Perspectives on Sustainable Repositioning

– Normative Pressures for Sustainability and the Adaptation of the Firm

by

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Abstract

It has become more and more evident over time that many of the processes, products and services we use and consume today have little or no future in a sustainable society. If this holds true and our society actually strives towards sustainable development, many companies will have to undertake a more or less dramatic change in how they conduct their businesses. Traditional resource intense industries then need to reconsider their business plan, norms and values on how they conduct their business in order to find new growing business opportunities or perhaps just to survive. The process of sustainable development has been explored from different theoretical perspectives during the last decade. In this paper we conduct an analysis on different aspects of the change process that many firms of today are considering in relation to sustainable development. This change process is defined as "sustainable repositioning". We use different theoretical perspectives such as theory of the firm, stakeholder theory, institutional theory and resource based theory in order to explain why and why not the industry is changing in a sustainable way. Based on research findings we explore drivers and barriers towards a sustainable development of industry from these different theoretical perspectives. The analysis provides a theoretical framework in order to define and better understand the concept of "sustainable repositioning".

Keywords: sustainable repositioning, theory of firm, stakeholder theory, institutional theory, resource based theory.

Introduction

Some twenty-five years ago, environmental issues were of small concern to most business organisations, such issues generally being reserved for the political sector in society. Since then, environmental, social as well as ethical normative pressures have exerted influences on managerial values, behaviour and practices. In the management practices for curbing potentially harmful resource exploitation, the mechanisms of learning and choice are not only informed by the values of economic rationality, but also by social obligations and demands for social justification (Zukin and DiMaggio 1990). Conformity to social expectations may contribute to aggregate behaviour on the firm level increasing the likelihood of a firm's survival, at least theoretically. Scott (1987: 498) points out that firms conform because "they are rewarded for doing so through increased legitimacy, resources, and survival capabilities. Thus, while the exact day-to-day focus has shifted over time, an overall "sustainability-related" pressure has become taken for granted in many business contexts. The pressures have worked through diverse channels: the number of environmental regulations has increased; environmental non-governmental organisations that did not exist in the 1970s now have large numbers of members; green parties are represented in many European parliaments, the general public is becoming increasingly interested in environmental issues (Bennulf 1994; Eureka 1994). The business organisations consequently show an increasing awareness of sustainability issues (IBBM 2001).

The concept of sustainability

Many regulatory and management instruments related to the concept of "sustainable development" have been developed during the last decades. We acknowledge the various definitions of the sustainable development, which have been proposed in the literature, at an increasing rate, since the Brundtland-report in 1987 (cf. Barbie 1987; Costanza, Daly and Bartholomew 1991; Meadows, Meadows and Rander, 1992; Hawken 1993, Welford 1994, Gladwin, Kenelly and Krause 1995). However, in this paper we use the seminal definition of the concept, which is aimed at research rather than other uses such as the political, cf. Daly (1992), This definition formulates specific principles that are necessary in order to avoid violations of a the carrying capacity of the global eco-system (Daly, 1992:189). The definition implies that nature is not excluded from "the world of commodities whose opportunity costs are measured by market prices" (Daly 1992: 189)

We recognize that the instrument proposed by Daly is primarily aimed at policy formulation, However, we assume that policy is not the only way to change the strategic positions of firm in relation to the stricture imposed by the "Plimsoll Lines" that are needed to stay within the carrying capacity of the globe, i.e. as an instrument to avoid "overloading and sinking even when well-balanced" according the requirements of efficiency (allocation) and justice (distribution).

Our purpose with this article is not to explore the meaning of sustainability, here we merely conclude that all these definitions share three components of sustainability; a balance between ecological, social and economical concerns, which correspond to Daly's requirements of global carrying capacity, justice and efficiency. The policy perspective sees any firm as an economic agent that rationally respond to policy measures. The firm's internal processes are generally disregarded when seen from that point of view. However, this paper focuses specifically on these internal processes and their capacity to shape the management practices, guiding values and exhibited behaviour of a firm. These three factors result in the strategic position of a firm. Inevitably this means that the firm internalises some policy-level values. It adapts its practices and behaviours to even to the non-explicit normative pressures of sustainability. Such pressure could, from a normative perspective, result in business practices to ensure that activities stay within the global carrying capacity and decision-rules for “plimsoll lines have consequently been formulated:

- Harvest rates of renewables are equivalent to their regeneration rates
- Waste emissions fall below the assimilative capacity of ecosystems
- Non-renewables are exploited at a rate below the rate of creation of renewable substitutes.

The three normative requirements (efficiency, distribution, carrying capacity) would characterise a sustainable use of natural resources. We are concerned with analysing the consequences of such normative requirement on business practices.

Sustainable repositioning

Empirical business research bear out that managers are continually exposed to sustainability pressures and attempt to adapt the core competences of the businesses under their control. Management routines to handle a wide range of issues have been described, and they range from relatively minor adaptations of specific management practices to attempts at strategic repositioning. Planning practices in oil companies and normative pressures (Zaring 1996); supply chain adaptations in specific industrial sectors (Terrvik 2001); product line redefinitions in a single company (Zaring 2001); and even market place opportunism in an industry (Dobers 1997) exhibit new traits, which are consistently attributed to normative pressures for ecological or social sustainability, cf. Zaring (1999). The adaptations are difficult to analyse separate from the general business context since companies continually adapt to a large number of other stimuli. Thus, the process of sustainable development has been explored from different theoretical perspectives during the last decade. In this paper we conduct an analysis on different aspects of the change in values, practices, and behaviour that many firms of today are exhibiting in relation to sustainable development.

We propose that the concept of sustainable repositioning can be used to analyse changes in the strategic resource positions of firms. Such changes being the consequence of changes in the internal processes, i.e. management practices, guiding values and exhibited behaviour of firms. The normative pressures create drivers that sometimes force companies to reposition. Examples of drivers to adaptation are: patterns in customer demand (Roe et al. 2001), innovation (Senge, Carstedt, and Porter 2001; Hart 1999), and government intervention (Porter and Van der Linde 1995; Markusson 2001; Murphy and Gouldson 2000; Feiock and Stream 2001; Palmberg 2001). Barriers to sustainable repositioning reside in the same areas as the drivers but with a pronounced short-term focus, i.e. economic efficiency and political expediency. Consequently this paper deals with the consequences of sustainability pressures for empirical research in business practices, values and behaviour rather than attempting to analyse the concept of sustainability in itself.

The paper will analyse a range of theoretical approaches to sustainable repositioning. The core concepts of sustainable repositioning, barriers, and drivers will be translated, redefined and analysed using the terminology of each perspective. The selection of the theoretical approaches uses earlier research as a point of departure, while attempting to identify some of the gaps left by earlier researchers, and exploring the potential of each perspective. A selection of sustainability related research presented in academic journals and reports will be reviewed for each theoretical perspective. The perspective in the four following sections are focused at:

1. sustainable repositioning in theories of the firm: a comparatively large number of sustainability related studies have been made using this perspective based on financial market data to analyse the market response to ethical, environmental, and social issues.
2. sustainable repositioning as a stakeholder response: this perspective is frequently used especially in business ethics research.
3. sustainable repositioning as an institutionalisation process: the perspective has produced a number of interesting studies aimed at analysing sustainability and its influence on managerial thinking
4. sustainable repositioning from a resource based view: a number of studies have been made within this perspective.

The paper is concluded with a multi-perspective analysis of sustainable repositioning.

Sustainable repositioning as a financial market response

The theory of the firm is a loose concept with its root at the origins of neo-classical economic theory. Early versions of that theory are first and foremost theoretical analyses of market interactions, and do not explain phenomena such as the existence of firms, firm heterogeneity, or the influence on firms resulting from market failure (Barney and Ouch, 1986). These earlier versions are associated with concepts such as the perfect competition in a market with a large number of actors, i.e. buyers and sellers, under the assumption that products in the market are homogeneous, and that there is no cost to engage in market activities, cf. (Chamberlin 1933, Williamsson 1975). This section deals with the feasibility of analysing the effects of an external sustainability pressure on firms' pressure using concepts from more recent developments originating in the ”theory of the firm”. Many developments of this theory certainly exists, such as the resource based view described in the last section of the theoretical reviews in this paper. This section will analyse two specific approaches to analyse the process of sustainable development of the actors of financial markets. These developments of the theory of the firm have stimulated influential research related to sustainability. One such development deals with the effects of the market on the firm, and the other deals with the delegation of responsibility from the owners of firms to the managers of firms. The former will be referred to as the financial theory of the firm to separate it from the latter is called the agency theory of the firm in this paper. The financial theory of the firm have resulted in a fairly large number of studies investigating how the financial performance of firms in the market is affected by improved sustainability performance and the latter have been used to analyse the phenomenon of corporate social responsibility. Both developments are related in that they share many basic concepts from the early forms of the theory of the firm. Common to both approaches is the assumption that the firm is an asset subject to the evaluations of the investors that is, the actors in a financial market of perfect competition that determines the value of firms to an investor.

