-founded the Sustainable Agriculture Initiative (SAI) in 2000, such sustainability initiatives were already commonplace (p. 126). It was taken for granted that food manufacturers engage in these initiatives. Consequently, both normative and cognitive demands facilitated Nestlé’s adoption of direct purchasing and the participation in sustainability initiatives. Proposition 3 is supported with respect to normative and cognitive demands.

**Proposition 4** describes regulative, normative, and cognitive demands as increasing the competitive advantage that a business draws from a sustainable purchasing strategy. In the case study, we noted that Nestlé did draw a reputational benefit out of its sustainable purchasing strategy. Recall that Nestlé was rated 2nd in class for the social and ecological performance of its green coffee supply chain. (p. 131). Furthermore, Dr. Hans Jöhr, a senior manager of Nestlé, received an award for his contribution to the development of the Sustainable Agriculture Initiative (p. 128). If there had not been normative demands for a sustainable purchasing of coffee, then Nestlé would not have received these awards. However, Nestlé drew far less competitive benefits from sustainable purchasing activities in an institutional environment dominated by cognitive demands. At the point of time when the Common Code of the Coffee Community (4C) was established, sustainability initiatives were already taken-for-granted (p. 129). The results of 4C were widely mentioned in the media. In these reports, however, Nestlé was only mentioned in line with its three major competitors for having supported 4C (p. 129). An external observer even criticized the companies for attempts to draw reputational benefits from the development of 4C (p. 130). Overall, the case study suggests that a
business draws more competitive advantage from a sustainable purchasing strategy if normative demands regarding this practice are present. This finding, however, cannot be confirmed for regulative and cognitive demands.

Proposition 5 suggests that an exploitative innovation strategy moderates the linkage between a sustainable purchasing strategy and competitive advantage. As an indicator for exploitative innovation in the coffee supply chain of Nestlé, we consider the company’s agricultural training centres. These facilitate incremental improvements of farming practices (p. 125). As the training centres are open to all farmers in a region, they do not provide Nestlé with a competitive advantage based on product quality. Nestlé’s competitors benefit from the process improvements of their own supplying farmers, too. The competitive advantage of these training centres is of different nature. The education of the farmers provides Nestlé with an enormous reputational advantage. Oxfam as well as scientists acknowledge Nestlé’s activities in this domain (p. 131). Theoretically, the research on justice further suggests that a farmer benefiting from an education by Nestlé would seek to provide Nestlé with a good in return. Consequently, he may want to offer his produce to Nestlé rather than offering it to other roasters who compete with Nestlé for high-quality coffee supplies. Proposition 5 is supported as the agricultural training sites raise the competitive advantage of a sustainable coffee supply chain.

Proposition 6 argues that an explorative innovation strategy increases the competitive advantage that a business draws from a sustainable purchasing strategy. For verifying this proposition, we take Nestlé’s agricultural research centres as an example for an explorative innovation strategy. Note that Nestlé sells seedlings developed in the coffee research centres to all farmers in a region (p. 126). Due to its proprietary knowledge, however, Nestlé can still choose to supply “its” farmers with a new type of seedling that is particularly resistant to diseases and draughts first. Proposition 6 is supported as Nestlé can draw competitive advantage from its agricultural research centres.

Proposition 7 suggests that a business benefits more from an explorative than an exploitative innovation strategy as long as normative demands for sustainable purchasing are present in the institutional environment. The proposition further suggests that an exploitative innovation strategy becomes more beneficial later, when cognitive demands dominate. For verifying this proposition, we consider two main elements of Nestlé’s sustainable purchasing strategy: the business’ direct purchasing scheme (developed when normative demands for sustainable purchasing were present) and its support of the 4C initiative (established when cognitive demands were present). In order to confirm Proposition 7, we now need to show that
the agricultural training centres (i.e. exploitative innovation) proved more beneficial than the agricultural research centres (i.e. explorative innovation) when the direct purchasing scheme was developed. However, we have no evidence regarding that proposition.

Furthermore, we need to show that at a later point of time, when the talks on 4C were held, the agricultural training centres proved more beneficial than the research centres. This latter proposition is supported. Note that 4C was not to “reinvent the wheel”, instead it should provide a universally accepted minimum standard for coffee production (p. 129). To this end, Nestlé drew more benefit from its agricultural training sites than from its research centres. These sites can already be used to train farmers in best practices (p. 125). Nestlé needs to invest fewer resources than its competitors (without such agricultural training sites) in teaching its suppliers to conform to the new 4C standards. The resulting cost savings represent a competitive advantage. Proposition 7 is partly supported as an exploitative innovation strategy proved more beneficial for Nestlé when cognitive demands regarding sustainable purchasing were present.

Proposition 8 suggests that there is an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and competitive advantage from the perspective of the resource-based view. This proposition can be examined for an element of Nestlé’s sustainable purchasing strategy, the direct purchasing of coffee. Today, Nestlé purchases 14% of its coffee supplies directly from farmers. The supplies provide the business with high-quality raw materials as well as reputational benefits. If Nestlé was seeking to purchase 100% of its coffee supplies directly from farmers, then it would need to set up an extensive logistics network allowing farmers who operate further away from the Nestlé factories to deliver to a local Nestlé purchasing station. The costs for operating a very large number of purchasing stations would outweigh the benefits for Nestlé. While Nestlé might well draw strategic benefits from further extending its direct purchasing scheme, a complete abandonment of supplies from traders would be a competitive disadvantage. Proposition 8 is supported.

Proposition 9 suggests that an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and competitive advantage is supported by institutional theory. In order to discuss this proposition, note that Dr. Hans Jöhr of Nestlé has been facing conflicting demands. On the one hand, Fair Trade labels have set the norm that roasters should pay the farmers higher coffee prices (p. 123). On the other hand, Dr. Hans Jöhr’s range of action was restricted by colleagues of Nestlé who valued a corporate culture that places less emphasis on the management of ecological and social issues and stakeholder involvement (p.127).
As Dr. Jan Kes Vies points out, the attitude of Nestlé managers appeared to have been a factor hindering stronger stakeholder involvement. The overall legitimacy of Nestlé’s purchasing strategy could only be maximized if a compromise was reached between these divergent demands. Both, “too little” as well as “too much” resource allocation to sustainable purchasing would have reduced the overall legitimacy of Nestlé’s coffee purchasing. According to Oliver (1997) legitimacy is directly linked to competitive advantage. Thus, a decline of the overall legitimacy of Nestlé’s purchasing strategy would have reduced competitive advantage, too. Proposition 9 is supported.

