

# TOWARDS SUSTAINABLE ENTREPRENEURSHIP:

A Value Creating Perspective on  
Corporate Societal Strategies

Discussion Paper



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**CONTENT**

- CONTENT.....III**
- ABSTRACT.....4**
- 1 INTRODUCTION.....5**
- 2 STRATEGIES TO TACKLE BUSINESS-SOCIETY RELATIONS FROM STAKEHOLDER AND CSR RESEARCH .....7**
  - 2.1 Stakeholder strategies .....7
  - 2.2 CSR strategies .....8
  - 2.3 Explanatory power of stakeholder and CSR strategies .....9
- 3 VALUE CREATING SOCIETAL STRATEGY OPTIONS .....10**
  - 3.1 Strategic CSR in current research .....10
  - 3.2 Value creating societal strategy options .....12
  - 3.3 Ultimate designs of societal strategy options.....14
  - 3.4 Strategic dimensions of societal strategy options.....15
  - 3.5 Societal management approaches .....17
- 4 VALUE CREATING SOCIETAL STRATEGIES IN THE EUROPEAN PHARMACEUTICAL INDUSTRY .....20**
  - 4.1 Methodology .....20
  - 4.2 Results.....26
    - 4.2.1 Arbitrary strategy: The case of STADA.....28
    - 4.2.2 Business-focused strategy: The case of CT Arzneimittel .....28
    - 4.2.3 Philanthropic strategy: The case of ratiopharm .....29
    - 4.2.4 Sustainability-oriented strategy: The case of betapharm.....30
    - 4.2.5 Sustainability-oriented strategy: The case of Novartis.....32
- 5 DISCUSSION AND AREAS FOR FUTURE RESEARCH .....34**
- 6 APPENDIX .....37**
  - 6.1 Company Information .....37
  - 6.2 betapharm – societal impact evaluation .....38
  - 6.3 CT Arzneimittel – societal impact evaluation .....39
  - 6.4 Novartis – societal impact evaluation .....40
  - 6.5 ratiopharm – societal impact evaluation .....41
  - 6.6 STADA – societal impact evaluation .....42
- ACKNOWLEDGMENTS.....43**
- 7 REFERENCES.....44**

**ABSTRACT**

In current business practice, companies often tackle societal issues in a rather fragmented and unstructured way. This leads to remote societal activities that often fail to reach their full potential for societal and business value creation. Based upon the argument that a strategic approach towards societal issues can serve as a source for competitive advantage while at the same time yielding substantial societal benefits, this paper focuses on the development of societal strategy options from a value generating perspective, which is also missing in current research. A societal strategy matrix with four value creating strategy options is proposed. The societal strategy matrix does not only help managers to focus on value creating opportunities but also helps to characterize different concepts of corporate societal engagement discussed as corporate philanthropy, CSR or corporate sustainability in the current literature. Within the societal strategy matrix, different societal management approaches from conventional business management to sustainable entrepreneurship are distinguished. To illustrate the applicability of the societal strategy matrix to business practice, an illustrative case study from the European generic pharmaceuticals industry is presented in the second part of this paper.

## 1 INTRODUCTION

The demand for a strategic view on societal issues has become more and more prevalent in current research. In their discussion of the link between competitive advantage and Corporate Social Responsibility (CSR), Porter and Kramer (2006b) notice that most companies pursue fragmented approaches to CSR detached from their strategic and operational business. They argue that if companies integrated the societal perspective into their strategic thinking, CSR could serve as a source for competitive advantage while at the same time contributing to societal progress. The authors envision an approach towards "corporate social integration" which would enable companies to use their distinct knowledge and resources for an effective contribution to important societal problems (see Porter and Kramer 2006b, especially 78ff. and 91f.).

Following Porter and Kramer's argument, companies should develop societal strategies for their CSR activities. CSR activities involve all corporate activities tackling social or environmental aspects that go beyond compliance and are performed on a voluntary basis (see similarly COM 2001, 4 and 6; Dubielzig & Schaltegger 2005, 241; Hansen 2004, 62; Hansen & Schrader 2005, 375). In this definition, CSR represents one part of corporate sustainability management, which aims to integrate the economic, ecological and social dimension of business management (see e.g., Schaltegger & Burritt 2005, 189ff.). While CSR activities focus on *voluntary* social or environmental activities, corporate sustainability management refers to *all* activities integrating the three dimensions of sustainability including mandatory aspects such as compliance with environmental or social regulation. Increasingly, companies realize that the integration of social and environmental aspects into business management is necessary to secure societal acceptance to successfully continue business in a world with increasing stakeholder demands (see Schaltegger & Sturm 2000, 8-20 with a description of the resource base necessary for corporate survival and examples of societal stakeholder demands). The development of societal strategies can help companies to tackle social and environmental stakeholder demands with a systematic approach that can strengthen company competitiveness.

Strategies tackling business-society relations have especially been discussed in academic research with a focus on response strategies for stakeholders (see e.g., Freeman 1984; Janisch 1992; Dyllick 1989) or strategies tackling aspects of corporate sustainability management such as CSR (see e.g., Carroll 1979; Göbel 1992) or environmental management (see e.g., Janzen and Matten 2001; Lee and Ball 2006; Meffert and Kirchgeorg 1998). These strategies often follow a business perspective describing how to respond to societal demands with the least interference to the core business. However, in many cases these strategies fail to explain corporate societal engagement motivated by purely moral considerations without outside pressure. This is especially true for family-owned or small and medium sized enterprises, in which company owners often initiate societal activities such as philanthropic giving or employee volunteering in order to give something back to society and increase social welfare. According to Porter and Kramer's argument, societal activities can

generate value for society as well as for businesses. However, the existing strategies often do not focus management attention on value creating opportunities. Corporate societal engagement might therefore not reach its full potential in terms of business and societal value creation. To help managers develop societal strategies and activities from a value creating perspective and to contribute to the further development of societal strategies that explain reactive as well as proactive, morally-motivated societal engagement, this paper focuses on the question, *what kind of societal strategy approaches can be pursued from a value generating perspective.*

To answer this question, this paper starts out with a brief overview of strategies tackling business-society relations from stakeholder and CSR research. With their single focus on environmental aspects, environmental strategies are not discussed in this paper. It will be shown that current stakeholder and CSR strategies are not sufficient to explain and support value creating corporate societal engagement. Thus, the next section focuses on the theoretical development of value creating societal strategy approaches. To further understand if and how such strategies are implemented in business practice, a case study with illustrative examples for each strategy option is presented. A final discussion concludes this paper.

## **2 STRATEGIES TO TACKLE BUSINESS-SOCIETY RELATIONS FROM STAKEHOLDER AND CSR RESEARCH**

### **2.1 Stakeholder strategies**

Strategies tackling societal issues have been extensively discussed in the stakeholder literature. Freeman defines a stakeholder as "any group or individual who can affect or is affected by the achievement of an organization's purpose" (Freeman 1984, 53). In this definition, stakeholders represent individuals or groups that have direct transactional relationships with a company such as employees, customers, or suppliers as well as other groups in a company's environment such as interest groups, governmental agencies, or NGOs. Stakeholders can also tackle societal issues in their relation with companies. For example, employees or unions might fight for improved working conditions exceeding current regulations or NGOs might bring up societal issues such as child labor or environmental pollution.