The analysis of these two theories of the firms first briefly describes the theories and reviews selected research results relevant to *sustainable repositioning*. The final analysis at the end of the sections addresses the usefulness of the two theories for different types of research problems relevant to *sustainable repositioning* of firms.

Agency theory of the firm and the financial market

One strain of research about corporate behaviour is centred around the role of financial markets as the primary mechanism for influencing the behaviour and practices in firms and consequently ultimately their utilisation of natural resources. For example, the notion that a financial market has two basic categories of actors, cf. the seminal work of Berle and Means, and the more contemporary developments on agency theory (Berle and Means 1932; Jensen and Meckling 1976), is influential in explaining what values should guide the actions of a firm's managers. One category of actors, the principals (in this case the investors), holds assets that can be freely invested with the aim of increasing the total assets. Such investing is assumed to be made by buying securities, usually stocks or bonds, issued by the managers of companies. The securities are bought on the assumption that they will provide a future return to the holder, the investor, of the security. The agents of the investors, such as company managers, act under the obligation to deliver the returns on invested assets to the principal. They are expected to promote the interests of their investors in all their actions regardless of any other societal values, norms or ideologies. In real life the principal would be any investor and the agents would be the managers of the firms issuing securities such as shares of equity. Research has often had the aim of developing schemes for ascertaining that managers act in the interest of the shareholders in the company, i.e. that they should have disincentives for diverting assets for personal use or incentives to deliver the returns to the investors. This discussion is intimately with the early debate on Corporate Social Responsibility (CSR). CSR is here defined as corporate actions that further some social good beyond the objectives of the firm and the requirements of the law, cf. McWilliams and Siegel (2001).

Agency theory and corporate social responsibility as a *driver* and *barrier*

In economic theory a "traditionalistic view", consistent with the assumptions of agency theory, on the role of owners, corporations and their managers have been associated with Milton Friedman (Friedman, M. 1962, 1970, Friedman M. and Friedman, R. 1980). He asserts that engaging in CSR activities is caused by an agency problem that is a conflict between the company mangers and the shareholders. His position is that business leaders have a prime responsibility to shareholders to maximise shares value. Managers act as agents of shareholders and they have no mandate to embark on socially responsible projects, if and when these activities do not contribute to enhanced abilities to generate firm profits. In addition, managers should not refrain from profitable investments that – of course – should satisfy all legal constraints. Managers own personal social agenda should thus not be confused with their shareholder responsibilities. To Friedman "the social responsibility of business is to increase profits" and corporate social responsibility is a "subversive doctrine" (1962:133).

Nevertheless, there is one class of investors nevertheless hold a preference for selecting firms that have a positive corporate social performance. The US market for Socially Responsible investments amounted to a market capitalisation of USD 1 497 billion in 1999. This amount comprised approximately 10% of the total market capitalisation at that time. This situation was preceded by a 183% market growth since 1995 (Social Investment Forum 1999). In the spring of 1999 total assets under management in Scandinavian environmental funds (a segment of the total market for socially responsible investments) amounted to approximately SEK 3,4 billion, and the Swedish portion of that amount represented around 1,5% of the total market capitalisation on the Swedish stock market. The British stock market is the European market with the highest proportion of ethically screened investments with some 37% of the assets being screened in the year 2000 (Environmental Finance 2000). Several stock indexes have been developed to provide benchmarks in this market, catering primarily to institutional investors. On the regional level there are examples such as the DSI 400 and the Citizen's Index in the United States. Global index families are represented by the Dow Jones Sustainability Group index (launched in 1999), and the FTSE family of indexes (launched in early 2001). More specialised indexes are also available, such as the IMPAX ET-50 which supplies a benchmark for environmental technology funds.

Thus, the capital market's role and functioning in relation to sustainability is potentially an important one in an analysis of the drivers and barriers of sustainable repositioning. However the need to analyse complex environmental information makes the market more complex and introduces hindrances and filters in the reciprocal information flows between the principal and agents operating in the financial market. It might prove difficult to establish whether the agents of ”CSR-investors” really act according to the wishes of their principals. It should be noted that the agency perspective and the financial market perspective is often merged in empirical studies: the corporate social corporate performance (CSP) of companies is analysed in terms financial performance in the financial markets. The adaptation of market prices to information on CSP is investigated using methodology from financial theory such as event studies, cf. Jensen (1968). The methodology of these studies has been reviewed in McWilliams and Siegel (1999). The studies generally measures the effect on market response to environmental, social and ethical information about companies, and try to establish that “the market” correctly evaluates such information in terms of the market value of the companies. The analytical methods used by the studies reviewed in this section can be broadly classified into event, portfolio, correlation and multiple regression analysis. Portfolio and event studies typically used perception-based data whereas correlation analysis must use quantitative measures.

Portfolio analysis involves comparing the stock value or return of a group of firms screened for particular characteristics to a group that do not have those characteristics. According to Wagner, the results of such studies showed that application of an environmental screen did not necessarily penalize an investment fund. He states that several screened portfolios outperform unscreened ones to different levels of significance (Wagner 2000). These results are true of portfolios of firms from the same industry and those across several industries. In the latter case the overall rate of return is limited by the lower average rate of return of lower risk industries. However, taking into account a real financial market example, such as the Dow Jones Sustainability Global Index which is screened for sustainability, the performance companies screened has not consistently been better than that of the rest of the market in a back cast using historical data.

Event studies assess market valuation of stock price after a positive or negative environmental event in the short term. Wagner points out that studies over a wide range of manufacturing industries showed that significant positive returns occur after positive events and negative returns occur after negative events. Furthermore, he claims, that only event studies are indicative of causal relationship between environmental and financial performance (Wagner 2000). However this is only in the case of stock market performance with the presumption that the direction of cause and effect is from environmental performance to financial performance. The literature review indicates that event studies typically show results in the direction of the nature of the event, that is positive events impact stocks positively and negative events impact stocks negatively.

Financial theory of the firm and *driver*s and *barrier*s of repositioning

Several reviews of the extant research exist, a comprehensive one can be found in Griffin and Mahon (1997). The hypotheses that CSP is evaluated and priced by the financial market, and can be used to predict the financial performance of a firm has been repeatedly tested and several explanations have been offered. The impact on the unique risk firm in the financial market has likewise been tested (McGuire 1988). Further, the impact of boycotts for social reasons on firms' cost of capital and financial performance has been tested several times, cf. Grossman and Sharpe (1986), Waddock and Graves (1997), Teoh, Welch and Wazzan (1999). The results are ambiguous: several studies final a positive correlation between sustainability and financial performance and several finds none, or a negative performance. Thus there is support for the notion that the financial market can function as a *driver* for *sustainable repositioning*, at the same time as it can conceivably work as a *barrier*. Several competing explanations exist for either category of results and this is also compounded by the causal ambiguity of the tested hypotheses, which implies that good financial performance causes better sustainability performance or *vice versa*. This implies that one can explain sustainable repositioning in at least two ways from a theory of the firm perspective: financial performance drives repositioning, or the sustainable repositioning of a company causes improved financial performance of companies. Several reviews of this research exist as mentioned above, and we use the review by Pava and Krausz (1996) as an example. The study reviews 21 studies conducted in the time span of 1972 to 1992 and reports as their "single most important observation, that 12 out of the 21 studies reported a positive association between CSR and financial performance" (op cit., 9).

An analysis of the contributions of theories of the firm

The two theories analysed in this section focus on different aspects of *sustainable repositioning*. The main difference between the two lies in whether the managers of firms are assigned a role in *sustainable repositioning* at all. From the perspective financial theory of the firm the role of managers is not important while the agency perspective emphasizes the importance of the relationships between owners and managers. These differences means that the two types of theories of the firm are best suited to somewhat different analyses. The financial theory of the firm can be used to analyse situation where the specific interest of owners or managers are relatively unimportant, e.g. when the effects of general shifts in preferences in the financial market towards sustainability are researched. The agency theory of the firm is better suited to research in situation where the differences of objectives between owners and managers of firms may prevent or drive *sustainable repositioning*.

The market as a driver

From the perspective of financial theory, when investigating the effects of the market on firms, "sustainability pressure" can only be experiences thorough price signals in the markets for the products of firms. A resulting *repositioning* of a firm must then be interpreted as instant price adjustments in the markets for products according to the laws of supply and demand, i.e. the market forces work as *drivers* or *barriers* of sustainable repositioning depending on the specific conditions in an industry or the economy. However, the market is limited in the sense that it in itself relies on the preferences of investor to take the carrying capacity of the global eco-system into account, cf. Daly (1992) Since the internal organisation of firms is regarded as inconsequential within this perspective any *barrier*s or *drivers* are consequently exogenous to the firm and should be analysed as factors affecting the supply and demand for product with particular attributes making them more or less sustainable. Most applications of this theory related to sustainability pressures have investigated how financial markets evaluates assets and if information about the environmental or social performance of firms have an influence on the aggregate market value of a large population of firms.