Proposition 10 suggests that social capital of a business among NGOs is a resource that supports a business in influencing the societal contract when the institutional environment is dominated by normative demands. Similarly, it is argued that social capital of a business in the industry fulfills this desirable effect when cognitive demands for sustainable purchasing prevail. In the Nestlé case study, the societal contract of roasters requires that they comply with certain minimal demands on sustainable purchasing in their coffee supply chains. Up to to 1989, compliance with this societal contract was controlled by the International Coffee Agreement. Throughout the early 1990s, however, NGOs took over the role of controlling the roasters in their compliance with respect to the societal contract. Businesses such as Ahold and Starbucks took advantage of the role of NGOs. They entered collaboration with them (p.126). As these collaborations resulted in joint certification schemes for coffee production, we have evidence that the collaborations were characterized by -at least a minimum- of trust and the presence of a joint vision, two elements of social capital (Nahapiet & Goshal, 1998). Nestlé preferred not to build up social capital among NGOs during this phase. Instead, if focused on improving the performance of the green coffee supply chain by itself, e.g., by establishing practices such as direct purchasing (p. 124 - p.125). Later, Nestlé joined sustainability initiatives. Now it became important that Nestlé could communicate its viewpoints to other businesses so that they would support its demands. Thus, a joint vision in the relation of Nestlé and other industry partners became more important when cognitive demands for sustainable purchasing of coffee prevailed. Proposition 10 is supported.
<table>
<thead>
<tr>
<th>Proposition</th>
<th>Page</th>
<th>Support</th>
<th>Comment</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Capabilities of a business such as employee involvement are positively</td>
<td>125</td>
<td>Partly</td>
<td>Supplier involvement, not employee involvement, appeared relevant. Nestlé’s agricultural training centres support role of exploitative innovation.</td>
</tr>
<tr>
<td>related to the adoption of a sustainable purchasing strategy. Exploitative</td>
<td></td>
<td></td>
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<tr>
<td>innovation strategies partly mediate this relationship.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>2) Capabilities such as the management of loosely coupled business units are</td>
<td>126</td>
<td>Yes</td>
<td>Nestlé’s coffee research centres are loosely coupled to other business activities. Their exploratory research provides beans that can be grown more sustainable.</td>
</tr>
<tr>
<td>related to the adoption of a sustainable purchasing strategy. Explorative</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>innovation strategies partly mediate this relationship.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>3) Regulative, normative, and cognitive demands in the institutional</td>
<td>124,</td>
<td>Partly</td>
<td>Role of normative demands (Max Havelaar) and cognitive demands (4C) supported.</td>
</tr>
<tr>
<td>environment increase the likelihood that a business will use its</td>
<td>126</td>
<td></td>
<td></td>
</tr>
<tr>
<td>resources and capabilities to adopt a sustainable purchasing strategy.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>4) In the presence of regulatory, normative, and cognitive demands in the</td>
<td>128,</td>
<td>Partly</td>
<td>Role of normative demands supported (prize by the NGO Rainforest Alliance and a good rating of Nestlé by Oxfam).</td>
</tr>
<tr>
<td>institutional environment increase the likelihood that a business will use</td>
<td>129,</td>
<td></td>
<td></td>
</tr>
<tr>
<td>its resources and capabilities to adopt a sustainable purchasing strategy</td>
<td>131</td>
<td></td>
<td></td>
</tr>
<tr>
<td>than in the absence of such demands.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>5) Exploitative innovation strategies have a positive moderating effect on</td>
<td>125,</td>
<td>Yes</td>
<td>Nestlé’s agricultural training sites provide reputational benefit and improve supplier relations.</td>
</tr>
<tr>
<td>the association between a sustainable purchasing strategy and the resulting</td>
<td>131</td>
<td></td>
<td></td>
</tr>
<tr>
<td>competitive advantage.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>6) Explorative innovation strategies have a positive moderating effect on</td>
<td>126</td>
<td>Yes</td>
<td>Competitive advantage from Nestlé developing coffee beans that are more resistant to diseases than the beans of competitors.</td>
</tr>
<tr>
<td>the association between a sustainable purchasing strategy and the resulting</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>competitive advantage.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>7) The moderating effect of <em>exploitative</em> innovation strategies will be</td>
<td>125,</td>
<td>Partly</td>
<td>No evidence for changing relevance of explorative innovation. Yet, exploitative innovation (Nestlé’s agricultural training centres) has become more important because a global minimum standard for coffee production (4C) needs to be implemented today.</td>
</tr>
<tr>
<td>stronger in an institutional environment dominated by cognitive demands than in an institutional environment dominated by normative demands. The moderating effect of <em>explorative</em> innovation strategies will be stronger in an institutional environment dominated by normative demands than in an institutional environment dominated by cognitive demands.</td>
<td>129</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8) <em>From a resource-based perspective</em>, there is an inverted U-shaped</td>
<td>Yes</td>
<td></td>
<td>Expanding Nestlé’s direct purchasing scheme would have caused costs that could not have been outweighed.</td>
</tr>
<tr>
<td>relation between resource allocation to a sustainable purchasing</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>strategy and the resulting competitive advantage.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>9) <em>From an institutional perspective</em>, there is an inverted U-shaped</td>
<td>123,</td>
<td>Yes</td>
<td>Conflict between the demands of colleagues of Dr. Jöhr at Nestlé and the demands of NGOs.</td>
</tr>
<tr>
<td>relation between resource allocation to a sustainable purchasing</td>
<td>127</td>
<td></td>
<td></td>
</tr>
<tr>
<td>strategy and the resulting competitive advantage.</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>10) In an institutional environment dominated by <em>normative</em> demands, social</td>
<td>124 -125,</td>
<td>Yes</td>
<td>Through collaboration with an NGO in the 1990s, Nestlé could have positioned itself as a pioneer in sustainable coffee purchasing. Today, social capital in the industry is becoming more important as standards are designed.</td>
</tr>
<tr>
<td>capital among NGOs supports the business in influencing the societal contract.</td>
<td>126</td>
<td></td>
<td></td>
</tr>
<tr>
<td>In an institutional environment dominated by <em>cognitive</em> demands, social</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>capital in the industry supports the business in influencing the societal</td>
<td></td>
<td></td>
<td></td>
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<tr>
<td>contract.</td>
<td></td>
<td></td>
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<tr>
<td>Table 12: Analysis of the Nestlé case study</td>
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</tr>
</tbody>
</table>
IV.6 Summary of the case study results

In this chapter, we summarize the results of the case studies. Table 14 (overleaf) provides an overview of the results that provide the basis for the discussion in chapter V.