Freeman argues that the stakeholder approach can serve to align business concerns and social and ethical concerns in an enterprise level strategy (see Freeman 1984, 85ff.). According to Freeman, the enterprise level or societal strategy represents the highest strategic level determining the role of an organization in society (see e.g., Freeman 1984, 85ff.; Carroll and Buchholtz 2000, 587ff.). Freeman identifies five enterprise level strategies to achieve a fit between stakeholders, a company's values and social issues (see Freeman 1984, 101-107):

- Specific stakeholder strategy: focusing on a small number of specific stakeholders to satisfy their needs,
- Stockholder strategy: maximizing returns to stockholders or other financial stakeholders of a company / maximizing a company's market value,
- Utilitarian strategy: producing the greatest good for the greatest number of stakeholders / maximizing social welfare,
- Rawlsian strategy: focusing on the least-well off stakeholders / acting as agents of social change,
- Social harmony strategy: acting to maintain social harmony / support by society.

Savage et al. (1991) present another approach towards stakeholder strategies. The authors classify stakeholders into four categories depending upon their potential for cooperation with or threat to the organization. Accordingly, they propose four stakeholder management strategies (see Savage et al. 1991, 65-67):

- Involve "supportive stakeholders" with high cooperation and low threat potential in the discussion of relevant issues,
- Monitor the interests of "marginal stakeholders" with low cooperation and threat potential,

- Use a defensive strategy to reduce the company's dependence from "nonsupportive stakeholders" who show low cooperation but high threat potential,
- Strengthen collaboration with "mixed blessing stakeholders" with high cooperation and threat potential.

Janisch (1992) distinguishes between direct and indirect stakeholder benefit strategies. Direct benefit strategies aim at securing the resources provided by critical stakeholders. Direct benefit strategies can either follow a preservation strategy providing a minimum of demanded benefits to stakeholders to secure their resource-flows or an enhancement strategy providing increasing benefits to stakeholders as an incentive for increased returns to the company. Indirect benefit strategies aim at decreasing the dependency from one stakeholder group or the costs of dependency (see Janisch 1992, 356ff.).

Similar to Savage et al. (1991), de Colle (2005) classifies stakeholders into four categories depending upon their power over and interest in a company resulting in four stakeholder management strategies: monitoring, informing, satisfying, or closely managing stakeholders (see de Colle 2005, 306f.).

## 2.2 CSR strategies

Societal strategies are also discussed in the literature on Corporate Social Responsibility. In his landmark contribution to CSR, Carroll (1979) argues that CSR strategies can "range on a continuum from no response (do nothing) to a proactive response (do much)" (Carroll 1979, 501). Building upon the contributions of earlier writers, he proposes four response strategies (see Carroll 1979, 501-504; Maignan et al. 2002, 643):

- Reaction: denying business responsibility for a certain social issue or withdrawing,
- Defense: avoiding to address a certain social issue despite of its relevance,
- Accommodation: addressing social issues outside the core business or complying to legal demands,
- Proaction: actively anticipating and solving social issues.

In combining CSR and stakeholder research, Göbel (1992, 231ff.) distinguishes four possible strategies to tackle societal stakeholder demands: resistance, accommodation, withdrawal, and inactivity. With regard to the application of these strategies, Göbel (1992) argues that top management can either assume a responsibility-oriented or a responsibility-neglecting position. Assuming that a company's top management followed a responsibility-neglecting philosophy, a resistant strategy would imply the denial of its responsibility, accommodations would only occur after massive stakeholder pressure, withdrawal would imply the withdrawal of a company's operations into locations with less restrictions (e.g., concerning environmental protection) and inactivity would imply to consciously ignore societal issues. In a responsibility-oriented company, resistance would refer to coalitions with stakeholders in whose interest a company assumed a resistant position, accommodation would include active problem solving, withdrawal would refer to the withdrawal of a company's operations



from a problematic business, and inactivity would only occur if companies waited for more information to act properly (see Göbel 1992, 231-239).

### **2.3 Explanatory power of stakeholder and CSR strategies**

Most stakeholder strategies propose how to react to stakeholder demands depending upon a prioritization of a company's stakeholders. This represents a business-focused approach. Stakeholder demands are only tackled if posing a threat to the company or representing a business opportunity. Societal benefits only seem to derive as a by-product. This approach does not explain corporate societal behavior motivated by moral considerations of management. It also seems questionable, if societal and business benefits reach their full potential if managed from such a reactive approach. Stakeholder strategies do not seem to focus management attention towards value creation but rather towards cost-minimization. From the above approaches, only Freeman's enterprise level strategies include a focus on value creation. For example, Freeman's stockholder strategy focuses on maximizing economic value for a company and his utilitarian strategy on maximizing social welfare. However, with its focus on the number of stakeholders, Freeman's utilitarian strategy satisfying the greatest number of stakeholders does not necessarily lead to the most effective and efficient way to solve societal problems.

CSR strategies also focus on possible responses to societal issues. They implicitly assume either a business-focused approach or a society-focused approach. Although all of these strategies eventually lead to the creation of economic and/or social value, they do not focus management attention towards a thorough evaluation of the most value creating option.

A value creation perspective towards societal issues also seems to be lacking in current business practice. As was argued before, many companies seem to tackle societal issues in a rather fragmented and unstructured way. This puts companies into a two-fold dilemma. By focusing on societal problems without strategic evaluations, companies contribute to societal value creation but might not seize their full potential for societal problem solving building upon their unique competences and skills. On the other hand, by exclusively focusing on business benefits, companies risk that their societal involvement is criticized as a pure public relations or marketing exercise (see similarly Porter and Kramer 2006a, 189-192). Therefore, researchers are increasingly asking for a combined approach to tackle societal issues – enhancing societal value creation while at the same time creating business benefits to the company (see Porter and Kramer 2002, 2006a and 2006b, Habisch 2006). Following this argument, societal strategies should focus management attention on their impact on society and business to allow managers to identify unique opportunities for societal and business value creation. The discussion of such strategies is the focus of the next section.

### 3 VALUE CREATING SOCIETAL STRATEGY OPTIONS

#### 3.1 Strategic CSR in current research

By elaborating on their argument, Porter and Kramer state that true strategic CSR should focus on areas where social and economic interests are combined and where companies apply their distinct resources to solve social issues. They argue that such areas especially refer to the improvement of competitive context – the improvement of the conditions in a company's locations by leveraging its unique capabilities. In addition, strategic CSR in their interpretation also refers to value chain activities transformed to benefit society while reinforcing corporate strategy. However, they also acknowledge that CSR activities often follow a portfolio approach including not only strategic but also "responsive" CSR activities relating to communal obligation and relationship-building or the mitigation of negative impacts from a company's operations (see Porter and Kramer 2006b, 83-90; Porter and Kramer 2002, 58-62; Porter and Kramer 2006a, 192-198 and 201-204). In this view, Porter and Kramer see strategic CSR as a unique positioning to improve competitive advantage. Other definitions understand strategy as a plan, following a certain process or pattern (see e.g., Burke and Logsdon 1996, 496f.). Following these latter perspectives on strategy, Porter and Kramer's "responsive" CSR activities can also be seen as strategic CSR if they result from a strategic planning process yielding important benefits to a company to ensure long-term survival.