Owners, managers; costs and benefits as drivers for sustainable repositioning

The relevance of the agency perspective is based on the fact that companies use natural and social resources to increase the wealth of investors. The managers, as agents of a firm's investor, strive to produce more goods and services at a higher profit margin. This leads to managers' searching for larger amounts of cheap raw materials, less costly production processes, and efforts to increase output prices. Usually, or at least often, this behaviour has resulted in a degradation of the natural environment. A repositioning from this perspective would have to be analysed in terms of corporate governance: the owners of firms would have to give the mangers of firms that they investing the responsibility to the managers of firms to change their behaviour. Thus the *drivers* and *barrier*s both emanate from the nature of the relationship between a firm and its owners, where the former hold the initiative, and the latter are assigned a passive unless sustainability pressures require repositioning to maintain the profitability of firms. This means that profit opportunities as well as the potential for cost savings are important *drivers* for *sustainable repositioning*. Pressure from investors preferring repositioning could be an important *driver* as well. Many institutional investors represent special interests related to sustainability, and a growing proportion work to influence the managers of the firms that they invest in, SIF (1999). *Barrier*s to repositioning are formed by disinterested investors who do not favour repositioning. Likewise difficulties in envisaging profit opportunities serves as a disincentive to managers acting in the interest of shareholders

Sustainable repositioning as a stakeholder response

The stakeholder perspective is an established theoretical framework within the organisational field to analyse key actors in the company environment – so called stakeholders – and their influence on company behaviour. Many studies during the last decade have explained companies growing interest in environmental and social issues as a stakeholder response, showing how companies interact with important actors in their environment to understand the challenge of sustainable development (e.g. Fineman, 1996; Grafé-Buckens and Hinton, 1998; Terrvik, 2001; Madsen and Ulhøi, 2001). In the following section, the concept of sustainable repositioning will be explored from the stakeholder perspective, focusing drivers and barriers of change.

Key concepts and focus of the stakeholder approach

The stakeholder model originated from ideas that described companies' efforts to create equilibrium with actors in their environment, i.e. a balance where each stakeholder must receive satisfactory benefits for their contributions to the organisation (Barnard 1938; Simon 1947). The idea that corporations interchange with stakeholders in a relationship of mutual dependency were developed and launched as "the stakeholder approach" to strategic management by Freeman in 1984. This publication was followed by numerous articles and books on the subject in both academic and professional management literature (e.g. Alkhafaji 1989; Brummer 1991; Carroll 1992; Hill and Jones 1992; Clarkson 1995; Rowley 1997) and has been described as a landmark book (Donaldson and Preston 1995). These authors concluded that, although the stakeholder perspective embraces many and even diverse evidences and arguments, the literature shows acceptance of the idea that stakeholders' are persons or groups with legitimate interests, ownership or rights in a firm and its activities. These interests can either be based on legal, economic, moral and/or self-perceived claims. Stakeholders have been classified into *primary* and *secondary* stakeholders (Clarkson 1995), where the former represent those whose direct participation or input are required for the firm to survive (i.e. owners/shareholders, investors, employees, suppliers, customers, competitors and even nature itself) and the latter represent stakeholders indirectly influencing the company (i.e. regulators, local communities, social activist groups and business support groups). Stakeholders are identified by *their* interest in the corporation, whether the corporation has any corresponding functional interest in them (Donaldson and Preston, 1995). Stakeholder management requires simultaneous attention to the interests of *all* appropriate stakeholders, and stakeholder analysts argue that there is no fixed priority of one set of interests and benefits over another. Stakeholder management is thus about handling stakeholder relationships and the multiple and often conflicting interests within the complex web of stakeholders that surround the company. According to the stakeholder perspective *change* is taking place when new ways of thinking and/or acting emerge as the firm interact with stakeholders demands.

The stakeholder approach was further extended to include stakeholders' interest in company's environmental and social activities as academics in the mid 90ies started to use the stakeholder model for presenting environmental claims on companies in different industry contexts (Clarkson 1995; Fineman and Clarke 1996). Their study recognized that there has been an increasing pressure from a growing number of stakeholders pushing the business community towards improved environmental performance. The figure below summarizes stakeholders constituting environmental pressures on companies according to the studies mentioned here.

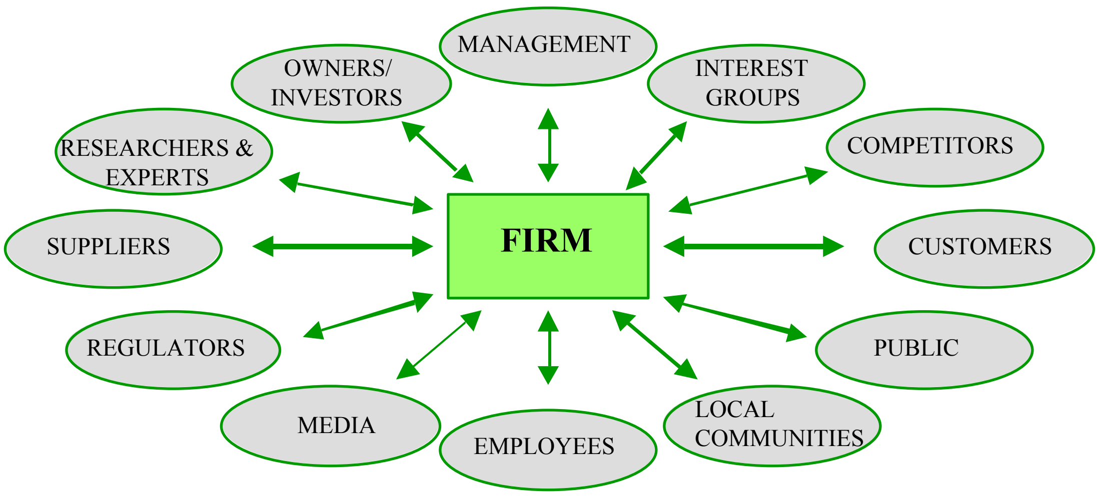

Figure 1 The stakeholder model for corporate social responsibility

This model displays that the number of stakeholders that affect and are affected – directly or indirectly – by environmental consequences of company's business activities, exceeds the number of stakeholders that hold economic interests in the company. It must be emphasised that these stakeholder interests does not primarily concern economical interests in the company, but rather interests in the environment, human health, security aspects, social responsibility and ethical considerations. In the process of analysing claims from different stakeholders it becomes obvious that there are tensions and conflicting interests between different interest groups. Managing large and complex stakeholder relationships in the area of environmental issues may soon become a normal management task in many companies, as it already is in some environmentally pioneering companies (Madsen and Ulhøi 2001).

From the stakeholder perspective ***sustainability*** would be defined as a result of the company interacting with stakeholder demands for a more environmental, social and ethical behaviour. Consequently, if there were no stakeholders for the environment and company social responsibility, sustainable change would not take place.

Drivers and barriers according to the stakeholder model

Studies exploring sustainable strategies in companies from a stakeholder perspective show that initiatives at different levels, inside as well as outside the firm, can stimulate or prevent sustainable change. ***Drivers*** from this theoretical perspective are then actors pushing the company to introduce sustainable activities, thus stimulating change, while ***barriers*** would be actors preventing such change to take place. The possibility for a stakeholder to influence the process, e.g. act as a driver or barrier, is based on the ability to exert influence over the company through personal or group impact, power and negotiation strength etc.

Empirical studies indicate that regulations are no longer the dominating driving force in the greening process of industry, rather initiatives are increasingly adopted by companies to reduce costs or exploit market potentials, but also as a response to increasing pressures from other stakeholders depending on type of business (Fineman and Clarke 1996; IBEB 1993-2001; Madsen and Ulhøi 2001). These studies of how managers perceive stakeholder pressure show that influence consist of a mix of primary and secondary stakeholders and that it is expected that the pressure from different groups of stakeholders will exert an increasing influence on companies environmental behaviour in the future. According to these studies the most influential stakeholders on environmental initiatives are identified as *regulators, owners and investors, management, employees, customers, interest groups and media*. Even though these stakeholders are perceived to influence company behaviour, there are also forces preventing companies from introducing sustainable concerns. In the following a critical perspective will be applied on these so called driving forces of sustainable issues, leading to the identification and exploration of some significant *barriers* for sustainable change of business.

Lack of legislative continuity and international harmonization

Although national legislators and local communities are perceived as important drivers for the environmental performance of companies, managers have called for international harmonization of legislative activities and also for long-term stability of such regulations, since the variations and fluctuations of legislative initiatives is perceived by managers as a barrier for sustainable strategies (IBEB 1993-2001).