Proposition 1 of this research suggests that employee involvement is related to the adoption of a sustainable purchasing strategy. An exploitative innovation strategy is described as a mediator of this relationship. The analysis of Proposition 1 highlights that (overall) the proposition could not be confirmed. While we found sufficient support for the first sentence of proposition 1 (labelled as Proposition 1a) in Table 13, the second sentence of Proposition 1 (labelled as Proposition 1b) had to be rejected. We will discuss the implications of this finding in the following chapter.

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Migros</th>
<th>Unilever</th>
<th>Frosta</th>
<th>Nestlé</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1a) Capabilities of a business such as employee involvement are positively related to the adoption of a sustainable purchasing strategy.</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Confirmed</td>
</tr>
<tr>
<td>1b) Exploitative innovation strategies partly mediate this relationship.</td>
<td>No</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Not confirmed</td>
</tr>
</tbody>
</table>

Table 13: Analysis of Proposition 1

Proposition 2 addresses the relation between the management of loosely coupled business units and the adoption of a sustainable purchasing strategy. An explorative innovation strategy is described as a mediator of that relationship. The case studies confirmed this proposition.

Proposition 3 describes three different kinds of institutional demands (regulative, normative, and cognitive) as increasing the likelihood of a business adopting a sustainable purchasing strategy. The proposition was confirmed. The role of each kind of institutional demand could be documented in at least one of the case studies.

Proposition 4 suggests that a business draws more competitive advantage of a sustainable purchasing strategy in the presence of each of the three kinds of institutional demands. The proposition was not confirmed as only normative demands were found as raising the competitive advantage of a sustainable purchasing strategy. That finding will be discussed in the following chapter.

Proposition 5 suggests that an exploitative innovation strategy raises the competitive advantage of a sustainable purchasing strategy. The proposition was supported.

Proposition 6 attributes an explorative innovation strategy a moderating effect on the relation between a sustainable purchasing strategy and the resulting competitive advantage. The proposition was confirmed by all case studies.
Table 14: Overview of the case study results

<table>
<thead>
<tr>
<th>Proposition</th>
<th>Migros</th>
<th>Unilever</th>
<th>Frosta</th>
<th>Nestlé</th>
<th>Summary</th>
</tr>
</thead>
<tbody>
<tr>
<td>1) Capabilities of a business such as employee involvement are positively related to the adoption of a sustainable purchasing strategy. Exploitative innovation strategies partly mediate this relationship.</td>
<td>Partly</td>
<td>Partly</td>
<td>Yes</td>
<td>Partly</td>
<td>Not confirmed</td>
</tr>
<tr>
<td>2) Capabilities such as the management of loosely coupled business units are related to the adoption of a sustainable purchasing strategy. Explorative innovation strategies partly mediate this relationship.</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Confirmed</td>
</tr>
<tr>
<td>3) Regulative, normative, and cognitive demands in the institutional environment increase the likelihood that a business will use its resources and capabilities to adopt a sustainable purchasing strategy.</td>
<td>Partly</td>
<td>Partly</td>
<td>Partly</td>
<td>Partly</td>
<td>Confirmed</td>
</tr>
<tr>
<td>4) In the presence of regulatory, normative, and cognitive demands in the institutional environment, a business will draw more competitive advantage from a sustainable purchasing strategy than in the absence of such demands.</td>
<td>Partly</td>
<td>Yes</td>
<td>Partly</td>
<td>Partly</td>
<td>Not confirmed</td>
</tr>
<tr>
<td>5) Exploitative innovation strategies have a positive moderating effect on the association between a sustainable purchasing strategy and the resulting competitive advantage.</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Confirmed</td>
</tr>
<tr>
<td>6) Explorative innovation strategies have a positive moderating effect on the association between a sustainable purchasing strategy and the resulting competitive advantage.</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Confirmed</td>
</tr>
<tr>
<td>7) The moderating effect of exploitative innovation strategies will be stronger in an institutional environment dominated by cognitive demands than in an institutional environment dominated by normative demands. The moderating effect of explorative innovation strategies will be stronger in an institutional environment dominated by normative demands than in an institutional environment dominated by cognitive demands.</td>
<td>Partly</td>
<td>Not applicable</td>
<td>Not applicable</td>
<td>Partly</td>
<td>Not confirmed</td>
</tr>
<tr>
<td>8) From a resource-based perspective, there is an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and the resulting competitive advantage.</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Confirmed</td>
</tr>
<tr>
<td>9) From an institutional perspective, there is an inverted U-shaped relation between resource allocation to a sustainable purchasing strategy and the resulting competitive advantage.</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Confirmed</td>
</tr>
<tr>
<td>10) In an institutional environment dominated by normative demands, social capital among NGOs supports the business in influencing the societal contract. In an institutional environment dominated by cognitive demands, social capital in the industry supports the business in influencing the societal contract.</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
<td>Confirmed</td>
</tr>
</tbody>
</table>
Proposition 7 suggests that the moderating effect of an exploitative innovation strategy (cf. Proposition 5) is particularly pronounced when cognitive demands, rather than normative demands, prevail in the institutional environment. The opposite statement is made with respect to an explorative innovation strategy. That proposition could not be confirmed. The reasons for this finding and its implications will be discussed in the following chapter.

Proposition 8 addresses the nature of the relation between resource allocations to a sustainable purchasing strategy and the resulting competitive advantage. Based on resource-based logic, an inverted U-shaped relation is proposed. The case studies provide support for this proposition.

Proposition 9 suggests that this inverted U-shaped relation is supported by institutional theory as well. That proposition could be confirmed by all case studies. However, the proposition was supported due to a different logic than we had assumed. We will analyze the implications of this finding in the following chapter.

Proposition 10 suggests that the value of different capabilities for institutional entrepreneurship is contingent on the demands that dominate the institutional environment. The proposition was confirmed.
V Discussion

In this research, we have studied the adoption, the implementation, and the competitive implications of a sustainable purchasing strategy in the European food industry.

Previous studies in this research field had frequently provided contradictory results as the context of a business often remained unconsidered in the research models. We have addressed the resulting research gap by placing an emphasis on the external context as well as the business-internal context of a sustainable purchasing strategy. Hereby, we have considered the external context by studying the influences of different types of demands in the institutional environment of a business. Furthermore, we have considered the business-internal context by examining the influences of complementary innovation strategies.

