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Sustainability Strategy in Constrained Economic Times



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While firms have increasingly adopted environmentally and socially sustainable management strategies, little is known about how these organizations react during times of economic constraint. On the one hand, conventional wisdom suggests that firms' sustainability strategy would be de-emphasized. However, emerging scholarship suggests that many firms may increase their sustainability investments during constrained economic times. Building on the articles comprising this Special Issue, we offer notable evidence that firms tend to shift their sustainability strategy in innovative ways that enable them to do more with less and increase firm value without undertaking significant cutbacks. Specifically, we argue that, during times of economic constraint, firms a) engage in sustainability "trimming" to adapt to their new economic setting; b) use trimming to compete more effectively; and c) trim in ways that are path dependent, building upon prior complementary capabilities and resources. We formulate an explanation for these novel findings and conclude with observations about future research opportunities.

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Introduction

Over the last few decades, firms have increased their commitments to sustainability. It is now common for a firm's managers to concern themselves with the delicate balance between ongoing economic success, protection of the environment and corporate social responsibility (CSR). These increased corporate commitments have occurred in parallel with, and perhaps were driven by, rising societal expectations about the obligations of firms in creating a sustainable economy, society, and world. Overall, sustainability has moved from the fringe to the center.

But does all this collapse at the first sign of economic duress? In good economic times, corporate sustainability commitments are relatively easy to maintain or increase. However, during times of economic constraint when such commitments are not so easy to maintain, and, as societal needs increase, what happens to corporate sustainability commitments? This Special Issue addresses this open question.

We define economic constraint as a fiscal restriction placed upon a firm that hampers its activities. While our focus is on the effects of recession, increased regulation can also impose economic constraint on firms. Conventional wisdom suggests that sustainability strategy will decrease during constrained economic times. Sustainability activities are costly and so may be incompatible with firms' financial success (Wally and Whitehead, 1994), and this may become the case even more during times of economic constraint, where little financial slack exists. For instance, when analyzing the results of the Giving Back survey among 170 senior executives and communication professionals in eight countries, Middlemiss (2003, 358) concluded that constrained economic times dampen sustainability investment. Sustainability investments are eliminated because firms shift their focus to core strategic issues that relate directly to the bottom line, rather than peripheral initiatives that may be loosely coupled with financial performance.

Yet, emerging evidence suggests that many firms have defied conventional wisdom and increased their sustainability investments (Haanaes et al., 2011). In the aftermath of the Great Recession, outside of corporate philanthropy, sustainability programs have not been cut (Strugatch, 2011). Rather, as evidenced by the collection of articles that form this Special Issue, firms may shift their sustainability strategy in innovative ways, to enable them to do more with less and increase firm value.

Drawing on the insights of our Special Issue authors, we suggest that conventional wisdom falls short of satisfactorily explaining firms' strategic behavior because it ignores the fact that for decades businesses have been investing in sustainability efforts. A growing cadre of firms therefore regard sustainability strategy not as peripheral but as being integral to their long-term success. Given its newfound legitimacy, during times of economic constraint, firms appear to be maintaining their sustainability commitments rather than cutting them. They are also using sustainability to adapt to changing institutional constraints, so they are able to maximize benefits and reduce costs. Many firms therefore regard sustainability investments in the same way as other strategic investments, deciding to invest or disinvest based on a similar calculus.

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Given the mainstreaming of sustainability, how are corporate sustainability investments affected in constrained economic times? By building upon the observations and conclusions of the articles comprising this Special Issue, we address the mainstreaming of sustainability strategy first by making sense of how firms respond during times of economic constraint. We then examine several unanswered questions and conclude with our own thoughts about what future research might consider as it moves forward with learning about sustainability strategy in constrained economic times.

What happens during times of economic constraint?

As recently as 2003, scholars and practitioners viewed sustainability as being vulnerable to cutbacks during recession, and largely a distraction from the “real business” of business (see [Middlemiss, 2003](#)). The tide changed in the last decade, though. By 2005, even *The Economist* declared that CSR aspects of sustainability had won the war of ideas; granted, it also expressed skepticism as to the actual benefits won by a movement characterized by much talk and little action ([Crook, 2005](#)). In 2008, the same magazine reaffirmed that sustainability had gone mainstream, but was concerned that companies were not doing it well. [Franklin \(2008, 3\)](#) concludes: “[D]one badly, [sustainability] is often just a fig leaf and can be positively harmful. Done well, though, it is not some separate activity that companies do on the side, a corner of corporate life reserved for virtue: it is just good business.” By 2008, sustainability was seen as a legitimate part of business activity. Sustainability had become mainstream.