Customer diversity and lack of consistent behaviour

Customers are claimed to be a key driving force in the greening process of companies, however, it must be pointed out that customers is a highly diversified group (B2B, B2C, different customer segments etc.) Thus, customer pressure should not be generalised, as is commonly the case in analysis of environmental drivers, since pressure exerted and willingness to adopt sustainable consumption patterns can vary significantly between different categories of customers. Also, there is the problem of consumers not acting according to their stated preferences for the environment (e.g. Hines, Hungerford and Tomara 1987; Vining and Ebreo 1992; Dunlap, Gallup and Gallup 1993; Scott and Willits 1994; Dobers and Wolff 2000), making it difficult for the company understand the market pressure.

One-issue focus and switching agenda of media and NGOs

Media, non-governmental organisations and other campaigners have influenced companies' interest in sustainable issues significantly over the years and contributed to business changing behaviour. However, there are some problems related to the pressure from such interest groups. Firstly, the one-issue focus, where the campaigners not having to consider all parallel interests that has to be dealt with from a management perspective. Secondly, their focus on issues that are easy to community and create a public opinion around, even though these issues might not be the most relevant from an environmental perspective, for example Green Peace campaign on TCF-paper (Totally Chlorine Free, IVA 1994), the campaign against the oil rig Brent Spar, where an interest organisation created a public opinion by choosing their media villains; a UK bad-guy story and a already criticised multinational like Shell, in order to attack the whole oil producing business (Backer 2001). In this case, the NGO anticipated media's preferences for reproducing mythical stories through the use of techniques such as predetermined questions, systematic use of visual turns and carefully designed visual units that rejected or supported the verbal arguments in the news stories (ibid. 2001). A further problem from a management perspective is the opposing demands from different interest groups as well as the shifting focus over time of these groups, making it difficult to form a company response. Companies cannot afford to risk negative publicity and has to respond, even if the campaigners may be factually incorrect.

While critical actors can constitute a barrier for a sustainable development of companies, research has identified some important *drivers* for change. Here we will emphasise some critical features of the stakeholder pressure for sustainability.

Personal initiatives and the concept of the political economic person

Employees play a crucial role in the greening process of companies and management support is reported to be crucial for the possibility to incorporate environmental and social issues (Fineman and Clarke 1996; Strannegård 1998; Lundgren 1999; Terrvik 2001). Söderbaum (2001) introduces the concept of the Political Economic Person as an alternative to the Economic Man and suggests that human beings are responsible actors with many roles, acting in a changing context from specific positions. Taking environmental issues seriously may lead to a questioning of simplistic ideas about business in terms of profits and shareholder values, which is presented as a competition between alternative schemes of interpretations.

Investors and financial institutions as a driver of company social responsibility

Another important stakeholder group that has come to focus in recent years is the financial market (Dobers and Wolff 2000). Financial institutions are expected to screen industry from an environmental point of view to evaluate environmental risks and liabilities. It is proposed that environmental and social risks in companies will have a negative impact on their long-term shareholder value. The research along these lines is described in the previous section.

Networks of actors joining in cooperative efforts

It is important to notice that some individual stakeholders belong to more than one group, which have the implications that each individual will have to be recognized as being potentially different from all others and that the individual may have a heterogeneous stakeholder profile, e.g. employee, consumer, neighbour to the company and member of an environmental interest group simultaneously. Madsen and Ulhøi (2001) points out the fact that the identity of stakeholders is becoming blurred; as individual actors assume roles in more than one context and at the same time the boundaries of the firm are becoming increasingly fuzzy as globalisation and networking increase. Sustainable development is increasingly seen as a fragmented set of ideas and initiatives arising in networks of actors. The success of a company can be seriously affected by its stakeholders and failure to respond to stakeholder concerns can lead to unresolved conflicts. Companies are increasingly seen in relationship to a dynamic network of stakeholder interactions, which are becoming progressively more influential over company choices and actions, but at the same time therefore more difficult to assess (Roome 2001).

Contributions and limitations of the stakeholder approach

Stakeholder theory provides a framework for explaining companies' increasing environmental and social initiatives in situations where there are no obvious business opportunities or potential for increasing short-term shareholder value. The stakeholder approach contributes to the understanding of why industry has started to seriously address these issues even if uncertainty is high and win-win solutions are rare (Walley and Whitehead 1994). ***Sustainable repositioning*** from this perspective would mean shifting interest from the view that business interacts with external parties only through the market, as proposed by the perspective of the theory of the firm. Sustainable repositioning is then based on an understanding that the firm has many non-market interactions and that stakeholders can possess other interests than purely economic on a company, such as political, cultural, moral and ethical interests.

Concerns about complex environmental and social consequences of industrial activity have provoked the need for more frequent and meaningful engagement between companies and their stakeholders (Roome 2001). The environmental stakeholder model suggest that companies have become increasingly aware of the input to their activities from a range of stakeholders, beyond their traditional focus on interaction with regulators. Corporate environmental management include improving corporate relationships with various stakeholders, which makes it necessary for companies to try to identify these stakeholders and assess their influence. Each of these stakeholder groups has a specific set of priorities and expectations and thus different possibilities to influence the company's environmental behaviour.

The actual influence of various stakeholders on sustainable change processes in companies is, however, difficult to evaluate. As many authors point out the stakeholder approach has some critical limitations; i) The different stakeholders are visually presented as if their power and influence would be the same, while they in fact put quite different claims on the company. The stakeholder model does not express to what extent pressure is exerted, since this is also a question of how it is perceived by critical actors in the company. ii) The categorization of stakeholders in general groups, such as customers, interest groups, researchers etc. suggest that these groups form a homogenous pressure. However, as pointed out in the analysis of barriers, the opinions within each stakeholder may differ significantly, e.g. opinions differ between small contra large shareholders, financial institutions use different criteria in evaluating companies environmental performance, research reports on environmental damage caused by different activities differ etc. The large number of stakeholders and the fact that these do not share the same opinions, even within a certain stakeholder group, makes it difficult for companies to evaluate the pressure exerted by different stakeholders and makes it impossible to adjust a behaviour that satisfies all stakeholder demands. iii) The challenge is further strengthened as the pressure from different stakeholders changes over time due to new research findings, new knowledge, changed values in society, changing power relations between stakeholders etc. The problem with the stakeholder model is that it gives a static picture that does not reflect the way pressure continuously is changing. iv) Madsen and Ulhøi points out risks of biased interpretation of stakeholder pressure, due to managers crucial role as mediators of stakeholder influence. Managers may favour certain categories of stakeholders over others due to predisposed expectations of the power and relevance of different stakeholders. This can critically influence the interpretation of existing pressure and thus influence company activities. Another related problem pointed out by these authors may be caused by the distinction within stakeholder theory between primary and secondary stakeholders since this can lead some managers only to pay attention to primary stakeholders, although empirical research clearly point out that secondary stakeholders, such as media and interest groups, have had significant influence on company environmental activities the past decades.

The stakeholder approach still needs to deal with some unanswered research questions. Stakeholders are often discussed separately, however there is a need to explore how different stakeholders interact to create pressure on companies and to investigate how companies form their picture of stakeholder pressure. Also, research indicate that the amount of pressure directed to a certain company depends on the position in the value chain, i.e. different actors in the same value chain may be exposed to different levels of stakeholder pressure (Terrvik 2001). These findings can explain why one actor can break out and take proactive actions, while other actors in the same value chain may not have recognized the challenge at all. Since sustainable strategies need to take a life cycle perspective and all actors in the value chain need to be involved to change unsustainable production and consumption patterns, such differences in stakeholder pressure along the value chain could be interesting to explore further.

Sustainable repositioning as an institutionalisation process

In the following we will explore how company sustainable strategies has been explained in institutional terms, for example as a legitimising activity (Meyer and Rowan 1991), as a paradigm shift (Halme 1997), as a rhetorical management effort to create a homogenous company ideology (Strannegård 1998), as a process of mimetic isomorphism (Lundgren 1998), and as an ongoing translation process (Heiskanen 2000; Terrvik 2001). Institutional studies have covered different industry sectors and point out that companies interpret the sustainability concept depending on their specific context.

Key concepts and focus of the institutional approach

This theoretical perspective is interested in how actors are influenced by existing institutions within their organisational field. The institutional literature embrace several different definitions of institutions, however, these have some characteristics in common; institutions are dominating and taken-for-granted ways of thinking and acting. Institutions can explain human thoughts and actions, as they guide us in different situations and put restrictions on actions, perception and memory of individuals (Douglas 1986; Weick 1995). Institutions then has the character of an objective reality (Berger and Luckman 1967) and can be uncovered first in times of change as people have reasons to rethink their ways of acting or perceiving things (Czarniawska and Sevòn 1996). Rationality lies in our unreflective expectations of what is an appropriate behaviour in a given situation and can thus only be understood in a specific context. In this sense rationality is local and contextual (March and Olsen 1989). Individuals strive to create meaning of events and thus look for ways to account for their actions (sensemaking, Weick 1995).