The importance of considering the external context in research on corporate sustainability was highlighted by our research results. As predicted, we found that a specific type of institutional demands (i.e., normative demands) raises the likelihood that a business adopts a sustainable purchasing strategy. We also gained evidence that the two other kinds of institutional demands (i.e., regulative and cognitive demands) increase that likelihood, too.

Furthermore, we could document the importance of considering the business-internal context in our research. As predicted, we found that a specific innovation strategy (i.e., an explorative innovation strategy) facilitates the adoption and the implementation of a sustainable purchasing strategy. We also gained consistent evidence that an explorative innovation strategy raises the competitive advantage of a sustainable purchasing strategy.

However, some propositions were not confirmed by our empirical results. In the following chapter V.2, we pay particular attention to these divergences.

V.1 Theoretical implications

We structure the presentation of our theoretical implications of this research into four sections. In the headline of each section, we indicate (in brackets) the proposition of the research model that an implication particularly refers to.

The influence of timing on the competitive implications of a sustainable purchasing strategy (Proposition 4)

Previous research suggests that the prevalence of regulative, normative, and cognitive demands in the institutional environment change over time (Greenwood et al., 2002; Hoffman, 1999). Our case studies confirm this proposition. Note that
Nestlé first complied with the International Coffee Agreement (ICA), a regulative demand. Later, it had to respond to normative demands for sustainable coffee purchasing that had been established by “Fair Trade” organizations. Most recently, the support of the Common Code for the Coffee Community (4C) documents that cognitive demands prevail today: it has become taken-for-granted that roasters seek to achieve a sustainable purchasing of coffee. If Nestlé were to boycott 4C, it would be the only major roaster doing so.

The institutional environment of fish purchasing went through a similar transition. First, Unilever faced regulative demands by Greenpeace. Later, Unilever’s managers suggested that they experienced normative demands. Today, cognitive demands dominate the institutional environment in markets such as the UK, where it has become taken-for-granted that the products of fish manufacturers are certified by the Marine Stewardship Council.

Note that we state in Proposition 4 of this research that regulative, normative, as well as cognitive demands all increase the competitive advantage that a business can draw from a sustainable purchasing strategy. The case studies, however, offer a more differentiated picture. We find that businesses raise their long-term survival chances by adopting a sustainable purchasing strategy, independent of whether regulative, normative, or cognitive demands prevail in the institutional environment. However, based on the case studies, a competitive advantage of a sustainable purchasing strategy can only be confirmed for a business operating in an institutional environment dominated by normative demands. Recall that Migros, Nestlé, and Unilever received prizes and awards in recognition of their consideration of normative demands. Similarly, Frosta gained extensive coverage in the media. Such favourable public recognition translates into a competitive advantage for a business (Deephouse, 2000).

What are the conclusions of competitive benefits in an environment dominated by normative demands? Can we state that early adopters draw more competitive advantage from a sustainable purchasing strategy than late adopters do? After all, we pointed out above that an institutional environment is dominated by normative demands before it eventually becomes dominated by cognitive demands. Clearly, late adopters may “miss out” on the phase of normative demands in the institutional environment. However, we should not forget that an institutional environment may be dominated by regulative demands - even before normative demands come to play a role. As noted above, the Unilever and the Nestlé case study support the transition from regulative demands to normative demands and, ultimately, to cognitive demands in the institutional environment. The very first adopters, implementing in an institutional environment dominated by regulative demands, may not experience
a competitive advantage first. They may need to wait until normative demands
emerge in the institutional environment before a reputational advantage will accrue
to them\textsuperscript{145}. This finding can be illustrated by the case study on Unilever. \textit{The business was only awarded for its purchasing strategy by the Bild Zeitung two years after the pressure campaign of Greenpeace. At that time, Greenpeace's regulative pressure had ceased and normative demands came to dominate the institutional environment.} Unilever could now present itself as a first mover and be recognized as such by the media. In retrospect, the role of the regulative pressure of Greenpeace could be "downplayed". However, earlier on, Unilever's adoption of a sustainable purchasing strategy would still have been linked to Greenpeace's pressure campaign too closely.

**Three tasks in adopting and implementing a sustainable purchasing strategy (Proposition 1, Proposition 2, Proposition 10)**

The research model of this thesis (cf. p. 51) is a traditional resource-based research model in the sense that it establishes a relation between selected resources and capabilities of a business and the adoption of a specific strategy (here: a sustainable purchasing strategy). Yet, the model fundamentally differs from previous resource-based research models as resources and capabilities are not allocated to one but three different activities in adopting and implementing a sustainable purchasing strategy (as indicated by the three arrows pointing from "resources and capabilities" in the research model on p. 51).

First, and most obvious, a business allocates resources and capabilities directly to a sustainable purchasing strategy. The first sentence of \textit{Proposition 1} as well as the first sentence of \textit{Proposition 2} address this type of resource allocation because they establish a direct linkage between selected capabilities and the adoption of a sustainable purchasing strategy.

Second, the business allocates resources to complementary strategies in order to improve the fit of a sustainable purchasing strategy with other business activities and to allow the business to leverage resources between its single activities. We have documented that selected complementary strategies facilitate the adoption of a sustainable purchasing strategy, cf. the second sentence of Proposition 1 as well as the second sentence of Proposition 2 and the corresponding empirical research\textsuperscript{146}.

\textsuperscript{145} Note that the transition from regulative to normative demands in the institutional environment might be fastened by institutional entrepreneurship of the businesses.

\textsuperscript{146} Hereby, we acknowledge that the facilitating role of the complementary strategy addressed in Proposition 1 could only be confirmed in two of the four case studies; a finding that we discuss in the next section "Incremental improvements - the path to a sustainable purchasing strategy?"
Third, and previously unacknowledged by resource-based management research, the business allocates resources to institutional entrepreneurship, cf. Proposition 10. In doing so, the business seeks to improve the fit of the demands in the institutional environment with a sustainable purchasing strategy. If the business succeeds in raising demands for a sustainable purchasing strategy, then the adoption of that very purchasing strategy is facilitated (cf. Proposition 3). In the final section of our theoretical implications, “Corporate culture as a barrier in the adoption of a sustainable purchasing strategy”, we discuss the approach to institutional entrepreneurship in more detail.

**Incremental improvements - the path to a sustainable purchasing strategy? (Proposition 1)**

The second sentence of Proposition 1 suggests that a specific complementary strategy, an exploitative innovation strategy, facilitates the adoption of a sustainable purchasing strategy.