With regard to the measurement of economic benefits, many researchers argue that most business benefits from CSR are difficult to measure in monetary terms. These relate to such benefits as reputation improvements (see e.g., Epstein and Roy 2001, 591f.; Hansen 2004, 70; Rondinelli and London 2002, 202), positive effects on employee motivation, retention, and recruitment (see e.g., Bertelsmann Stiftung 2005, 12-14; Epstein and Roy 2001, 591f.) or risk reduction, e.g., in terms of the avoidance of NGO or customer boycotts due to societal issues (see e.g., Hansen 2004, 70f.; Heal 2005, 388-395; Rondinelli and London 2002, 207). Although not directly measurable in monetary terms, such benefits can strengthen company competitiveness and positively influence economic or financial success in the long-term. To ensure that non-monetary benefits are also included in the argument, it rather seems appropriate to talk of business benefits instead of economic benefits, which could imply purely financial figures.

Strategic CSR has also been discussed by other authors. Burke and Logsdon (1996) define five dimensions of strategic CSR accounting for the possible definitions of business strategy as goals/missions/objectives, competitive advantage, plans, processes, or patterns. In their terms, CSR activities are strategic if they are (see Burke and Logsdon 1996, 496-499):

- Central in the sense of closely related to a company's mission and objectives,
- Specific by creating benefits that are specific to the company and not producing collective goods,
- Proactive or planned in anticipation of economic, technological, social, or political trends,

- Voluntary and not simply a response to compliance requirements,
- Visible from the outside to allow a company to get credit for the CSR activities in scope.

In their interpretation, the final measure of strategic CSR is the expected value creation. Although they define value creation as the identifiable measurable economic outcome, their examples of strategic outcomes include business benefits that are difficult to measure in monetary terms, which is often the case in strategic management, such as improved customer loyalty or improved access to new products or markets (see Burke and Logsdon 1996, 496-500).

Concerning the implications for business practice, the authors conclude that companies should select CSR activities that "1. yield the highest total payoffs in terms of collective benefits to the firm and its stakeholders and 2. fall within the range indicated for *strategic CSR*" (Burke and Logsdon 1996, 501). With this claim, the authors strongly focus on the business case for sustainability as they suggest choosing CSR activities that lead to identifiable business benefits and to the creation of value for a company's stakeholders. This corresponds to Porter and Kramer's (2006b) definition of strategic CSR.

With their argument that strategic CSR should create company-specific benefits and not collective goods, Burke and Logsdon (1996) narrow the possible scope of CSR activities and neglect win-win-situations for business and society. For example, in describing non-specific benefits the authors refer to community donations e.g., to support cultural projects. They argue that these activities do not create company-specific benefits. However, such donations can very well contribute to the improvement of company reputation leading to further effects on customer or employee loyalty. In this way, such activities can produce public goods while at the same time yielding important business benefits, which eventually leads to a win-win-situation. They should therefore also be included in a discussion on strategic CSR.

Husted and Salazar (2006) analyze the social output and a company's costs and benefits from CSR activities under several conditions. They distinguish three cases:

1. The *altruistic case* in which companies try to maximize social welfare without the expectation of economic pay-backs to the company,
2. The case of the *coerced egoist* in which companies are coerced to invest in social issues to survive (e.g., responding to minimal societal expectations to avoid customer boycotts),
3. The *strategic case* in which companies use CSR as a means for a unique competitive positioning or in which they use their distinct resources and competences.

The authors define strategic CSR according to the five criteria developed by Burke and Logsdon (1996). Using microeconomic analysis, they show that social profit, defined as the difference between business benefits and costs from CSR activities, is higher in the case of strategic CSR than in the egoistic case. This is explained by a shift in the cost and benefit curves as strategic CSR might result in a more cost-efficient CSR management and/or

additional company-specific benefits. This eventually results in a higher social output than in the egoistic case. Although an altruistic company, with its focus on maximizing social welfare, would provide even higher social output, the authors suggest "that the overall social output by the entire business community will be greater under the strategic case" (Husted and Salazar 2006, 87). They explain this conclusion with the incentives for additional business benefits from CSR in the strategic case, which in their opinion would motivate more companies to involve in CSR than a purely moral appeal to companies (see Husted and Salazar 2006, 86f.).

### 3.2 Value creating societal strategy options

Building upon these arguments and broadening the perspective from voluntary CSR activities to the overall societal engagement of a company also tackling mandatory aspects of corporate sustainability management, societal activities can be pursued from an altruistic perspective focusing on societal value creation, an egoistic or business perspective focusing on the maximization of business benefits, or a business case perspective trying to enhance both – societal and business impacts. Societal activities and their underlying strategies can thus be mapped in a 2-by-2-matrix with societal impact or value creation on one dimension and business impact or value creation on the other dimension as shown in Figure 1. This leads to four possible value creating societal strategies:

- A society-focused or philanthropic strategy with a high value creation for society,
- A business-focused strategy with a high value creation for business,
- A combined or sustainability-oriented strategy with a substantial value creation for society as well as business,
- An arbitrary strategy with low societal and business impacts.

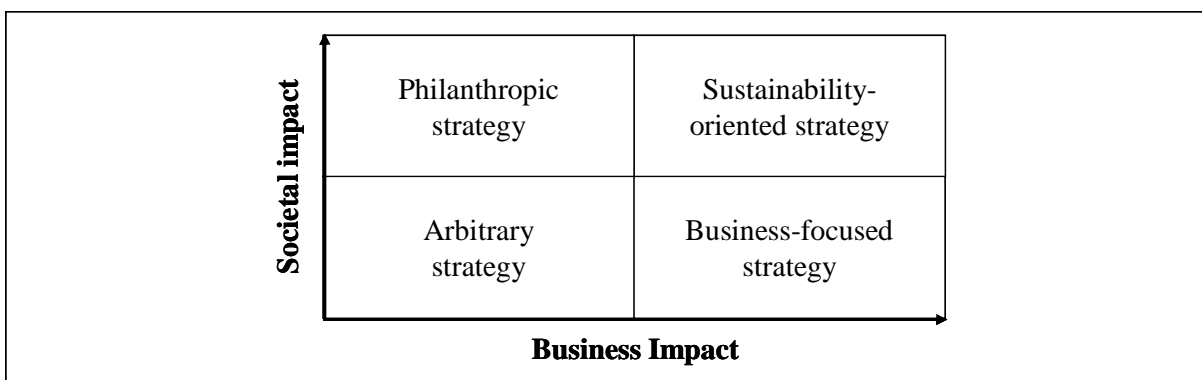


Figure 1: Value creating societal strategy options

In Porter and Kramer's terms, the improvement of a company's competitive context would be part of a strategy that combines societal and business value creation. Societal activities within such a strategy contribute significantly to the business case for sustainability yielding high business benefits while at the same time contributing significantly to societal value

creation. Economic and societal interests are tackled in an integrated manner, following a *corporate sustainability* approach. Such a strategy therefore represents a *sustainability-oriented strategy*.

If compared to the societal strategies from CSR research, a sustainability-oriented strategy would correspond to a proactive and anticipative strategy. With a sustainability-oriented strategy, a company actively identifies activities related to societal issues to which it can contribute significantly with its distinctive knowledge and resources and which have a significant impact on its core business. In terms of Husted and Salazar's distinction, such a strategy would be chosen in the strategic case.

A strategy with an exclusive focus on high societal value-creation leads to activities that try to enhance social welfare without an expectation of pay-backs for the company. Such activities are best described as *corporate philanthropy*. The underlying strategy is therefore a *philanthropic strategy* corresponding to Husted and Salazar's altruistic case. Freeman's utilitarian or Rawlsian strategies could both be specific versions of a philanthropic strategy. The same is true for Göbel's responsibility-oriented versions of generic CSR strategies.