The concept of ***sustainability*** is, from an institutional perspective, regarded as a social construct, perceived differently by different actors and in different contexts. Differences in perceptions of what is a sustainable behaviour may be explained by the fact that the theoretical definition of the sustainability concept is open for interpretations, and that the different understandings of the concept can be explained as "reality constructions" (Berger and Luckman 1967). The relative nature of the sustainability concept implies that it is important to study how it is being implemented in different companies.

The institutional perspective has a potential for analysing how the sustainability concept are being interpreted by actors inside as well as outside of companies (Carley and Christie 1993; Jennings and Zandbergen 1995; George 1999 etc.). Institutional studies aim to understand how dominating institutions influences companies, as they try to integrate ecological, social and ethical issues into their business strategies. Sustainable strategies in companies are part of a larger context and are impossible to understand without uncovering institutions that influence this process. The recent popularity of the institutional perspective reflects that management is a process that is highly influenced by existing norms, values and ideas in the society. The company environment is no longer only interested in the products and/or services created by the company. Organisations are evaluated by the structures, processes and ideologies they use (Brunsson and Olsen 1990). This means that beliefs and values held by the most important actors in the environment are part of a cultural order that is relevant for companies.

According to the institutional perspective change is taking place as companies translate ideas into actions in a more or less unreflective process. The concept of *translation* is a key concept in analysing change and is defined as the process whereby ideas materialize as organisational members interpret their environment (Czarniawska and Sevon 1996). From this perspective, the sustainability concept can be treated as a linguistic artefact that needs to be interpreted to make sense, or in other words, translated into different contexts to become meaningful (Callon and Latour 1981; Czarniawska and Sevon 1996; Latour 1998). Terrvik (2001) argues that sustainability, as well as other complex issues confronting managers, requires that companies handle *two parallel translation processes*. On one hand the company need to work with agenda setting, understanding and influencing important actors in their organisational field to be able to define their mission and objectives. On the other hand the company is under pressure to turn their missions into actions and actual products. In the first process the sustainable pressures are being translated into a company mission, and in the other process the ambitions must be translated into actions and implemented along the whole distribution channel. In company practices both these translation processes are going on simultaneously, where the actors involved in the process learn from their organisational field as well as from their actions.

Analysis of barriers and drivers from an institutional perspective

Drivers from this perspective would be institutionalised values, norms, routines and action patterns that further a sustainable development, while ***barriers*** would be such deeply held and widely spread ways of seeing and doing things that prevent change to take place. Institutional barriers can thus be defined as dominating and for-given-taken beliefs, values, norms and action patterns that limit the possibility to introduce sustainable concerns in companies. These barriers can stem from habitual behaviour or lack of questioning that prevents companies from making the revolving changes needed to achieve sustainable change. The character of these <u>*barriers*</u> are explained and exemplified below. Institutional drivers and barriers are discussed under two main categories; dominating ways of seeing things i.e. beliefs, norms, values, and ways of doing things, such as action patterns and routines.

Non-sustainable beliefs, norms and values

Issues of sustainability, such as environmental degradation, poverty and health issues, have been described as insecure, complex and diffuse meta-problems (Wolff 1998; Roome 2001). Consequently, problems and their solutions are subjects of ambiguity, uncertainty and conflicting opinions and interests. Insecurity surrounding company strategic approaches to strive for sustainability make dominating beliefs, norms and values of key importance. Examples of such institutionalised ideologies in business are the *maximisation of short-term profitability* and the *efficiency ideal* discussed earlier, with the effect that sustainable activities will only be introduced if profitability can be guaranteed and the use of resources is optimised. As a consequence a significant part of management research during the 90ies was occupied with exploring whether environmental work of companies could be motivated in financial terms or if these activities only generated costs. For example there was a debate going on where one side argued that harder environmental regulations have positive influence on company profitability (Porter 1991; Porter and Van der Linde et. al. 1995), while the other side argued that stricter environmental legislation is costly and threatens the existence of many companies (e.g. Palmer, Oates and Portney 1995). Another established norm represented in professional and academic change management approaches is that *change takes place within a single company*. However, sustainable repositioning of one single company is not possible without learning and actions taking place throughout the distribution chain. Different actors in the organisational field bring specific knowledge and competence into the process along the product life cycle. Institutionalised norms and beliefs about the business society have been questioned as a result of the introduction of the sustainability concept and many authors have called for a paradigm shift (e.g. Fischer and Schot 1993; Shrivastava 1995; Gladwin, Kenelly and Krause 1995; Hart 1997). Halme (1997) use the concept of institutional isomorphism in analysing the evolution of new paradigms as companies try to incorporate ecological issues into their business strategies. The study shows how *conflicts between ecological and conventional paradigms* prevent change from taking place.

Non-sustainable action patterns and working routines

Institutionalised ways of acting, guided by habits, working routines and standard procedures may prevent sustainable change from taking place. This can be exemplified here with the problem of *environmental standards as conservators*. The last decade legislative restrictions have been introduced and criteria for environmental labelling of products have been developed in order to support a sustainable development. Although this is a necessary and important process, there is a risk involved if these environmental standards work to restrict company creativity and innovations, which is the case as companies passively comply to existing standards and recommendations rather than to look for new, inventive alternatives. The way the majority of regulation and labelling systems are constructed today, there are no incentives for companies to introduce higher standards pushing development in a sustainable direction. The fact that about 90 percent or more of some product categories such as household paper, batteries, detergents and household chemicals are environmentally labelled, indicate that the standards are not pushing development forward[1]. In these cases, regulations and standards work as a conservative norm and cement ways of perceiving and behaving, thus

[1] Swedish grocery retailing statistics, finns europeiska, internationella siffror??

functioning as a conservator rather than a stimulator of change. Industry preference for *de-coupling environmental and social activities* from ordinary business practices is another example of problematic behaviour from a sustainable perspective. In spite of increasing legitimacy of environmental and social concerns in business, these issues to a large extent still are treated separately from other strategic issues in companies (Wolff 1998; Banerjee 2001). Even if many companies today have environmental managers and introduce specific environmental policies, objectives and activities to improve their environmental performance, most of the work has the character of a side-activity. Examples of strategies taking place separated from core business are green private brand strategies in the grocery retailing sector (Terrvik, 2001), oil industry creating separate companies for renewables (Beausang 2001). These activities can be explained in terms of de-coupling (Weick, 1976, Meyer and Rowan 1977) as they allow for environmental activities to be treated separately. Those interested in ecological and socially responsible products and activities are now provided with a product alternative. In this sense they can be described as a way of protecting the conventional business from direct environmental claims and companies can continue "business-almost-as-usual". Some label these activities "greenwash", on the other hand such side activities may represent the only available possibility for conventional industry to experiment and learn about sustainable behaviour. The possibility to de-couple ecological activities from other operations can, in fact, help to explain why companies can introduce ecological concerns at all, in a business world dominated by the ideals of economic growth and profitability. Nevertheless, the fact that sustainable concerns are not integrated in business strategic processes limits the opportunities to create long-term sustainable production and consumption patterns.

While institutional barriers towards a sustainable development of industry still exist, studies indicate that we can also speak about an increasing institutional pressure for sustainable issues in industry; here we explore such institutional *drivers*.

Environment as a taken for granted and legitimate business activity

Today there is few major companies that has *not* considered environmental aspects of their activities, it has become common order and companies tend to imitate industry "best practice" when it comes to sustainable activities. The adoption of environmental considerations in business is increasingly driven by commonly shared ideas of appropriate behaviour. Lundgren (1999) refers to *mimetic forces* as drivers of sustainable business strategies, i.e. the fact that environmental considerations are increasingly seen as "a taken-for-granted part of modern business" (ibid. 1999:174). This is exemplified by how financial institutes in the late 90ies imitated industry response to the environmental challenge without questioning whether it was relevant for this type of business to introduce environmental activities such as environmental policy, environmental manager, environmental purchasing routines, green products, environmental reports and environmental management systems. It was suddenly expected that the service sector would follow the industry way of dealing with environmental issues, although environmental issues before mid 90ies where seen as irrelevant in banking. The environmental implications of these activities may, however, be questioned. Organizations do not necessarily conform to a set of institutionalised beliefs only because they constitute reality or are taken for granted, but often because they are rewarded for doing so through increased *legitimacy* and survival capabilities (Meyer and Rowan 1977). By adapting to the prescriptions in the institutional environment an organisation demonstrates that it is acting on collectively valued purposes in a proper and adequate manner, in other words, the organization becomes legitimate and it uses its legitimacy to strengthen its support and secure its survival. Failure to incorporate the proper elements of structure is looked upon as negligent and irrational (Meyer and Rowan 1991). As issues of safety and environmental pollution become institutionalised in laws, ideologies and public opinion organisations incorporate these programs and professions (ibid: 45). The concept of legitimacy also emphasises that a certain degree of institutionalisation of values and norms is necessary before society is ready to accept will accept legislative activities. One example of a widely adopted guideline for business is *the precautionary principle* that has become institutionalised in company environmental policies and encourages companies to include environmental considerations even if these are based on uncertainty. The growing attention to the concept of *corporate social responsibility* in management practice and organisation studies may allow for discussing sustainable issues in non-economic terms, emphasizing company responsibility, company ethics and corporate citizenship. The *concept of sustainability* itself has become a widely spread and generally accepted ideal in society and in the business community. While the role of business in the process of introducing sustainable production and consumption patterns were highly debated before the 90ies and many companies took a passive stand, awaiting legal restrictions or competitor actions, there is today little or even no debate on whether companies have a key role and social responsibility in the greening process of industry. Efforts to balance economic, environmental and social considerations and dealing with conflicting objectives are becoming a strategic and every-day management task.