It may not be surprising that we could not confirm this proposition for the Migros and Unilever case studies while we found support for it in the Frosta and Nestlé case studies, cf. the bottom row of Table 13 on p. 137. How can this finding be explained?

Note that Unilever and Migros were pioneers. They were the first businesses worldwide to develop a sustainability standard for marine fish stock and palm oil supplies. These two businesses had to address more fundamental questions than late adopters did. In order to realize their strategies, both businesses drew extensively on the knowledge of external experts. Migros consulted three NGOs: the Bruno Manser Fonds, the WWF, and ProForest. Unilever consulted the PR consultant Simon Bryceson, the marine ecologist Prof. Jackie McGlade, and the WWF. While Migros and Unilever explored solutions, Frosta and Nestlé adopted existing solutions and exploited their own knowledge. Thus, Frosta adopted the Marine Stewardship Council (MSC) label seven years later than Unilever did. Nestlé drew on its own knowledge in advising farmers in the optimization of farming practices. These innovations were a lot more exploitative and incremental.

This finding complements Hart’s assumption on the relevance of *Total Quality Environmental Management* (TQEM) for an ecologically sustainable strategy (Hart, 1995). We find that Total Quality Management and the associated strategy of exploitative innovations (Benner & Tushman, 2003) appear particularly relevant for

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147 Note that Frosta’s adoption of the “Reinheitsgebot” strategy did include very exploratory innovations such as the development of new recipes in collaboration with external experts, too. The business’ adoption of the MSC label, however, only demanded incremental improvements.
late adopters of a sustainable purchasing strategy. Industry pioneers, however, cannot rely on exploiting their own knowledge only and settling for incremental improvements. This implies that Proposition 1 only holds for late adopters of a sustainable purchasing strategy. First movers in the field of sustainable purchasing strategy need to consider that the link between exploitative innovation and a sustainable purchasing strategy only becomes relevant for them in later phases of the implementation process. Their first phases in the introduction of a sustainable purchasing strategy, however, must be characterized by exploration rather than exploitation as the questions that early adopters tackle are a lot more fundamental than those that late adopters deal with. Hence, for early adopters, the adoption of a sustainable purchasing strategy must first be an issue of innovation management rather than total quality management.

**Insights from integrating the resource-based and the institutional theory (Proposition 7)**

This research includes propositions that are grounded in institutional logic, propositions grounded in the resource-based view as well as propositions linking the two literature bodies. For example, Proposition 4 is grounded in institutional theory as it suggests that a business draws more competitive advantage from a sustainable purchasing strategy in the presence of regulative, normative, and cognitive institutional demands. Propositions 5 and 6 are grounded in the resource-based view as they suggest that complementary strategies (here: innovation strategies) raise the competitive advantage of a sustainable purchasing strategy. Proposition 7 is grounded in both theories for it suggests an interrelation. Linking the above propositions (Propositions 4, 5 and 6), Proposition 7 suggests that the extent to which an innovation strategy raises the competitive advantage of a sustainable purchasing strategy is dependent on the nature of the institutional demands present. While we found no consistent evidence for the particular interrelation that we predicted in Proposition 7, it is striking that we did find an interrelation between the resource-based logic and the institutional logic at all. Recall the case study on the fish manufacturer Frosta. At first, the business did not comply with institutional demands for a sustainable purchasing of fish. Frosta feared that discounters could easily copy its strategy. Later, it identified an approach to buffer a sustainable purchasing strategy from such copycat attempts: Frosta linked the sustainable purchasing of fish closely to its innovation-intensive “Frosta Reinheitsgebot” strategy of processing food without using food additives.

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148 Recall that we could only confirm this proposition with respect to normative demands in the institutional environment.
purchasing strategy presented a competitive advantage. On the one hand, it demonstrated compliance with normative demands for sustainable purchasing in the institutional environment; on the other hand, the strategy was difficult to copy, given the tacit knowledge necessary for developing products without food additives. Neither resource-based nor institutional logic alone could have provided this insight. Theoretically, our research model enables us to explain the competitive advantage of Frosta because the model includes two types of context-related variables: the institutional environment as the external context and innovation strategies as the business-internal context of a sustainable purchasing strategy. To the best of our knowledge, our investigation of the effects of the institutional environment on the value of complementary strategies has been the first of its kind in strategic management research. It has proved as a fruitful investigation as it has allowed us to understand why a business such as Frosta enjoys a competitive advantage from pursuing a sustainable purchasing strategy.

Corporate culture as a barrier in the adoption of a sustainable purchasing strategy (Proposition 9)

In deriving Proposition 9 of this research, we assumed that a business is restricted in its resource allocation to a sustainable purchasing strategy by a societal contract and an economic contract. Contractors of the societal contract (such as the government or NGOs) demand a minimum of resource allocation to a sustainable purchasing strategy. However, contractors of the economic contract, such as shareholders, demand that there must also be a limit to such expenditures, cf. p. 66. Overall, the businesses we analyzed in the case studies proved extraordinary skilful in exerting an influence on their constraining contracts. Yet, while all businesses we examined sought to influence the societal contract in their own interest, we rarely noticed institutional entrepreneurship that was targeted at a business’ economic contract. In none of the case studies, the economic contract emerged as the major barrier in the adoption of a sustainable purchasing strategy. Dr. Jöhr of Nestlé did not have to justify to managers from Finance that he supported a stronger consideration of ecological and social issues in purchasing. Similarly, Mrs. Whitfield of Unilever did not need to justify the Marine Stewardship Council to banks, shareholders, or any other group having primarily an interest in the economic performance of Unilever. Instead, these managers had to overcome fierce resistance by their colleagues. Corporate culture appeared as the major barrier the two managers had to overcome. This means that institutional entrepreneurs should focus on influencing the societal contract as well as corporate culture first as these are the two contingencies that determine the optimal level of resource allocation to a
sustainable purchasing strategy most. The economic contract can then be influenced in a second phase, once the societal contract as well as corporate culture have been influenced in the interest of the institutional entrepreneur.

Figure 31: Corporate culture may act as a more critical barrier in the adoption of a sustainable purchasing strategy than the business’ economic contract.

V.2 Managerial implications

In this chapter, we focus on two questions: First, should a business adopt a sustainable purchasing strategy? Second, how should a business implement a sustainable purchasing strategy? Our answers to these questions are based on the theoretical implication presented in the previous chapter.