Over the last decade, the institutional context in which firms developed their sustainability activities has thus changed radically. Large multinational enterprises as diverse as Unilever, Novo Nordisk and Walmart have all tried to link their business models to aspects of sustainability. Corporate executives have participated in workshops on topics such as the Global Reporting Initiative, ISO 14001 certification, and carbon efficiency, and have exerted pressure across their supply chains to respond similarly.

It is within this new institutional context that one must understand the responses to economic constraint brought on by the Great Recession. Drawing from the findings of the papers in our Special Issue, we offer three overarching observations: that, during times of economic constraint, a) firms engage in sustainability “trimming” to adapt to their new economic setting; b) firms trim in ways to help them compete more effectively; and c) sustainability trimming is path dependent.

Sustainability trimming as firm adaptation

Firms tend to adapt to economic constraint in a way that legitimizes their prior strategic path. Resource allocation is influenced by the context of resource decisions ([Oliver, 1997](#); [Hoffman, 1997](#)) in large part because institutional settings delimit the strategies organizations can employ ([Scott, 2001](#)). In responding to the uncertainty and chaos within this institutional setting, firms appear to refrain from radically overhauling their sustainability programs. They also do not undertake major across-the-board cuts to their sustainability activities. Rather, in constrained economic times, the collection of papers that form this Special Issue suggest that firms hone and “trim” their sustainability strategies in a more surgical way to make distinctions among the types of sustainability activities they choose to eliminate, those they retain, and how they promote these activities externally.

For instance, [Bansal et al. \(2014\)](#) illustrate that firms make critical distinctions among CSR investments that are tactical versus strategic. Tactical CSR is largely transactional, requiring few resources, and focusing on short-run incremental activities that are more easily imitated. In contrast, strategic CSR affects a firm’s core competencies and focuses on the long run. Strategic CSR also involves large resource commitments and significant structural changes within the organization (e.g., environmental management systems, corporate governance practices), and is less imitable by competitors. The paper herein offers evidence that firms are more likely to eliminate their tactical CSR programs and retain their strategic CSR activities. One rationale the authors put forward is that strategic CSR is poised to deliver firms greater strategic value over time. Another is that the complexity and embeddedness of strategic CSR within organizations makes it more difficult to eliminate because of its long-lasting effect on the firm’s evolutionary trajectory.

The observations of [Bansal et al. \(2014\)](#) are supported by those of [Delmas and Pekovic \(2014\)](#), who explore one specific type of sustainability activity — resource efficiency — which is achieved by cost-saving from pollution prevention. Like [Bansal et al. \(2014\)](#), these authors offer evidence of a general decline in the uptake of sustainability activities during times of economic constraint. However firms that have a strategic focus on the long term (by emphasizing cost leadership, internal research and development, and environmental management systems) are more likely to *increase* their resource efficiency strategies. Similarly, [Paquin et al. \(2014\)](#) show that during times of economic constraint, firms are more likely to undertake sustainability activities (e.g., industrial symbiosis) that require complex interfirm collaborations, and thus tend to focus more on the long term.

Sustainability trimming in competitive strategy

When trimming or honing their sustainability programs in this institutional setting, firms appear to be seeking to do more with less, rather than less with less. That is, firms appear to be either drawing more value from existing sustainability activities or expanding strategic sustainability activities while purging tactical sustainability. In some instances, firms are trimming their sustainability programs as a means of positioning themselves within a market characterized by its uncertainty

and chaos. [Delmas and Pekovic \(2014\)](#) suggest that firms' emphasis on resource efficiency is a means of cost leadership in this institutional setting, and this emphasis is related to firms' enhanced investments in research and development. Firms that pursue this competitive approach seek to operate at a cost lower than their rivals, in order to win market share by appealing to cost-conscious or price-sensitive consumers.