Sustainable working routines and procedures

New procedures and routines have been introduced as a result of company efforts to introduce sustainable concerns, occupying a growing number of employees within as well as outside the companies. New routines incorporating environmental and social considerations increases the possibility that companies develop strategies that are long-term sustainable. We will discuss some characteristics of the institutionalisation process of sustainability, such as automorphism, local translations, the use of rhetoric and institutionalised discourses. Based on a study of environmental strategies in three different industry sectors Schwartz (1997) explains the variety of approaches used in dealing with sustainability issues with the concept of *automorphism,* which state that companies tend to handle environmental demands in the same way they have responded to change earlier, i.e. companies use strategies and solutions that have proven successful from a historical perspective. Aspects such as technology and company management are found to be of critical importance in the institutionalisation process. This means that the strategies and arguments used can vary significantly between different companies. The fact that the sustainability concept from an institutional perspective is seen as a socially constructed concept means that it can be interpreted and translated in various ways, which imply that problems and solutions varies as well between different companies as over time (Terrvik 2001). This opens up for business opportunities since it provide room for creating unique competitive advantages and profiling possibilities, while change driven by legal restrictions can lead to standard solutions and conforming behaviour. The opportunity for local solutions compliable to the sustainable development concept enables a business perspective on environmental activities. *Rhetoric* is of key importance as sustainable concerns are introduced in a company context. Strannegård (1998) explores an environmental change effort in an appliance production company, which aimed at institutionalising sustainable concerns in the company. This study shows how a business-driven environmental ideology emerged from a variety of ideas triggered by a number of pressures and experiences, which together formed the ideology. In order to homogenise a coherent company perspective on environmental issues a change program was initiated which aimed at encouraging the organisation members to join a "thought-world" where the business-environment relationship was seen as obvious and potentially good for business success. The different elements of the ideology were propagated in the organization on different forum and the use of arguments differed depending on the forum used. This process was not driven by environmental specialists, rather by business people with experience in change management processes. In their efforts to institutionalise the ideology these people drew upon already *institutionalised discourses*, such as Market, Nature and Management. Affixing the right labels to activities can change them into valuable services and mobilize internal and external commitment (Meyer and Rowan 1991).

Contributions and limitations of the institutional approach

The institutional approach has proven useful in explaining how companies interact within their organizational field in their efforts to deal with the environmental challenge. Although the institutional approaches may differ, they all share the ambition to explain how company actions as well as accounts have changed as sustainable values and behaviours are becoming institutionalised in business. Institutional studies show that the realized strategy is not a result of internal considerations and strategy planning of the specific company, rather a result of how key actors are interpreting environmental demands and interacting with their environment. ***Sustainable repositioning*** from an institutional perspective would contain efforts to get rid of mental barriers and action patterns that prevent sustainable concerns to be implemented, and to introduce new values, norms and behaviours that guide company activities in a desirable direction. Sustainable repositioning occurs as values become institutionalised as actors through joint efforts achieve a coherent set of values, norms and routines that together form a sustainable ideology relevant for the specific firm.

This perspective allows us to understand how companies are restricted to act because of institutionalised values and behaviours, e.g. setting limits to what a corporation is capable of achieving. The process of operationalising the ambition of a sustainable development needs to be consistent with dominating organisational and cultural beliefs and values. That the sustainability concept is open for interpretations, between actors as well as over time, makes a sustainable development of business life a social process. Actors changing perspectives on what can be regarded as a sustainable behaviour are reflected in their actions and accounts. How the perspective on sustainability is changing over time is illustrated through the identification of dominating action patterns and beliefs related to the sustainability concept. By uncovering existing institutions about issues relating to sustainable change, it is stated that change may be prevented by taken-for-granted ways of thinking and acting in the organisational field. Growing knowledge regarding sustainability issues is continuously transmitted into company products and activities in a developing process, at the same time challenging previously taken-for-granted beliefs, values and routines. Changing accounts and patterns of behaviour indicate that existing institutions are being replaced by new ways of thinking and acting. The principles of Daly (1992) are successively being institutionalised and reinforced within companies and their organisational field. Some interesting questions for future research are related to how companies will continue to interpret the sustainability concept over time. How will sustainability be translated in different industry sectors and companies? How are the interpretations changing over time? How do companies learn to classify and standardise their interpretation of the sustainability concept?

Institutional studies ask “what is going on in the field and why?” and aim to explore how an identified phenomena is becoming institutionalised and what taken for granted norms lies behind existing institutions. The implication of this is that if industry is not institutionalising sustainable norms, values and behaviours, there is nothing to study. This can be regarded as a limitation from a sustainable perspective in the sense that this theory does not cover “what is *not* going on and why?" which is a critical question related to the normative pressures for sustainability.

Sustainable Repositioning from a Resource Based View

In this section we will use a resource-based view (RBV) for a discussion and an analysis of sustainable repositioning, barriers, and drivers. The core concepts of the RBV will be used as point of departure and the perspective will be applied in order to derive contributions of the perspective, limits and expose some gaps in the environmental management research. Environmental research has just recently started to apply the RBV and therefore there is a shortage of empirical studies on drivers and barriers that we can include in this section.

The RBV offers a framework that allow us to view the company from within as bundles of tangible and intangible resources that can be combined in order to provide a competitive advantage (Wernerfelt 1984; Barney 1986; Dierickx and Cool 1989). This perspective was developed as a complement to e.g. Porter (1980), which provides us with an analysis of firms' competitive advantage from external market forces. The internal perspective of the firm was successfully theorized at an early stage by (Penrose 1959), and has later been reviewed in two special issues in Journal of Management (Barney 1991; Barney, Wright, and David J. Ketchen 2001).

The definition we use here for resources is provided by Amit et. al. (1993), and they defines resources as "stocks of available factors that are owned and controlled by the firm". These resources can both be tangible such as property, plant, equipment, patents and licenses and intangible such as human capital and organisational routines. Resources are inputs into the production process (Grant 1991). Since there is a small risk of confusion between natural resources and the resources we recently defined we will not referee to natural resources in the text just as resources but always as natural resources. Central to the RBV is what a firm can do with their resources and Grant (1991) defines that ability as a firm's *capabilities*. The firm develop appropriate capabilities over time trough a complex interaction between the resources and with time they become unique to the firm (Amit and Schoemaker 1993).
In this paper we separate between capabilities and dynamic capabilities. Dynamic Capabilities refers to the firm's ability to create new knowledge and let go of old cf. (Teece, Pisano, and Shuen 1997; Teece 2000) whereas capabilities in general refers to a firms ability to deploy existing resources cf. (Grant 1991). We will soon show why we have done this separation of different types of capabilities.

The RBV has not been excessively used in analysing firms' environmental performance. Some authors though have argued that from this view that pollution prevention and product stewardship are strategic resources and capabilities that lead to a competitive advantage (Hart 1995; Shrivastava 1995). Other empirical investigations based on a RBV have found a positive correlation between environmental performance and economical performance (Russo and Fouts 1997; Hillman and Keim 2001).

In the following subsections we will try to show how the RBV has a potential to deepen the understanding why and why not a change towards a sustainable development is taking place as well the usefulness in considering innovation as source of renewing a firms strategic assets regarding the natural environment. This will be done through three main proposals. The first one is based on that the development of new strategic resources is mainly a path-dependent process (Dierickx and Cool 1989). We suggest that this path-dependent process may become the main potential barrier for a sustainable repositioning. The second proposal concerns the driver towards sustainable repositioning. We suggest that there is one main driver from the RBV and that is new business opportunities. The third proposal is that firms' dynamic capabilities play a central role so that they can act upon new business opportunities provided from a sustainable development.

Path dependency as a potential barrier of Sustainable Development

We will here discuss the first proposal about how a firm's path dependency can be a barrier for sustainable repositioning.