Should a business adopt a sustainable purchasing strategy?

Based on the results of this research, we recommend European businesses in the food operating industry to adopt a sustainable purchasing industry. None of the European businesses we have examined operates in a societal or political void. All of these businesses were exposed to demands in their institutional environments. Some businesses faced immediate and regulative demands, such as Unilever, which was pressured by Greenpeace. Other businesses experienced comparatively weak demands in their institutional environment. Migros’ adoption of a sustainable purchasing strategy of palm oil, for example, was triggered by a newspaper article that did not even mention Migros. Still, that newspaper article represented a normative demand for a change in the palm oil industry.
We found that European businesses in the food operating industry enhance their *long-term survival chances* by adopting a sustainable purchasing strategy. By avoiding conflicts with parties in the institutional environment (such as government agencies, NGOs, industry associations, and the media) the businesses *safeguard* their future access to valuable resources such as reputation, human resources, or financial resources.

If a European food operating business does not settle for *safeguarding* its access to valuable resources but if it also wants to *improve* its access to these, then management should carefully observe the nature of the demands dominating their institutional environment. In the European food industry, a competitive advantage can be gained from a sustainable purchasing strategy if normative demands dominate the institutional environment.

How can managers find out whether their businesses are predominantly exposed to regulative, normative, or cognitive demands for a sustainable purchasing strategy? Examples are provided in chapter II.1. Furthermore, consider that regulative demands dominate if, for example, a government agency passes a new law on sustainable purchasing of products. Regulative demands also dominate if the media or NGOs attack specific businesses in the industry for lacking compliance with their demands.

Normative demands dominate if businesses that comply with institutional demands are presented as role models to others. Prizes that are awarded to businesses for the adoption of a sustainable purchasing strategy hint to a dominance of normative demands in the institutional environment. As long as normative demands prevail, the majority of businesses in an industry have not yet complied with these demands.

Cognitive demands dominate if it has become taken-for-granted that businesses in an industry comply with the institutional demands. When compliance with these demands has become “business as usual”, cognitive demands are prevalent. ISO 14001, for example, made a transition from a normative to a cognitive demand of the institutional environment. Further examples for regulative, normative, and cognitive demands are also provided in the case studies.
How should a business implement a sustainable purchasing strategy?

Based on our findings, we suggest European businesses to engage in three activities and to consider the following recommendations in their implementation of a sustainable purchasing strategy:

- As discussed in previous research, managers need to allocate resources to the actual implementation of a sustainable purchasing strategy. This comprises tasks such as the identification of suppliers, negotiations with the suppliers, and specification of the purchasing standard. More generally, this first activity comprises the design of material flows, information flows, as well as financial flows that are necessary for implementing a sustainable purchasing strategy.

- Managers should consider that the implementation of a sustainable purchasing strategy is not a pure “purchasing” project. Early adopters require capabilities that may be rooted in the innovation management function of the business; especially, if the business’ products need to be redesigned as a consequence of changes to the supplies. It is very likely that the development of the new purchasing standard (particularly its social and ecological aspects) demands knowledge that the early adopters do not possess. Therefore, we recommend early adopters to explore solutions in collaboration with external parties having expertise in the agricultural raw material in question. The fundamental questions that early adopters face demand innovation-oriented managers in leading the implementation project, particularly throughout the first phases of the implementation. Once the new purchasing standard has been defined and once its implications for the design of the business’ products are understood, different management skills are required. Now, the quality-management skills of the leading project manager and experiences in more exploitative and incremental innovations gain on importance. Late adopters of a sustainable purchasing strategy, however, can pursue a less exploratory approach from the outset because they benefit from the experiences of their predecessors. Late adopters need capabilities in exploitative and incremental innovation. These may be rooted in the quality management function of the business. Late adopters may be most successful in their implementation if the project is led by managers emphasizing the project’s link to quality management from the outset. Hence, managers need to link the implementation of a sustainable purchasing strategy to complementary strategies, specifically the business’ innovation management strategy and its quality management strategy.

- The institutional environment of a business determines whether a sustainable purchasing strategy is regarded as legitimate or not. Managers, however, do not need to view the demands in the institutional environment as fixed and
nonnegotiable. They can be influenced and the senior managers involved in the project should consciously take time to establish contact with the relevant opinion makers in the institutional environment. In an institutional environment dominated by normative demands, the business should build up social capital among NGOs and seek support for its sustainable purchasing strategy by these - either by aligning the strategy with the demands of the NGOs or by influencing their demands in the business’ own interest. This recommendation is based on the finding that NGOs are a key assessor of the legitimacy of a sustainable purchasing strategy in the European food industry - as long as normative demands dominate the institutional environment. Yet, as soon as a sustainable purchasing strategy has become taken for granted in an industry sector, industry associations judge the legitimacy of a sustainable purchasing strategy. In that phase, characterized by cognitive demands in the institutional environment, a business needs to seek the approval of industry associations (which may also be achieved by influencing the demands of these). In addition to influencing the minimum demands of NGOs and industry standards, managers should also influence the demands of parties that object any resource allocation to a sustainable purchasing strategy. To minimize business-internal conflicts, businesses need to communicate a sustainable purchasing project in the terminology prescribed by the corporate culture. Those early adopters that do not have a track record of being a pioneer in sustainability-related projects may find it difficult to embed a sustainable purchasing project in the corporate culture. They will need to influence the corporate culture so that a sustainable purchasing strategy is regarded as legitimate.

To illustrate these recommendations, consider Figure 32. It shows the methodology of the researchers in identifying Key Performance Indicators (KPIs) for a food operating business with a distinct strength in the quality assurance in its supply chains. At the same time, the business has not necessarily been the major industry pioneer in the controlling of ecological and social issues in the suppliers’ operations. Our approach was marked by linking the project with the business’ quality management strategy. The KPIs we developed were summarized in an existing KPI handbook for the factories. As generally recommended above, the senior manager who implemented the project engaged in institutional entrepreneurship. Since cognitive demands prevailed in the institutional environment, he focused on gaining support for the project in the industry rather than seeking the approval of NGOs. The project was tightly embedded in the
corporate culture because quality management principles, that were central to our methodology, are highly valued by the business.