With regard to *Corporate Social Responsibility*, CSR activities occur within a philanthropic as well as a sustainability-oriented strategy. CSR has been researched from an ethical as well as a business perspective. In the ethical perspective, CSR activities reflect the moral responsibility of a company aiming at a high societal value-creation without the explicit expectation of business benefits. They can thus be positioned within a philanthropic strategy. Researchers analyzing CSR from the business perspective see CSR as a means to improve company competitiveness. In this view, CSR activities should combine business and societal value creation and occur within a sustainability-oriented strategy representing an approach towards corporate sustainability.

Companies with a *business-focused strategy* pursue societal activities that yield direct business benefits and that are primarily motivated by business considerations. In this sense, societal engagement is seen as a business opportunity or necessity resulting from massive stakeholder pressure as outlined in the egoistic case and accommodative CSR strategies above. Such activities could be part of a stockholder strategy according to Freeman as these activities aim at increasing the market value of the company. In this case, societal benefits derive as by-products.

Societal activities within a business-focused strategy are often also discussed as CSR activities. However, the core of the CSR concept is a significant contribution to society. Thus, the term CSR seems most appropriate for voluntary social or environmental activities within a philanthropic or sustainability-oriented strategy. Societal activities within a business-focused strategy rather correspond to *conventional business* activities. Despite tackling societal issues, these activities clearly focus on creating business impact with a low value creation for society.

The fourth type of societal strategy approaches includes societal activities that have limited impacts on society as well as business. This strategy might be present in companies that

occasionally donate for social causes motivated by coincidental personal interests or relationships. It can therefore be called *arbitrary strategy*.

### 3.3 Ultimate designs of societal strategy options

Within the societal strategy matrix, four ultimate or maximum designs of the described strategies can be distinguished. As shown in Figure 2, the full potential for a combined business and societal value creation is reached at the utmost point of a sustainability-oriented strategy. This strategy design can be characterized as *sustainable entrepreneurship* referring to the true integration of all three dimensions of sustainability into a company's societal and business activities.

Partial approaches to sustainable entrepreneurship are especially discussed in the literature on ecopreneurship. While narrow definitions of ecopreneurship focus on innovative startup companies and small businesses providing environmental solutions, wider definitions include established businesses with innovative approaches to value creation with ecological innovations and products (see Schaltegger 2002, 47f.). In his empirical study of ecopreneurs, Petersen (2006) describes the strive for creating public ecological benefits while at the same time extracting company-specific benefits from these collective goods as one main characteristic of ecopreneurs (see Petersen 2006, 401). A *sustainable* entrepreneur does not only include the economic and ecological but also social dimension into all management decisions striving to create the highest possible societal value while at the same time ensuring the highest possible business impact. Societal interests are tackled by all business activities, which can lead to innovative business models that contribute to a more sustainable society.

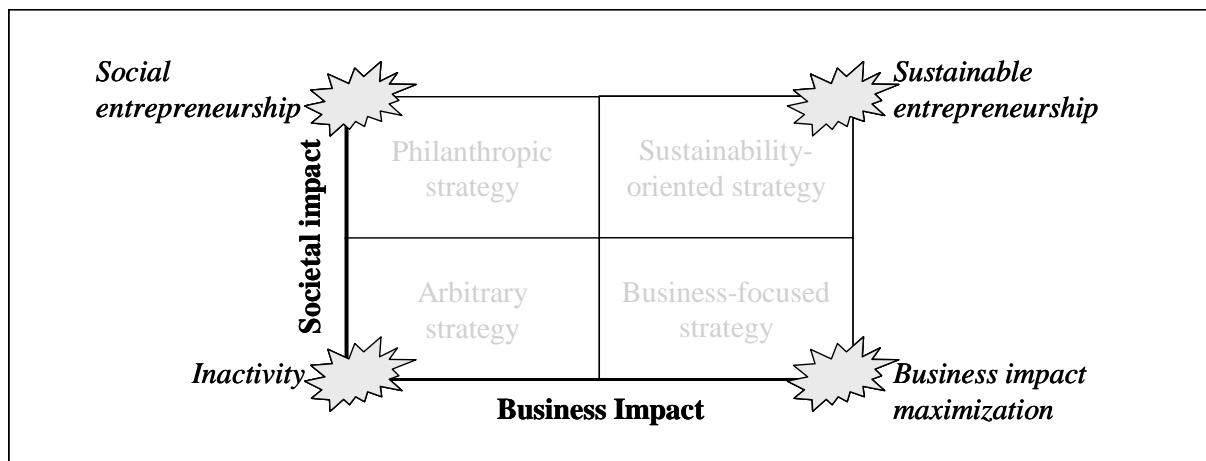


Figure 2: Ultimate designs of value creating societal strategy options

While the literature on ecopreneurship emphasizes the joint economic and ecological value creation so that ecopreneurship represents a partial approach to sustainable

entrepreneurship, the research on *social entrepreneurship* mostly focuses on innovative social value creation as a single dimension.

One school of thought assigns social entrepreneurship to non-profit organizations reinventing their ways of working by introducing strategic management practices. Another research stream includes for-profit organizations in the definition of social entrepreneurship referring to innovative organizations that focus on social progress and change (see Perrini 2006, 6-8). A main characteristic of social entrepreneurs is their explicit focus on social value creation. Economic value is only created to ensure survival (see similarly Perrini 2006, 11-14). This explicit social focus distinguishes social entrepreneurship from sustainable entrepreneurship, the latter aiming at an integrated and balanced value creation. Social entrepreneurship is thus represented in the societal strategy matrix as an ultimate design of a philanthropic strategy as illustrated in Figure 2. Although characteristics of social entrepreneurship can be present in businesses, it can be expected that such a truly altruistic strategy is usually beyond the scope of corporate behavior and is rather pursued by NGOs, governmental agencies, or foundations.

It was argued above that societal activities within a business-focused strategy should rather be considered as conventional business activities with a societal focus. This is especially true for activities that are positioned directly or fairly above the horizontal axis of the matrix. In an extreme design of *business impact maximization* (see Figure 2), societal activities do not create value for society. For example, in their 1997 report on the state of the world's children UNICEF describes how the implementation of well-meant policies against child labor led to the dismissal of children workers in the Bangladesh garment industry who then looked for other sources of income, which they found in prostitution, stone-crushing or street hustling (see UNICEF 1997, 60). In this case, compliance with U.S. law initially aimed at improving life conditions for children in Bangladesh actually worsened their situation. Societal value was not created but destroyed.

In terms of an ultimate design of an arbitrary strategy a special case would be *inactivity* as shown in Figure 2. Inactivity characterizes companies that do not involve themselves in societal activities at all.

### **3.4 Strategic dimensions of societal strategy options**

Table 1 compares the societal strategy options discussed above with Burke & Logsdon's (1996) strategic dimensions of CSR indicating which of the strategic dimensions can be considered as a necessary component of each of the four strategy options.

Strategic dimensions of CSR	Centrality	Specificity	Proactivity	Voluntarism	Visibility
Societal strategy					
Arbitrary strategy					
Business-focused strategy		✓			✓
Philanthropic strategy			✓	✓	
Sustainability-oriented strategy	✓	✓	✓	✓	✓

Table 1: Necessary strategic dimensions of value creating societal strategies

As described before, *centrality* refers to the fit between a societal strategy and a company's overall mission and objectives. Burke and Logsdon (1996, 496f.) argue that a high centrality assures a higher priority of CSR within the organization. With regard to business-focused strategies, it can be assumed that the successful execution of societal activities is ensured by the business opportunity or necessity to respond to societal pressure itself. Centrality is thus a possible but not necessary component of a business-focused as well as arbitrary strategy. As a highly strategic and systematic approach, centrality is a critical dimension of a sustainability-oriented strategy. It can also be a supporting but not necessary dimension for philanthropic strategies to increase the societal impact created by building upon the distinct knowledge and resources of the company.