According to the RBV firms derive their competitive advantage through that the firms' resources are valuable, rare, imperfectly imitable and not substitutable (Barney 1991). These resources need to be cultivated and developed based on the firms existing resources (Dierickx and Cool 1989) and are not likely bought on the open market (Barney 2001). Market failure is an important ingredient in the discussion of how a firm can acquire a competitive advantage. Without market failure the resources could easily be bought and sold and would hence be easy to copy or buy. We will from here on referee to resources and capabilities that suffer from market failure to *Strategic Assets* cf. (Amit and Schoemaker 1993). Market failure and the importance of existing strategic assets for developing new strategic assets indicates that the firms development is a path dependent process.

Path dependency has been an issue for a long time but successfully theorized by Nelson and Winter (1982) and later used by e.g. Teece et. al. (1997). Teece et al. (1997) conclude that a firms available options and future direction depend on the choices the firm has made to reach its current position. Dosi (1982) defines the environment in which the trajectory moves as "model" and a "pattern" of solution of selected technological problems, based on selected principles derived from natural science and on selected material technologies, and calls it a "Technological Paradigm". The technological paradigm indicates therefore which option that will be available for the firm to choose from.

Naturally most paths oriented within a technological paradigm will not be such of endless growth. Levitt (1960) describes it with the following words "there are no "growth industries" only companies organized and operated to create and capitalize on growth opportunities". Sooner or later products no matter how refined products are through indefinitely numbers of incremental innovations will disappear in favour of new superior product developed within different paradigms (Utterback 1994). The end of certain products and/or industries comes with technology shifts and changes in the values and demands in the society. Schumpeter (1942) called this process for "creative destruction". A sustainable development according to Daly's principles may very well induce a creative destruction if business fails to adapt (Hart 1999).

Firms that risk facing creative destruction, caused by a shift towards a sustainable development, are firms that have existed before the natural environment and issues such as global warming were strategic business issues. It is in such firms the principles of Daly (1992) most likely have not been integrated. These firms will have difficulties in pursuing new business opportunities that occurs in a shift towards global sustainability. It is also these firms that will experience a shift towards a sustainable development as a threat and naturally work against such a development. The firm's path-dependent process therefore becomes the main barrier for a sustainable repositioning.

The notion of path dependency does not need to be a barrier for a sustainable development if the firms' products and services derived from its strategic assets does not violate the principles of Daly (1992). In such a case there is no call for sustainable repositioning.

Business Opportunity as a potential driver of Sustainable Development

In this part we will discuss the second proposal of how business opportunities become a diver for sustainable repositioning from the RBV.

In order for managers to develop and build rent generating strategic assets, they need to have an idea of what kind of resources and capabilities that are the key determines for rent generation as well as which once that suffer from market failure in the industry. Amit et. al. (1993) denote these factors for *Strategic Industry Factors* (SIF). The SIF consist of the firms' external environment e.g. rivals, customers, substitutes, entrants, suppliers and environmental factors (technology, regulation etc.).

As argued in the introduction of this paper, the principles of Daly (1992) are continuously becoming more and more integrated in the society and influences therefore the strategic industry factors and change the premises of competition. Customers have increased their awareness of environmental issues and demand as are willing to pay more for environmentally sound products (Roe et al. 2001; Batley et al. 2001; Bhate and Lawler 1997). With new incentive based environmental regulation the market is stimulated and new opportunities are opened for business able to capitalized these new opportunities (Porter and Van der Linde 1995; Markusson 2001; Murphy and Gouldson 2000; Feiock and Stream 2001; Palmberg 2001). The external influences have already been discussed in the stakeholder approach in this paper and will therefore not be further discussed here.

We simply conclude that an alteration in the SIF results in new market opportunities and a demand for new solutions adapted to the principles of Daly (1992). Since this alteration takes place one can also expect an increased competition in sectors where firms from different technological paradigms may provide new solution better suited for a sustainable development.

The rather new demand for renewable energy is one example of an alteration in the strategic industry factors. The demanded solutions calls for diversification and open up market for companies with competencies in solar/electronic application, batteries for the fuel cell market, and many new emerging companies within wind power technology. The result is a stiffening competition for incumbent energy providers.

The story might go on for the next generation of vehicles, which may resemble computers more than traditional vehicles (Hawken, Lovins, and Lovins 1999), and this may open up for diversification of companies with no tradition in car manufacturing.

In industry sectors with previously little or weak competition, dominated by firms that use resources inefficient a stiffening competition may provide an increased incentive for firms to operate according to the principles of Daly (1992). Since inefficiency with natural resources is not only a waste of money for the firms themselves but also a waste of customers money. A commonly stated example of this is the petroleum-based vehicles of today where the energy efficiency for transportation is one percent (Hawken, Lovins, and Lovins 1999). As a result of its inefficiency owners of petroleum-based vehicles waste 99 cents on the Euro by heating up the air around the car and moving the weight of the car forward.

Through identifying industries with high resource inefficiency it may be possible to identify areas of innovation beneficial for firms, customers and the economy as such.

All investments required in order to adapt the business to a sustainable development may not be associated with a positive trade-off as suggested in Porter and Van der Linde (1995). There may very well be costs that are necessary to take just in order to stay in business at all in the long term (Walley and Whitehead 1994).

An analysis of the contributions of the Resource Based View

We have now briefly discussed various aspects of the resource based view of the firm, path dependency as a barrier, business opportunity as a driver and the development of dynamic capabilities as a way to seize the business opportunities. What remains is to summaries and debate which conclusions that are possible to derive from the resource-based view of the firm.

The different concepts we have discussed have been illustrated in figure 2. A firm's dynamic capabilities is the focal point in this analysis since they allow the firm to act upon new business opportunities if they are well developed. Figure 2 illustrate how the dynamic capabilities interact with the strategic industry factors and the firm's current strategic assets. The dynamic capabilities are therefore path dependent in a sense, even if they allow old strategic assets to be destroyed cf. (Eisenhardt and Martin 2000). On the other hand if the dynamic capabilities of the firm are not developed or underdeveloped the firm is set in its technological paradigm following a path that may lead to diminishing results. This is may be a result of an increased normative pressure favoring a sustainable development and an alteration in the strategic industry factors.

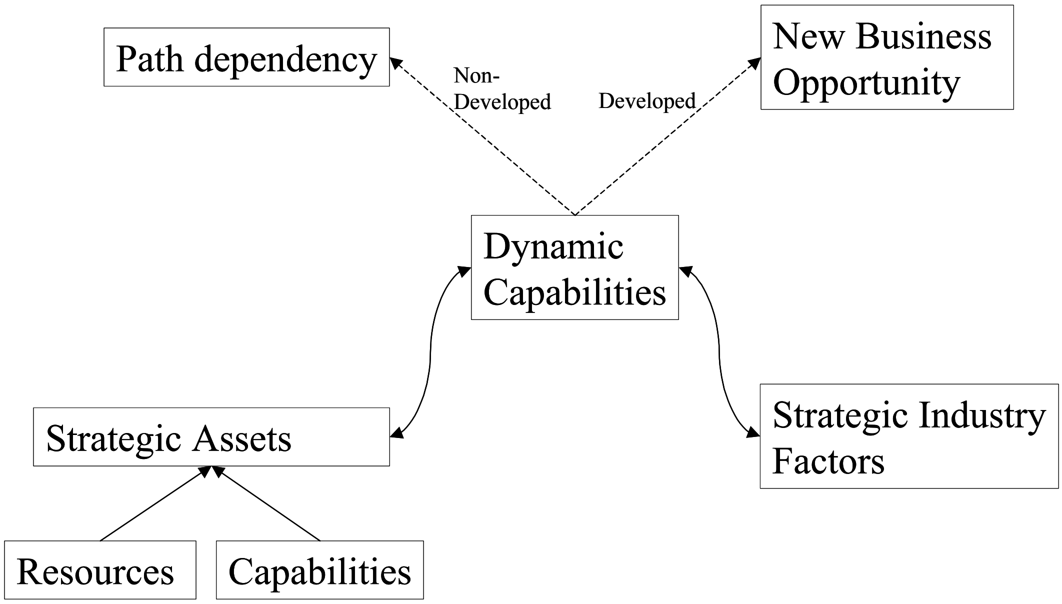

Figure 2: A schematic illustration of the linkages between the different concepts used in the RBV presented in this section.

The strength of the RBV is that it provide an internal perspective of how firm combine their resources as well as develop strategic capabilities that allow them to exploit their resources in order to create above normal returns.
Sustainable repositioning is from a resource-based view a matter of developing new strategic assets adjusted to a sustainable development. Thus this development encourages diversification of different forms depending on the industry and new strategic assets may for some firm be a change in what industry they serve. An oil company may change focus from extracting raw energy such as oil and gas to distribute energy in renewable forms as well as utilizing their knowledge of offshore work to establishing offshore wind parks. Other examples may be firms within electronics that may move into the transportation and energy sector.