While the project was successfully implemented, we suggest to complement that methodology for sustainability projects in supply chains that may fulfil one of the two conditions: a) the supply chain is largely unknown to the business, for example because it includes traders on the world market. b) the business would be the industry pioneer in controlling the sustainability of the supply chain in question (for example in the soy supply chain). In these two cases, the closed loop of continuous improvement in Figure 32 may not be sufficient to ensure the sustainability of the agricultural supplies. An exploration of a supply chain that was previously little known to the business might reveal that it is necessary to stop purchasing a specific agricultural raw material altogether because its sustainability simply cannot be assured. A check for the appropriateness of such a disruptive change in the supply strategy would need to be integrated in the above framework, ideally after having established traceability in the supply chain. That check would help to ensure that the continuous improvement of a supply chain does not come at the expense of having the possibility to abandon that specific supply chain and to replace current supplies with a different agricultural raw material or supplies from a different region.

Figure 32: Methodology for identifying key performance indicators (KPIs) for a sustainable purchasing of agricultural raw materials

While the project was successfully implemented, we suggest to complement that methodology for sustainability projects in supply chains that may fulfil one of the two conditions: a) the supply chain is largely unknown to the business, for example because it includes traders on the world market. b) the business would be the industry pioneer in controlling the sustainability of the supply chain in question (for example in the soy supply chain). In these two cases, the closed loop of continuous improvement in Figure 32 may not be sufficient to ensure the sustainability of the agricultural supplies. An exploration of a supply chain that was previously little known to the business might reveal that it is necessary to stop purchasing a specific agricultural raw material altogether because its sustainability simply cannot be assured. A check for the appropriateness of such a disruptive change in the supply strategy would need to be integrated in the above framework, ideally after having established traceability in the supply chain. That check would help to ensure that the continuous improvement of a supply chain does not come at the expense of having the possibility to abandon that specific supply chain and to replace current supplies with a different agricultural raw material or supplies from a different region.

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150 Here: traceability in the sense that it is possible to identify the region the products come from as well as a number of representative farms, not necessarily an identification of all agricultural producers involved in the supply chain.
While the integration of quality management principles with the management of social and ecological issues was successfully achieved in this project, we recommend the business to examine how that integration can be sustained beyond the project. Hereby, we recall the statement of Dr. Jaap van der Vlies who pointed to the role of organizational structure in sustainability related project (p.127). Currently, the business manages the operational aspects of purchasing, the management of sustainability and strategic aspects of purchasing, and quality management in three different departments. The business may want to consider a change to its organizational structure in the future in order to facilitate the implementation of further sustainable purchasing projects.

V.3 Future research

Unlike previous resource-based research, we have documented that institutional entrepreneurship is a key activity in the adoption of a sustainable purchasing strategy. Just like any other business activity, institutional entrepreneurship demands resources and capabilities. By linking the literature on institutional entrepreneurship with resource-based research, we have provided a theoretical foundation for further research into the resources and capabilities that facilitate institutional entrepreneurship. We suggest that research on these resources and capabilities deserves as much prominence as research on the capabilities facilitating other business activities like the management of collaborations. There is reason to assume that the success factors for institutional entrepreneurship will be as numerous as those that have already been identified in research on other business activities. Furthermore, research at the interface of institutional entrepreneurship and normative theories appears particularly promising. Three of the four businesses we have examined participated in the development of an industry-specific code of conduct for purchasing a raw material. Two of these even initiated its development. While such codes of conduct appear to play an important role in the development of a sustainable purchasing strategy, it is striking that the research on corporate sustainability has not examined the design of these codes in more detail. Future research should examine in which circumstances it is advisable for a business to initiate roundtable talks on the development of an industry-wide code of conduct. Our research has documented that it is very important to consider which stakeholders should be invited to these roundtable talks (cf. the case study on Unilever). Questions that should be addressed include the following: what are the decision principles that could help a business to decide whether a stakeholder should
be invited to the roundtable talks or not? If we consider the development of a code of conduct as comprising several phases, then what is the phase when the initiating business should invite the stakeholders to the roundtable talks? Should all stakeholders be invited to join the development of the code of conduct in the same phase or is it more advisable to let the stakeholders join the development of the code of conduct at different points of time? Such questions concerning the involvement of stakeholders demand urgent consideration as an increasing number of European food operating businesses participates in the development of industry-specific codes of conduct for purchasing raw materials. Theoretically, these questions could be examined by an integration of stakeholder theory and institutional entrepreneurship.
VI Annex

Annex I: empirical sources

Our basic understanding of the *external context* of a sustainable purchasing strategy (the institutional environment) as well as its *business-internal context* (complementary strategies) emerged during a two-year consulting project at Nestlé. In addition to collaborating with managers of the corporation, we interviewed the following individuals in order to develop the narrative accounts of the case studies that are presented in this thesis.

<table>
<thead>
<tr>
<th>Name</th>
<th>Function</th>
<th>Date</th>
</tr>
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<tbody>
<tr>
<td>Josef Achermann</td>
<td>CEO of Swissmill</td>
<td>13/9/2003</td>
</tr>
<tr>
<td>Friederike Ahlers</td>
<td>Head of corporate communications at Frosta</td>
<td>28/6/2005</td>
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<tr>
<td>Fausta Borsani</td>
<td>Head of environmental and ethical projects at Migros</td>
<td>18/2/2005</td>
</tr>
<tr>
<td>Dr. Andreas Bosselmann</td>
<td>Head of innovation management at Frosta</td>
<td>20/7/2005</td>
</tr>
<tr>
<td>Simon Bryceson</td>
<td>PR Consultant</td>
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</tr>
<tr>
<td>Dr. Armin Eberle</td>
<td>Former head of environmental and ethical projects at Migros</td>
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</tr>
<tr>
<td>Prof. Jackie Mc.Glade</td>
<td>Head of the European Environmental Agency</td>
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</tr>
<tr>
<td>Hans-Joachim Hugo</td>
<td>Head of materials management at Frosta</td>
<td>19/7/2005</td>
</tr>
<tr>
<td>Alfons Knüsel</td>
<td>Head of purchasing at Emmi</td>
<td>23/9/2003</td>
</tr>
<tr>
<td>Patrick Leheup</td>
<td>Commodity sourcing manager for coffee at Nestlé</td>
<td>2/2/2005</td>
</tr>
<tr>
<td>Bernhard Rolli</td>
<td>Logistics provider for agricultural raw materials</td>
<td>11/9/2003</td>
</tr>
<tr>
<td>Fritz Rothen</td>
<td>CEO of IP Suisse</td>
<td>11/9/2003</td>
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<tr>
<td>Michael Sutton</td>
<td>Head of the Endangered Seas Program at the WWF</td>
<td>27/5/2005</td>
</tr>
<tr>
<td>Carsten Schmitz-Hoffmann</td>
<td>Managing Director of 4C</td>
<td>4/2/2005</td>
</tr>
<tr>
<td>Caroline Whitfield</td>
<td>International Category Manager for frozen fish at Unilever</td>
<td>23/5/2005</td>
</tr>
<tr>
<td>Lorenz Wyss</td>
<td>Head of category management of fruits and vegetables at Coop Switzerland</td>
<td>13/9/2003</td>
</tr>
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</table>
Annex II : Review of the Integrated Social Contracts Theory