As *specificity* refers to the creation of company-specific benefits, it is a critical component of business-focused and sustainability-oriented strategy options but not of philanthropic or arbitrary strategies.

It can further be assumed that a proactive search for future societal trends and/or business opportunities enhances societal and business value creation. Therefore, *proactivity* is a characteristic for philanthropic and sustainability-oriented strategy options. As business-focused and arbitrary strategies can also result from massive stakeholder pressure, proactivity does not represent a critical component of these strategies.

*Voluntarism* is a natural component of a philanthropic strategy resulting from altruistic behavior. It is also a critical component of a sustainability-oriented strategy as a strategic dimension. As societal involvement under a business-focused strategy often represents a reaction to massive outside pressure or pure compliance with social and environmental regulation, some business-focused societal activities cannot be considered voluntary even if going beyond compliance. With regard to activities under an arbitrary strategy, voluntarism depends on the motive for societal involvement.

*Visibility* ensures that a company receives recognition for its societal involvement and helps companies to capture all business benefits from their societal engagement. In this sense, visibility should be assured if a company pursues a business-focused or sustainability-oriented strategy but is not necessary for a philanthropic or arbitrary strategy.



### **3.5 Societal management approaches**

In his framework for ecopreneurship, Schaltegger (2002, 48ff.) distinguishes three approaches to environmental management depending upon the priority given to environmental goals as business goals:

- Environmental administration with a low priority of environmental goals and a focus on the implementation of environmental regulation and standards,
- Environmental management with environmental goals as a supplement to core business goals and a focus on deriving business benefits from the efficient management of environmental issues,
- Ecopreneurship with an integration of environmental goals into core business goals and a strong link between environmental and economic performance.

A similar distinction of management approaches to implement societal strategies can be applied to the societal strategy matrix. On the vertical axis, four management approaches can be distinguished:

- Conventional business management with no or low societal value creation and inactivity and business impact maximization representing the ultimate designs,
- Societal administration with an administrative approach towards social and environmental issues and low to medium societal value creation,
- Societal management with a proactive approach towards social and environmental issues and medium to high societal value creation,
- Societal entrepreneurship referring to social and sustainable entrepreneurship with an innovative, anticipative approach towards social and environmental integration and high societal value creation.

Building upon the characterization of environmental management approaches by Schaltegger (2002), the societal management approaches are further characterized in Table 2.

<b>Societal management approach</b>	<b>Rationale for societal involvement</b>	<b>Priority as a business goal</b>	<b>Further characteristics</b>	<b>Societal impact</b>
Conventional business management	Reaction to massive stakeholder pressure or pure business opportunity	No priority of social or environmental goals if existent at all	Societal activities represent conventional business activities focusing on a high business impact	None or low
Societal administration	Compliance with social and environmental regulation, reaction to stakeholder pressure	Low priority: societal involvement as a duty	Focus on guidelines to comply with regulation, bureaucratic structures and procedures	Low to medium
Societal management	Societal involvement as opportunity to improve competitiveness while contributing to societal value creation	Medium priority: social and environmental goals supplemental to core business goals	Proactive identification of unique opportunities from societal involvement, dedicated responsibilities, management systems for societal issues	Medium to high
Societal entrepreneurship	Societal involvement as integral part / basis of business model	High priority: societal goals part of core business goals	True integration of societal issues into core business, active search for societal solutions	Very high

Table 2: Societal management approaches

In *conventional business management*, social and/or environmental issues are only tackled if required by law, needed to protect the business as a reaction to massive stakeholder pressure or yielding high business benefits in conventional business areas such as marketing. Societal benefits derive as by-products but only reach a low level of societal impact due to isolated, reactive activities.

Similar to environmental administration (see Schaltegger 2002, 50), *societal administration* represents a bureaucratic approach in which companies tackle social and environmental issues to comply with current regulation or to react to stakeholder pressure. Dedicated societal officers develop guidelines for the correct implementation of social and environmental regulations. With this approach, only low to medium societal benefits are generated as societal involvement does not draw upon the unique competences of the company and is not regarded as a high priority but rather as a necessity.

*Societal management* represents a more active approach. Social and environmental issues are seen as business opportunities to improve competitiveness (see similarly Schaltegger 2002, 50f. on environmental management). They serve as a means to strengthen company competitiveness and include activities that go beyond social and environmental compliance. Social and environmental goals are pursued supplementary to conventional business goals and societal management systems and tools such as a sustainability balanced scorecard are

implemented (see e.g., Figge et al. 2002). Companies with a societal management approach often establish dedicated departments to develop and implement social and environmental activities such as CSR or sustainability departments.

*Societal entrepreneurship* refers to the maximum designs of philanthropic and sustainability-oriented strategies: social and sustainable entrepreneurship. Both approaches are pursued by proactive and innovative organizations that integrate societal issues into their business models and actively search for opportunities to solve societal problems. Societal involvement is an integral part of the organization. Societal goals are part of the overall organizational goals and societal aspects are tackled by all management functions. With such a high organizational integration of societal issues, societal value creation reaches its full potential. In the case of sustainable entrepreneurship, societal involvement is not only fully integrated into the business but also serves as a source for economic success. Sustainable entrepreneurs therefore reach the full potential for societal as well as business value creation.

## **4 VALUE CREATING SOCIETAL STRATEGIES IN THE EUROPEAN PHARMACEUTICAL INDUSTRY**

### **4.1 Methodology**

To illustrate how the societal strategy options outlined above are applied in business practice, this section presents examples of societal strategy approaches in the European pharmaceutical industry.

It was argued above that conventional societal strategy approaches from stakeholder and CSR research especially fail to explain corporate societal involvement motivated by moral considerations as conventional approaches mainly focus on reactive strategies from a pure business perspective. Corporate societal involvement that is initiated without an explicit expectation of paybacks to the company often includes philanthropic giving and employee volunteering although these activities can also be part of a business case calculation. In a narrow definition, philanthropic giving and employee volunteering are often referred to as "Corporate Citizenship" (CC) activities, describing the involvement of companies in the community as one aspect of their CSR engagement (see e.g., Hansen and Schrader 2005, 376; Maaß 2002, 41; Rat für Nachhaltige Entwicklung 2006, 19). The case study examples focus on Corporate Citizenship activities to show how the societal strategy options developed above do not only describe clearly business-motivated but also morally-motivated societal behavior, which is often the case for Corporate Citizenship activities.

A case study approach was chosen as this approach allows developing a deeper understanding how the societal strategies are actually implemented in practice. Case study research is an appropriate methodology for in-depth research on "how"-questions and allows studying contemporary phenomena in their real-life contexts (see Yin 2003, 3-9). The companies included in the research were selected along the following criteria:

- European headquarters,
- One industry and similar competitive context,
- Publicly available information on Corporate Citizenship activities.

After a screening of possible case study candidates, the European pharmaceutical industry was chosen for this research. This enriches the often American-dominated case literature with European examples that include business-motivated as well as morally-motivated Corporate Citizenship activities. To ensure a similar competitive context, the industry scope was narrowed to producers of generic pharmaceuticals. In terms of sales, the biggest market for generics within Europe is Germany (see Accenture 2005, 23f.). Therefore, the research concentrated on the leading generic pharmaceutical companies in Germany. For the illustrative purpose and scope of this article, one company was chosen for each strategy option with the exception of sustainability-oriented strategies. For this type of strategy, two companies were included in the research to show that a high business and societal impact can be reached by large as well as small or medium-sized companies.