From the RBV the main issue for firms is to recognize and create business opportunities that occur with sustainable development as well as avoiding being trapped with strategic assets that does not fulfil the principles of Daly (1992). The business opportunities that the firm themselves create together with their the customers, suppliers or government is seen as drivers for a sustainable development. The same with entering of new competitors in sectors of old virtue and traditions before sustainability was an issue and we see the transformation of low-velocity markets into high-velocity markets as a possibility of breaking up old industry structures that have not considers the principles of Daly (1992). In a similar manner we recognize strong path- dependency and inability to shift from one technology paradigm to another as a barrier of sustainability if the current paradigm violate to the principles of sustainability. The concept of path-dependency is therefore not a barrier in itself but a hinder to change, a change that may be necessary to fulfil goals in the society. A similar reasoning applies to new business opportunities that emerge from a shift in strategic industry factors. These may not be a driver for sustainability unless they are coherent with the sustainability goals.

We now derive to our three main conclusions based on the RBV of the firm:

1. We recognize firm's path dependency as the main potential barrier for sustainable repositioning.
2. Business opportunities that are a result of a norm pressure for a sustainable development are the main driver of a sustainable repositioning.
    a. This norm pressure may induce a creative destruction where new firms based on technologies from different technological paradigms out compete incumbent firms.
3. A firm's dynamic capabilities play a central role when strategic industry factors are altered in favour of a sustainable development.

The RBV is a relevant theory for analysing sustainable repositioning as long as sustainability goals can be transformed into business opportunities in one way or another. That takes an active government, customers, citizens and all other actors with the strength and the courage to internalise costs presently externalised giving non-sustainable technology an unfair competitive advantage over technologies designed not to degrade the natural environment. However, even then there will still be situations when we consider the notion of sustainable development when there can occur a conflict between what is good for us all and what is profitable business.

Conclusions

This paper has analysed the contributions and limitations of using four different theoretical perspectives, the theory of the firm, stakeholder theory, institutional theory and the resource based view for researching different aspects of the change in values, practices, and behaviour that many firms of today are exhibiting in relation to sustainable development. The paper has analysed a range of theoretical approaches to sustainable repositioning, which were selected by examining sustainability related research in academic journals. The concepts of sustainable repositioning, barriers, and drivers have been transformed into the terminology of each perspective. Thus, we demonstrate how each theoretical approach focus on different aspects of the change process, using the concept of sustainable repositioning as the common analytical concept. Table 1, below, is a summary of our findings. Sustainable repositioning is then a process that can be explored from different theoretical perspectives, where each approach has its contributions and limitations cf. Table 1. The table contains definitions of the concept, the drivers, and barriers of repositioning according to each of the four perspectives. Further, we identify different categories of drivers and barriers for change to take place, see Table 1. In short, these drivers and barriers can be categorized in the following main subgroups:

- financial barriers (supply, demand, costs and benefits, the division of responsibility of ownership and management)
- stakeholder barriers (actors, power, politics, society)
- institutional barriers (mental, practices)
- resource based barriers (path dependency and under developed dynamic capabilities)

Table 1: Evaluation of perspectives on sustainable repositioning

	Theory of firm	Stakeholder theory	Institutional theory	Resource-based theory
Definition of sustainable repositioning	financial market response to changes in investor preferences	stakeholder response	social construct	business opportunity
Company objective	shareholder wealth maximisation	balancing stakeholder demands, CSR	adaptation and diffusion	develop unique resources and capabilities
Motives for repositioning	preservation of firm's position at market equilibrium, control firm managers'	a search for equilibrium	conforming to social order, a translation process (selection of ideas)	Adjust internal strategic resources to strategic industry factors
What is repositioned?	Investor preferences, managerial behaviour, costs and revenues	stakeholder relations	values, norms, working routines	internal resources and competences
Definition of driver to repositioning	environmental and social activities that influence shareholder values and preferences, changes in costs related to business risks and opportunities	actors posing sustainable demands on the company	legitimate actions and accounts, mimetic forces, new sets of organisational routines, rhetoric	new business opportunities as a result of customer demand, government regulation, stiffened competition and market creation
Definition of barrier to repositioning	environmental and social activities that reduces profits or increases costs, market failures	actors complicating or obstructing sustainable change	non-sustainable beliefs and values, conservating standards and routines,	set with out-dated resources and capabilities, unable to renew or change to new circumstances

How can research findings based on studies from these different theoretical perspectives help to further define the concept of *sustainable repositioning*? The concept of sustainability is a complex concept that per definition contains ambiguities depending on what perspective is used. The consequences of applying this concept in a specific research projects related to strategic repositioning are numerous. The main conclusion of this paper is that theory has to be carefully selected to match the specific aspect of repositioning to be analysed. The following paragraphs summaries the main consequences of each perspective.

The main contributions of *the theory of the firm* to the analysis of sustainable repositioning are twofold, see the first column in table 1. First, the theory of the firm makes it possible to conduct research of the financial market reactions to the sustainable repositioning of companies. This type of research has been carried out regularly since the early 1970s at the latest (Bowman and Haire 1975), and continues to this day, e.g. (Halme and Niskanen 2001). This strain of research is also able to explain the importance of the limits imposed on repositioning by the profit-seeking behaviour of firms. Thus the contribution from this "theory" is concerned with the interface between the role of firms in free markets and the market effects arising from conducting company operations within scale and distribution limits cf. Daly (1992). The limitations of this research are that it is confined to analysing fairly large listed companies, where stock market data is available. The research of organisations such as SMEs using this approach would certainly fail due to difficulties in obtaining the necessary data. Another trait of the research is that the analysis is best suited to analysing aggregated quantitative data, and that the traditional simplifications that make sense on the aggregate level may be unrealistic at the company level.

The main contribution of the *stakeholder approach* is its potential for handling conflicting interest, admitting that individuals and groups can influence company behaviour through their position, power and negotiation strength. This perspective thus recognises that companies can have parallel objectives and that these are submitted to continuous changes. A limitation of the stakeholder perspective is the ongoing adaptation to company environment, neglecting the opportunity for strategic choices and internal processes of mobilising resources and creating company ideologies. This is critical from a sustainability perspective since automatic adaptation to powerful stakeholders includes risk for short-term solutions and changing priorities.

A major contribution of *institutional theory* is that it focuses on the institutionalisation of values, norms and behaviour within society, which are necessary to change before sustainable change in production and consumption patterns can come about. Further, this perspective allows for conflicting interests through the selection of ideas, opportunity for local solutions and variations over time. Another advantage with institutional analysis is that they take a process perspective, which is relevant for exploring business adaptation to normative pressures for corporate social responsibility. However, the institutional perspective emphasises macro processes, which have the implication that if sustainability is not recognised as an institution, this phenomena is not interesting to study.

The *resource based view* contributes with an internal perspective of the firm. It considers the process of sustainable repositioning as a renewal of a firm's resources and capabilities as an adjustment to business opportunities that have emerged from an alteration in the strategic industry factors. Were the alteration in the strategic industry factors is a result of an increased norm pressure for a sustainable development. A firm's dynamic capabilities allow the firm to act on business opportunities inline with a sustainable development. If firms within an industry that uses natural resources inefficiently do not have well developed dynamic capabilities they risk loosing emerging business opportunities to other firms entering from different technology paradigms. The RBV therefore has a potential to measure the internal firm activity both on a macro as well as a micro level considering the firms financial performance and environmental performance. The most obvious and perhaps greatest limitation with the RBV is that if the notion of sustainability fails to be translated into a business opportunity, firms have no incentive to change their course of action.

There is a tendency in business life to deal with environmental issues within isolated projects, experiments and not integrated into firm strategy. This is reflected in management research. We therefore conclude that the majority of research within the field of environmental management is based on studies of business adaptations on a project level, i.e. separate projects or strategies are being studied and pointed out as success stories or failures of incorporating ecological and social concerns. The challenge lies, however, no longer in launching isolated and ad-hoc environmental projects and strategies, but to integrate these efforts into company overall strategy. The concept of sustainable repositioning emphasises the need for research that depart from a *company* perspective, rather than the dominating project perspective. Important issues that remain to be answered are: What are the consequences of integrating ecological and social concerns into business strategies on a company level? How are companies integrating sustainable issues into their core businesses? How is learning incorporated and diffused within the company as a whole? We have shown that the concept of sustainable repositioning include change along several dimensions; a broadening of company responsibility (not only maximising shareholder value but also including corporate social responsibility), a need to define and respond to stakeholder environmental and social demands, cooperation along the value chain, the incorporation of sustainable beliefs, values and norms into company ideology, adjusting working routines and procedures to the new challenge, mobilizing company internal resources and integrating sustainability into company core competences.

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