The Integrated Social Contracts Theory (ISCT) offers a contractarian view of a business. ISCT suggests that the economy can be structured into economic communities. Each of these communities is a “self-defined, self-circumscribed group of people who interact in the context of shared tasks, values, or goals and who are capable of establishing norms of ethical behaviour for themselves” (Donaldson & Dunfee, 1999, p.39). The authors provide a number of examples of economic communities such as business-units, businesses, industries, or trade associations. Donaldson & Dunfee assume that these communities agree on the existence of two types of contracts: a microsocial contract and a macrosocial contract (Donaldson & Dunfee, 1999, p.19).

The microsocial contract specifies the norms that each economic community establishes for its own members. The macrosocial contract specifies conditions that the microsocial contract has to meet. For example, the microsocial contract of a business might include the norm of unpaid overtime or a non-smoking policy for its employees. The microsocial contract of an industry sector might include a marketing codex or an unwritten agreement on how to respond to public concern about ecological issues. ISCT explicitly acknowledges that economic communities have a moral free space in establishing such norms for their members. The macrosocial contract is complementary as it specifies two conditions that a community-internal norm needs to fulfil in order to be judged as an authentic norm. First, a majority of the members of the community must support the norm. Second, any member who is not satisfied with the norm must have the opportunity to influence it. If he does not succeed in influencing the extant norm, he must be allowed to exit the economic community. Thus, the employee who is not willing to work overtime must be allowed to leave his company.

Donaldson & Dunfee summarize the acknowledgement of a moral free space and the need for authentic norms in the first two principles of the macrosocial contract:

| 1st principle: Local economic communities have moral free space in which they may generate ethical norms for their members through microsocial contracts. |
| 2nd principle: Norm-generating, microsocial contracts must be grounded in consent, buttressed by the rights of individual members to exercise voice and exit. |

The second principle presents a constraint to the first as it states that the process of norm generation has to meet certain procedural criteria. The demand for consent and the rights of members (to influence norms and to leave their economic community) are “consistent with much of the organizational justice literature that emphasises procedural justice” (Dunfee et al., 1999, p.19).
A third principle of ISCT complements this procedural constraint, as it specifies a content-related constraint to the norms of economic communities. Donaldson and Dunfee (1999) detail why the economic communities will acknowledge a need for such content-related constraints.

The authors assume that moral actors are aware of bounded moral rationality (Donaldson & Dunfee, 1999). Even two proponents of the same moral theory (such as stockholder theory in the realm of business ethics) may come to divergent conclusions on what conduct would be morally appropriate in a specific situation. People lack perfect knowledge on the context of a decision-making situation. They do not have the time and resources to ensure that they apply their preferred moral theory in a perfect manner. It follows from bounded moral rationality that economic communities cannot expect that they can jointly establish a moral theory that would be applicable in every decision-making context. Moral theorists lack the rationality to develop such a perfect moral theory that every community would agree to. Nevertheless, rational actors will agree that they require some minimal agreement in their interaction. If the communities cannot identify a common, global moral theory, then they require at least a joint base of very fundamental norms. If there were no minimal agreements such as “you shall not lie” or ”you shall not kill”, then the economy would operate very inefficiently. For example, if a buyer could not have minimal trust in a vendor, he would need to check that all promises of the vendor are true before purchasing a product. A minimal level of trust, however, can reduce the transaction costs for both the vendor and the buyer.

Consequently, it is in the interest of rational economic communities that the norms of every economic community should not violate certain minimal standards. These standards are norms by which all norms of communities have to be judged (Donaldson & Dunfee, 1999, p.44). In ISCT, these ideal norms are called hypernorms.

The authors, however, do not provide a complete list of these ideal norms (hypernorms). Scholars of business ethics have suggested that it is the task of Donaldson & Dunfee to develop such a set of hypernorms (Soule, 2002). Yet, the authors “deny that one can know in advance what the correct rules are for a specific system and its participants” (Donaldson & Dunfee, 1999, p.32). Therefore, instead of specifying all existing hypernorms, they provide a principle for identifying hypernorms in a decision-making context.

They suggest that a convergence of religious, political, and philosophical thought is
a clue for the existence of a hypernorm (Donaldson & Dunfee, 1999, p. 50). For example, if the writings of major philosophers\textsuperscript{151}, collective agreements\textsuperscript{152}, as well as different religions all oppose bribery, then there is evidence that bribery opposes a hypernorm. Thus, while bribery may be an authentic norm in an industry, it cannot be a legitimate norm.

In summary, the first, second, and the third principle of the macrosocial contract are the criteria determining normative legitimacy from the perspective of ISCT. The theory states that the norms of a business need to be authentic as well as compatible with hypernorms. Put differently, a majority of its members must share its norms, the process of norm generation needs to fulfil minimal procedural criteria and the content of the norms may not oppose ideal norms.

Just like scholars of institutional theory, Donaldson & Dunfee acknowledge that norms can conflict one another. For example, in the context of sustainable business strategies, the protection of natural resources can contradict the hypernorm of an efficient operation of businesses. The fourth and final principle of the macrosocial contract states that priority rules to solve conflicts among norms need to “be consistent with the other terms of the macrosocial contract” (Donaldson & Dunfee, 1999, p.45).

4th principle: In cases of conflicts among norms satisfying macrosocial contract terms 1-3, priority must be established through the application of rules consistent with the spirit and letter of the macrosocial contract.

\textsuperscript{151} such as Confucius, Rawls or Kant

\textsuperscript{152} such as the United Nations’ Human Right Declaration, the OECD guidelines or the guidelines of the International Labour Organization
Annex III: Migros poster announcing its sustainable purchasing of palm oil

An extract of Migros’ poster advertising its sustainable palm oil purchasing policy, cf. Figure 24 on p. 87.

Figure 33: Extract of a Migros poster
References


SUSTAINABLE PURCHASING STRATEGY IN THE FOOD INDUSTRY

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