Other differentiation efforts firms undertake in this institutional setting relate to the external messages they express about their sustainability activities. [Green and Pelozo \(2014\)](#) suggest that in order to increase their legitimacy with critical stakeholders during recessions, managers alter their sustainability advertising strategies. In particular, firms' advertising content changes to focus more on consumers' self-oriented benefits, such as cost-savings due to energy efficiency. Additionally, firms are more likely to expand their sustainability messages into mainstream advertising, thus enhancing appeal to the average consumer. These shifts in advertising messages are consistent with [Delmas and Pekovic's \(2014\)](#) suggestion that in constrained economic times, firms are more likely to seek to appeal to cost-conscious consumers. In order to do so, firms pursue strategies that influence mainstream consumers who are also constrained by economic downturn.

While none of the papers in the Special Issue examine consumers directly, [Delmas and Pekovic \(2014\)](#) and [Green and Pelozo \(2014\)](#) suggest that firms are mindful of consumers' economic constraints as they hone their sustainability strategies to increase the value of their consumer products. This observation contrasts with the idea that in adverse situations, managers respond to uncertainty by focusing on internal issues and limiting information flows in order to gain more control over the situation ([Ketchen and Palmer, 1999](#); [Ocasio, 1995](#); [Staw et al., 1981](#)). Rather, during times of economic constraint, firms appear to be more attentive to consumers' concerns.

Sustainability trimming and path dependence

The collection of papers in this Special Issue offer evidence that sustainability trimming is path dependent, and so firms' prior complementary capabilities and resources play an important role. A capability complements a firm's particular initiative if it facilitates the implementation process ([Darnall and Edwards, 2006](#)). Such facilitation necessarily involves a temporal ordering, in that the complementary capability exists prior to the firm's sustainability shift. For instance, a firm's resource efficiency strategy related to cost-leadership is facilitated by drawing on its existing knowledge-based capabilities. By integrating this knowledge into its competitive strategy, firms can lower their costs associated with shifting their strategic approach ([Delmas and Pekovic, 2014](#)). Complementary organizational capabilities appear to create similar cost advantages when firms develop environmental standards ([Darnall, 2006](#); [Darnall and Edwards, 2006](#)) and adopt eco-efficiency practices ([Delmas and Pekovic, 2014](#)).

[Paquin et al. \(2014\)](#) show that firms that collaborate with other organizations are more likely to benefit from their industrial symbiosis activities. Industrial symbiosis differs from other more typical types of proactive environmental practices in that it requires cooperation between firms rather than independent firm-level action ([Gibbs et al. 2005](#)). Firms that have existing capabilities to facilitate such partnerships are more likely to be successful. Additionally, firms that elect to collaborate are likely to bring complementary capabilities to the partnership ([Lin and Darnall, 2014](#)). [Paquin et al. \(2014\)](#) offer additional evidence of path dependence in finding that when at least one industrial symbiosis collaborator has had a prior successful symbiosis experiences, the collaboration is more likely to lead to favorable eco-efficiency outcomes. Such findings imply that the prior experience creates knowledge-based capabilities that are complementary to other settings.

Evidence of path dependence is also seen in firms' slack resources. [Bansal et al. \(2014\)](#) show that firms with greater slack resources are more likely to continue their strategic CSR during times of economic constraint. These findings are consistent with the idea that strategic CSR is more likely to be rooted in the firm's organizational culture, which encourages firms to take a long-term approach and recognizes that it takes time for benefits to materialize. These findings also offer further evidence that firms do not tend to respond to the uncertainty within this institutional setting as an opportunity to radically shift their business models. Rather, firms appear to be taking a more measured approach by trimming their CSR activities, seeking ways to position themselves in the market, and drawing heavily on existing capabilities and resources to do so.

Unanswered questions

In constructing this Special Issue's call for papers, we addressed sustainability in constrained economic times in a very broad way. We believed that economic constraint would affect firms, nongovernment organizations (NGOs), consumers and regulators alike. However, the papers that were submitted to the call, and those that comprise the Special Issue, focus more narrowly on firms' economic performance. As such, many broader questions remain unanswered. In particular, we still know very little about how sustainability strategy that emphasizes "doing more with less" affects firms' environmental and social performance. One exception is the article by [Paquin et al. \(2014\)](#), which finds that industrial symbiosis leads to positive eco-efficiency and eco-development outcomes in terms of both reduced CO₂ emissions and economic benefits (sales and cost savings), in addition to social impacts (jobs created and business development). While some scholars may argue that we are stretching the concept of social equity by including job and business creation, this is the extent to which the Special Issue examines environmental and social impacts.