The case study was conducted based on document analysis using a content-analytical approach (see e.g., Stier 1996, 163-169). The analysis concentrated on information published on company websites such as website articles, company reports, and image brochures. Appendix

gives an overview of the companies included in this case study with information on their headquarters, size, and the sources evaluated during the research. Publicly available information on Corporate Citizenship activities as the scope of the case study was analyzed with regard to the activities' potential societal and business impact to identify the underlying value creating strategy options.

A deductive approach was followed to build categories for societal impact (see e.g., Stier 1996, 166-169 for the use of category systems in content-analysis). Current academic research and models from business practice were reviewed with regard to measurement criteria for corporate social performance referring to the extent and quality of a company's social engagement (see Table 3). The review showed that no single criterion to measure social performance existed. Measures included references to sustainability and CSR ratings such as the Dow Jones Sustainability Index or the KLD rating, CSR or sustainability awards, qualitative evaluations e.g., concerning the creation of social capital or the inclusion of knowledgeable partners to solve social problems, and quantitative evaluations concerning project-specific criteria such as number of beneficiaries, financial value of cash and product donations, and others.

Type of research	Source	Social Performance criteria
Theoretical research	Habisch (2006)	Identification of 3 areas to evaluate the quality of Corporate Citizenship: 1) Societal problem: e.g., what is the value added of the specific company to solve a certain societal problem? 2) Partnerships: does the company collaborate with partners that have experience with the specific societal problem, e.g., NGOs? 3) Dialogue: does the company participate in public dialogue about the problem?
Theoretical research	Husted and Salazar (2006)	Project-specific measures for social performance with regard to social value creation e.g., increase in income by recipients of company scholarships, reduction of morbidity rate in community due to pollution reduction programs
Case study research	Austin (2000)	Extraction of possible social benefits from case studies e.g., community service measured in working days for the community, societal leverage described as role model effect for other companies, problem-related improvements e.g., improvement of the social capital of the community
Case study research	Hopkins (2005)	CSR measurement of internal stakeholder effects, external stakeholder effects e.g., number of beneficiaries in the society, and external institutional effects
Quantitative empirical research	Griffin and Mahon (1997)	Use of multiple external indicators for corporate social performance: KLD index, Fortune reputation survey, TRI index, Corporate 500 directory of corporate philanthropy
Quantitative empirical research	Pava and Krausz (1996)	Use of the evaluation of the Council on Economic Priorities to determine corporate social performance
Quantitative empirical research	Turban and Greening (1997)	Use of KLD rating to determine corporate social performance
Meta study on empirical research	Margolis and Walsh (2003)	Several variables used in empirical studies to measure corporate social performance e.g., CSR and sustainability rankings, ratings, indices, awards, events / crises, published information
Business practice	LBG (2004)	Measurement of financial and non-financial expenditures, leverage of cash and other resources e.g., additional donations from partners, community benefit e.g., measured by number of beneficiaries
Business practice	Plinke and Knörzer (2006)	Bank Sarasin Sustainability Rating

Table 3: Measurement examples of social performance in theory and practice

The social performance criteria identified in this literature review mostly relate to the overall societal impact from CSR or sustainability management. As Corporate Citizenship in the definition of this paper represents a part of these activities, the criteria also apply to Corporate Citizenship so that two categories and corresponding indicators to determine societal value creation were deducted from this review:

- *Community impact* relating to the societal value created by the Corporate Citizenship activities in scope and indicated by the overall value of the community support, the reach of the activities in terms of geographic scope and number of beneficiaries, and the leverage of outside partners,
- *General societal performance indicators* including performance indicators that cannot be directly allocated to single Corporate Citizenship activities but relate to the societal value created by all societal activities of a company such as the inclusion of the company in sustainability ratings or awards, the cooperation with societal partners and the involvement in stakeholder dialogue.

It was argued above that the integration of societal issues into the core business can also enhance societal value creation by building upon the unique competences and skills of a company. Therefore, the *integration of societal issues into the core business* was included as a third category. Indicators for the degree of integration were derived from the discussion of environmental management approaches by Schaltegger (2002) and the discussion of an integrated management of sustainability performance, measurement and reporting by Schaltegger and Wagner (2006). These indicators refer to the degree of integration in terms of strategic integration, integration into the organizational structure and business communication.

For each indicator concrete examples were identified based upon the external communication of the case study companies. To determine how to place the companies on the vertical axis of the societal strategy matrix, a scoring technique was used as it is often applied in benefit analysis. This technique allows evaluating quantitative as well as qualitative indicators as a pure focus on a quantitative evaluation would neglect important qualitative societal performance indicators identified above. Qualitative indicators can be evaluated using nominal, ordinal or cardinal scales. As ordinal scales do not allow unambiguous rankings of the rated objects, a cardinal scale was applied to determine a score for each indicator and then summarize these scores to a final benefit value or societal impact score per company as in conventional benefit analysis (see e.g., Hoffmeister 2000, 276-310). To use this method, three assumptions need to be fulfilled (see Zangemeister 1976, 75-88):

- the overall preference order needs to be consistent with the preference order of each alternative,
- the indicators need to be independent from each other to allow the use of an additive preference function,
- the preference function is a linear, monotonously growing function.

These assumptions were considered in the identification of indicators for this case study. However, some interrelations between the indicators exist, which is often the case in benefit analysis. The approach also includes subjective scorings. Therefore, benefit analysis does not lead to mathematical optimal solutions. Despite these methodological problems the approach was chosen for this case study as it allows a transparent and rational evaluation of quantitative and qualitative criteria (see Hoffmeister 2000, 306-308; Zangemeister 1976 and 2003). However, the author is aware that these methodological problems restrict the explanatory power of the case study results. Table 4 shows the categories, indicators and scores used to determine the societal impact in this case study. A simple scoring scale was used that represents the rather broad evaluation that is possible by document analysis.

A quantitative evaluation of the business benefits was not possible using a pure document analysis. Therefore, the companies were further evaluated qualitatively with regard to the strategic dimensions of their community involvement. It was assumed that business impact was the higher, the more central, specific and visible the Corporate Citizenship activities of a company. Finally, all companies were positioned in the societal strategy matrix according to their societal impact score and conclusions from the qualitative evaluation of the strategic dimensions behind their societal engagement.



Scores		0	1	2	3
Category	Indicators				
Community impact	Value of community support	N/A	low financial value of donations, limited volunteering activities	medium financial value of donations, several volunteering activities	high financial value of donations, extensive volunteering activities
	Geographic scope / Number of beneficiaries	N/A	local engagement / low number of beneficiaries	regional engagement / medium number of beneficiaries	global engagement / high number of beneficiaries
	Outside leverage	N/A	low contributions by other partners	medium contributions by other partners	extensive contributions by other partners
General societal performance indicators	Sustainability ratings and awards	N/A	single inclusion in one rating or single award	inclusion in several ratings or several awards in one year	regular inclusion in several ratings or awards
	Societal partners	N/A	one-time inclusion of single partner	regular inclusion of single partner / single inclusion of several partners	regular inclusion of several partners
	Stakeholder dialogue	N/A	rare (one-time) participation in stakeholder dialogue	regular dialogue with few selected stakeholders	regular dialogue with broad variety of stakeholders
Integration of societal issues into core business	Strategic integration	N/A	societal engagement managed apart from usual business, activity-specific societal goals	overarching societal strategy supplemental to conventional business strategy	societal strategy part of business strategy, entire business model sustainability oriented
	Organizational structure	N/A	societal responsibility remotely assumed (e.g., PR manager, environmental officer)	parallel organization with dedicated department for societal issues	responsibilities for societal issues integrated into all business functions
	Communication	N/A	isolated sporadic communication about societal activities	regular communication about societal activities supplemental to core business communication (e.g., CSR report)	communication about societal activities integrated into core business communication (e.g., annual report)

N/A = information not available

Table 4: Categories, indicators, and possible scores for societal impact

## 4.2 Results

Table 5 gives an overview of the societal impact scores of the companies included in the case study. The individual impact scores per indicator were derived from specific examples identified in the analysis of the external communication of the companies in scope. Detailed evaluation results with illustrative examples for each indicator and company are shown in Appendices 2-6.