One reason these papers (and others) offer only limited emphasis on environmental and social impacts is the difficulty of accurately measuring these societal outcomes ([Salazar et al., 2012](#)). But measurement difficulty is not the only reason, because in some instances measures do exist yet remain unused. We are left with much ambiguity about whether or not sustainability

strategies that “do more with less” help improve human health, social equity, or environmental quality. This uncertainty is further punctuated by the equivocal evidence surrounding the efficacy of well-known voluntary environmental programs like ISO 14001 (Henriques et al., 2013; Darnall and Sides, 2008).

A second broader question that remains unaddressed is how NGO engagement might shift during times of economic constraint. While NGOs serve as a critical watchdog over corporate activities, we know little about how their ability to access and monitor information changes during economic constraint. We suspect that their capacity is diminished, but also wonder whether NGO monitoring becomes “trimmed” in a way that parallels firms’ cost-saving experiences. For instance, NGOs might more likely form strategic alliances with other NGOs or government to share resources and more efficiently monitor corporate activities. Additionally, NGOs might shift their corporate surveillance efforts from field-based activities to activities that are more internet-based. While these scenarios may seem plausible, the resilience of NGO activity in the face of economic constraint is unclear.

A third area that remains unaddressed relates to consumers and consumption. Consumers are likely to be affected directly by economic crisis because of job loss, reduced working hours, or salary decreases. While we know their consumption adjusts accordingly and they become more price sensitive, we know little about how these adjustments relate to sustainability. Green and Pelozo’s (2014) study of corporate CSR communication addresses this issue from a different angle in determining that firms respond to shifts in consumer demand by focusing their communications to emphasize the health benefits and cost savings associated with their products. Delmas and Pekovic (2014) also study consumption, but from a firm perspective in that firms are more likely to try to appeal to cost-conscious consumers as a means of differentiation. These corporate responses are likely due to greater elasticity in consumer demand; however, the Special Issue does not examine consumers directly.

A fourth topic missing from this Special Issue is how economic constraint affects regulators and regulation. Regulators must balance environmental objectives with other social concerns, such as economic resilience. With scarcer resources, their role is weakened. It therefore is plausible that regulators would refrain from creating mandatory environmental standards and shift their emphasis towards voluntary environmental programs, such as promoting environmental management systems or sector-based initiatives (Darnall et al., 2010; Henriques et al., 2013). Additionally, during times of economic constraint regulators might have fewer resources to monitor firms’ environmental compliance, and so we speculate that some businesses might reduce their compliance activities. However, in institutional contexts where government’s role is weakened, some firms tend to provide services traditionally provided by governments (Matten and Crane, 2005). How the provision of these services counterbalances the possibility of increased noncompliance is an interesting question that the Special Issue does not address.

Finally, in recent years, the quality and number of innovations developed by firms from emerging countries has increased dramatically. This is especially true for frugal innovations that meet the needs of resource-constrained consumers (Zeschky et al., 2011). However, the Special Issue does not address this phenomenon, and we know little about how firms shift their strategic focus to frugal innovation and its competitive potential in times of economic constraint. Delmas and Pekovic (2014) claim that frugal innovation can lead to cost savings, but firms do not benefit from differentiation advantages. Their work suggests that certain capabilities and strategies, like resource efficiency, become especially important for the successful adoption of such innovations. However, whether frugal innovation enhances social equity remains uncertain, even if social equity is a goal of this innovation strategy.

Future research directions

As scholars, we can do more to understand if, how, and when firms, consumers and regulators do more with less. The four empirical studies in our Special Issue shed light on how firms adjust their sustainability strategies during economic constraint, but a myriad of empirical and theoretical issues still merit exploration. In this section, we identify several promising research directions.

The four studies span a bit of the globe, analyzing samples of firms from the US, UK and France. But they all stick close to home temporally, looking at times of recent economic constraint. To develop a deeper understanding of what happens to the sustainability of sustainability strategy during times of economic constraint, future studies need to look beyond the Great Recession and recent increases in regulation, to include prior recessions and cycles of regulatory expansion.

These longer time windows also need to include recoveries. Our four studies did not address how firms managed the recovery. Perhaps firms do not adjust to upturns like they do to downturns because downturns can present constraints that cannot be ignored, while upturns present opportunities without the necessity to act. Additionally, it may be that the process and practice changes that occur during times of economic constraint make firms more efficient, and these changes are retained when munificence returns, becoming the “new normal.” That is, if economic constraint does not kill the firm, perhaps it makes it stronger.

We need not only explore farther longitudinally, but also laterally and horizontally. Sustainability activities can enhance a firm’s relationships with its stakeholders, leading to reputational and financial gain (Fombrun et al., 2000). But when looking to alleviate problematic stakeholder relationships, firms may work together with other firms within their industry, through trade associations. Given their size and specialization, industry trade associations can more effectively and efficiently manage stakeholder relations for their member firms. Firms may thus choose to outsource stakeholder management to such groups even though this entails giving up some control to an organization whose purpose is to enhance the welfare of rival firms

(Barnett, 2013). For some firms this tradeoff may be more attractive during economic downturns. Others may choose to opt out of their trade associations, thereby saving the costs of association membership by free-riding on industry efforts during constrained economic times (Barnett, 2006; Barnett and King, 2008). More research on the role of trade associations is needed.

During times of economic constraint, firms may shift management of their sustainability strategy not only outside the firm but also within. As several studies in our Special Issue suggest, during a downturn firms become more strategic with their social and environmental activities. But these studies do not address where, within the firm, these activities are managed. Future research should consider the internal strategic decisions that firms make to increase their efficiencies and cope in the face of economic constraint.

Firms do not necessarily respond to economic constraints by radically shifting their structures and strategies in a way that would foster innovation. Rather, the firms studied in the Special Issue showed significant stickiness in their strategic direction and changes were only made around the margins. This fits with well-established notions of firms being inertial. However, anecdotal evidence indicates some firms do take advantage of the opportunities presented during economic constraint. What we don't know is which organizational and environmental characteristics help firms to transcend inertia in this setting and radically modify their strategies. While the studies herein provide some hints, we would benefit from learning more about the innovative capacities of firms.

Whether firms' strategic and tactical shifts during economic constraint are beneficial depends upon how stakeholders respond. As with firms, stakeholders' mindsets can be sticky. Once a stakeholder has a particular view of a firm, he or she may not be willing to respond to a firm's negative behavioral changes (Barnett, 2014). Yet we also know that corporate reputations can easily be damaged (Fombrun, 1996). This dual nature of reputation — both robust and fragile — may explain why the firms studied in this Special Issue show a tendency to maintain their sustainability strategy even in constrained economic times. It takes time to build stakeholder trust, through a history of social and environmental accomplishments. Once attained, trust is a valuable firm asset, and without it firms will not profit from their sustainability strategy (Barnett, 2007). Firms that attain this trust do not want to risk losing it by cutting their strategic investments, even in the uncertain times of economic constraint. However, some firms may be tempted to shift direction. If they respond by undertaking tactical changes, and simply trim their sustainability strategies, these firms may be less likely to harm critical stakeholder relations. However, large-scale strategic change may “break the frame” (Dunbar et al., 1996) and cause stakeholders to question their trust of the firm. Future research should consider these issues further to determine the breakpoints associated with how much firms can shift their sustainability strategy and still maintain stakeholder trust, and what moderating factors might influence this relationship.

Conclusion

Firms' sustainability strategies are embedded in an institutional context. In times of economic constraint, uncertainty prevails, and firms must ask themselves whether, given that they have less, they will do less or they will find a way to do more. Conventional wisdom suggests that firms will do less with less; that sustainability strategies will be cut during times of economic constraint. However, the studies that comprise this Special Issue suggest otherwise. During times of economic constraint firms tend to shift their configurations of sustainability investments without undertaking significant cutbacks. By building upon the observations and conclusions of the articles comprising this Special Issue, we begin to formulate an explanation for this unexpected result and the ways in which firms are using their sustainability strategy to maximize strategic value and reduce costs. Of course, much more remains to be done. We hope others will build upon the work in this Special Issue and so further advance our understanding of sustainability strategy in constrained economic times.

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