Category	Indicators	betapharm	CT Arzneimittel	Novartis	ratiopharm	STADA
Community impact	Value of community support	3	2	3	2	2
	Geographic scope / Number of beneficiaries	2	2	3	3	2
	Outside leverage	3	1	3	2	0
General societal performance indicators	Sustainability ratings and awards	2	0	3	1	0
	Societal partners	3	3	3	3	3
	Stakeholder dialogue	2	0	3	0	0
Integration of societal issues into core business	Strategic integration	3	0	3	2	0
	Organizational structure	2	0	3	2	0
	Communication	3	2	3	2	1
<b>Total societal impact score</b>		<b>23</b>	<b>10</b>	<b>27</b>	<b>17</b>	<b>8</b>

Table 5: Societal impact scores for case study companies

After the calculation of the societal impact, the CC activities of each company were evaluated qualitatively along the strategic dimensions of CSR developed by Burke and Logsdon (1996). Table 6 shows how each of the companies' CC activities fulfill the individual strategic dimensions.

Strategic dimension \ Company	Centrality	Specificity	Proactivity	Voluntarism	Visibility
betapharm	✓	✓	✓	✓	✓
CT Arzneimittel	(✓)	✓	✓	✓	✓
Novartis	✓	✓	✓	✓	✓
ratiopharm	(✓)	(✓)	✓	✓	(✓)
STADA	(✓)	(✓)	-	✓	(✓)

Table 6: Strategic dimensions of Corporate Citizenship activities of case study companies

(Legend: ✓: dimension tackled, (✓): dimension partially tackled, -: no indications found)

Based upon the societal impact scores presented in Table 5 and the conclusions about the business impacts from the evaluation of the strategic dimensions illustrated in Table 6, the companies were positioned in the societal strategy matrix. As shown in Figure 3, according to this evaluation, Novartis and betapharm pursue sustainability-oriented strategies, CT Arzneimittel a business-focused strategy, ratiopharm a philanthropic strategy and STADA an arbitrary strategy. To understand each of the societal strategies in more detail, they are further described below.

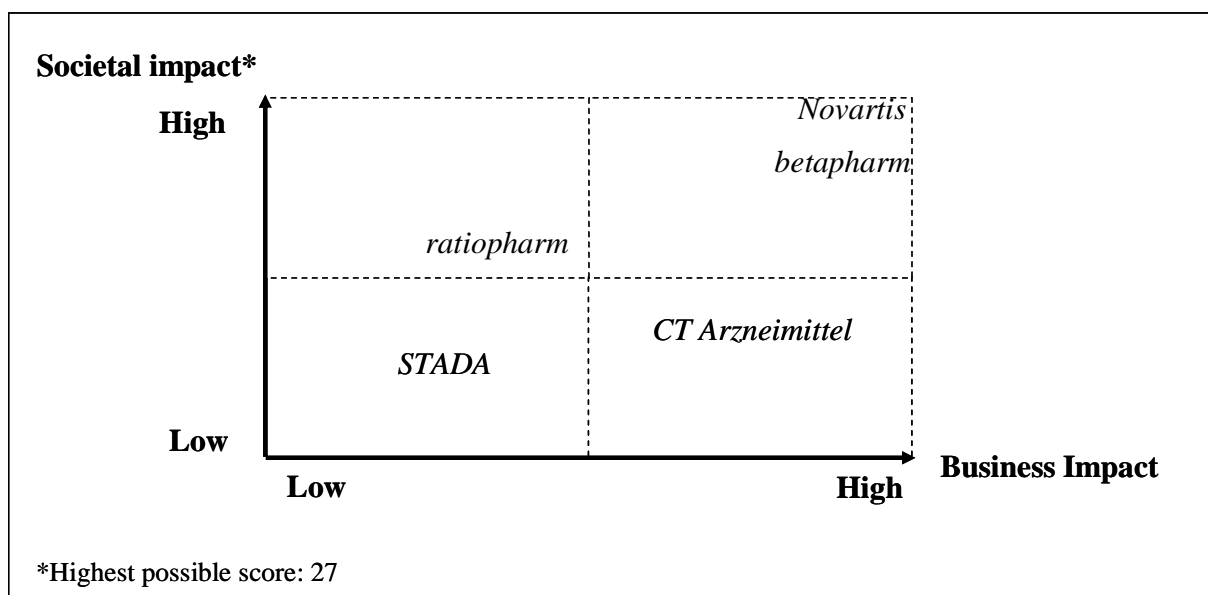


Figure 3: Societal strategies of top European generic pharmaceutical companies

#### 4.2.1 *Arbitrary strategy: The case of STADA*

STADA AG is one of the leading generics producers in Germany offering generic as well as branded products. Although STADA focuses on the European market (~95% of all revenues), the company also has sales operations in Asia and exports into 39 countries. In 2006, STADA generated sales of more than EUR 1.2 billion and employed 5,442 people (see Appendix 1). Its generics business represents 73% of total sales. It is listed in the German MDAX, in the EuroSTOXX 600 and the MSCI Small Cap Europe.

With its community engagement, STADA especially focuses on Germany. The company is a main sponsor of Dolphin Aid e.V. – a German NGO supporting dolphin therapies for disabled and sick children. In 2003, STADA started a partnership with "Europa Fachhochschule Fresenius", a university of applied science, to establish an Endowment Professorship for Health Management. It also supports its headquarter community with donations to e.g., schools, charitable or cultural institutions. STADA has been a sponsor of a local wheel chair basketball club since 1995 and has sponsored the Association of German cyclists since 2003. The company does not report about sustainability or CSR ratings or awards, the involvement of other business partners or stakeholders (see [www.stada.de](http://www.stada.de)). In terms of societal impact, STADA's regional community engagement therefore reaches a low to medium score (see Table 5 and Appendix 6).

STADA's *voluntary* community support is only partially related to its core business. It is not linked with STADA's overall strategy. However, with its focus on health, the community support is *partially central* to STADA's mission. STADA's external communication on its community engagement is rather limited. The company provides a website link to its sponsoring activities, which is rather difficult to find as it appears among other services such as health checks, weather service or TV spots. Societal activities are not mentioned in the annual report and only described on one page of STADA's annual personnel and social report. However, STADA's sports sponsoring is linked with the appearance of the STADA logo e.g., on sports tricots. *Visibility* and *specificity* are therefore partially given but very limited so that STADA's business impact was rated low. STADA's sponsoring activities are best described as conventional business management with some arbitrary Corporate Citizenship activities that are administered by the company. Based upon STADA's societal impact score and the qualitative evaluation of its business impact, STADA is positioned within an arbitrary societal strategy (see Figure 3).

#### 4.2.2 *Business-focused strategy: The case of CT Arzneimittel*

CT Arzneimittel GmbH is a German pharmaceutical company focusing on generic pharmaceuticals. With sales of about EUR 150 million and 185 employees in 2006, CT Arzneimittel is among the leading generics producers in Germany (see Appendix 1).

In terms of community engagement, CT Arzneimittel supports three main initiatives. For each sold or prescribed CT package, CT Arzneimittel donates 1 Cent to Catania gGmbH, a German NGO that supports trauma patients. It has also been supporting the Mbesa hospital in Tansania since 1996 and is a sponsor of the basketball team ALBA BERLIN in its

headquarter city. In addition, CT Arzneimittel sporadically donates for other causes. For example, CT supported the Tsunami victims in 2004 with a product donation to the Red Cross. CT especially focuses on regional support and pursues a partnership approach with long-term relations to societal partners. The company also tries to involve outside partners, e.g., asking the general public for donations to Catania (see [www1.ct-arzneimittel.de](http://www1.ct-arzneimittel.de)). Overall, CT reaches a medium level of societal impact (see Table 5 and Appendix 3).

CT Arzneimittel's *voluntary* societal engagement can be considered *proactive* as CT actively tries to involve the general public in the support of Catania. It is also *highly visible*. CT prominently describes its societal engagement on the CT website. The CT logo appears on all Catania communication materials and on the sports clothes of ALBA BERLIN players. CT's sponsoring and social support is also yielding *company-specific* benefits as the presence of the logo ensures a direct recognition of CT's engagement. In terms of *centrality*, CT argues that ALBA BERLIN represents a close fit to company values. The support of health projects also represents a link to CT's business. However, there was no indication of an integration of CT's societal engagement into its strategy or goals so that centrality is only partially fulfilled. With these characteristics, the business impact of CT's engagement was considered medium to high leading to a positioning of CT's societal activities within a business-focused strategy (see Figure 3). CT's sports sponsoring can rather be described as a conventional business activity. However, with its societal support of Catania and the Mbesa hospital the company pursues a proactive societal management approach.

#### 4.2.3 *Philanthropic strategy: The case of ratiopharm*

Ratiopharm, a family-owned German pharmaceutical company, claims to be the leading generics producer in Germany and one of the leading generics producers worldwide. 2006 sales amounted to EUR 1.7 billion of which 48% were generated in Germany. The company, which has branches in 24 countries worldwide, employed 5,373 people in 2006 (see Appendix 1).

Ratiopharm engages in a variety of societal activities. Among others, the company is partnering with UNICEF supporting AIDS prevention projects in Malawi and projects against the circumcision of girls in Senegal. In Germany, ratiopharm initiated a national campaign for a preventive approach to healthcare in 2004, which was continued in 2005 with various partners from the healthcare sector. In 2006, the company donated products worth EUR 1.8 million to catastrophe victims in Asia and Africa. It is also actively engaged in the sponsoring of German artists and sports teams. In autumn 2006, the company owner established the "World in Balance" foundation. For each ratiopharm package sold 1 cent is donated to specific social projects. The first partner of World in Balance was a foundation that received an initial donation of EUR 1.7 million to support two regions in Ethiopia. In 2007, a charity boat tour was organized to present the concept in major German cities. World in Balance is prominently communicated on the German ratiopharm website and website visitors can purchase World in Balance products such as post cards to support the foundation. At the time of this research, ratiopharm announced that all sales and marketing activities of

ratiopharm Germany were to be aligned with the initiative. With its overall engagement, ratiopharm achieves a medium societal impact score (see Table 5 and Appendix 5).

The *voluntary* engagement of ratiopharm and the *proactive* inclusion of a variety of partners and the general public can be characterized as *partially central* to the core business. Some of the projects are directly related to health topics, others are unrelated to the core business e.g., the support of German artists. The different societal projects show varying degrees of *specificity* and *visibility*. The support of arts and the donations to UNICEF are rather unspecific and have a rather limited visibility as they were mainly communicated through press releases and only shortly described on the corporate website. In contrast, the newly initiated World in Balance foundation is closely linked with the sales of ratiopharm products and highly visible in the public so that company-specific benefits can be expected. Therefore, at the time of the research, business impact was rated at a medium level leading to a positioning of ratiopharm within a philanthropic strategy (see Figure 3). However, the development of the World in Balance project points to a societal strategy change towards a stronger business focus and a proactive societal management approach. It remains to be seen if this will lead to a sustainability-oriented strategy in the future.

#### 4.2.4 Sustainability-oriented strategy: The case of betapharm

Betapharm is one of the leading German generics producers. In 2006, the company employed 370 people and generated sales of about EUR 184 million (see Appendix 1). In Germany betapharm has become known as a role model for its "social responsibility". In 2006, betapharm was bought by Dr. Reddy's, an Indian pharmaceutical company. At the time of this research, betapharm communicated that it had established a task force with Dr. Reddy's to plan its worldwide social strategies. However, as betapharm still communicated separately about its societal involvement, it is still described in this paper as a European case study without a further description of the overall societal engagement of Dr. Reddy's.

Betapharm's societal engagement was marked by three steps. Initially, betapharm had started with a cost-leadership strategy in the German generics market. However, by 1997, competitors had significantly lowered prices and betapharm sales declined. At that time, betapharm's chief executive officer got to know "Bunter Kreis", a local NGO providing follow-up care for families with chronically or severely sick children in betapharm's headquarter city. In 1998, betapharm started to sponsor "Bunter Kreis" as a basis for differentiation from competition (see e.g., Financial Times Deutschland, 10.05.2005, 38 at [www.betapharm.de](http://www.betapharm.de)). Of each betapharm package sold, 5 cents were donated to "Bunter Kreis". As a second step, both partners decided to extend the idea of "Bunter Kreis" to Germany. For this purpose, betapharm established the betapharm care foundation in 1998. In 2004, 17 follow-up care initiatives existed in Germany following the "Bunter Kreis" concept (see Brand Eins 10/04, 59f. at [www.betapharm.de](http://www.betapharm.de)). As a third step, betapharm broadened its societal engagement initiating, promoting and supporting a variety of innovative social projects with a focus on a holistic approach to patient care and psychosocial health. For example, betapharm's aftercare foundation started to provide trainings for health care professionals in social counseling. In 1999, betapharm and "Bunter Kreis" established the Beta Institute, an

independent NGO focusing on holistic case management. Among others, the Beta Institute provides training courses for case management, it is engaged in academic research and provides information to pharmacists and medical doctors on socio-medical care. Betapharm also supports a German-wide nursery school project to educate children about violence and addiction and supports a network for women with breast cancer. Betapharm regularly spends about 2% of total sales for its social initiatives. According to betapharm, its case management approach is used by 1/3 of all German doctors and pharmacists. Betapharm also succeeded to raise additional funds for its social projects from other companies such as BMW and governmental institutions such as the Bavarian health ministry. It has close cooperations with various societal partners including NGOs such as "Bunter Kreis" and academic institutions with research on Corporate Citizenship, governments, and Corporate Citizenship networks. The betapharm case has been described as a role model case in various practitioner's and academic publications in Germany. The company was also awarded the Ethics in Business quality sign by Oekom and placed first in the competition "Freedom and Responsibility". Betapharm regularly attends CSR conferences and workshops. However, there was no communication about other types of stakeholder dialogue e.g., with communities or patients. In terms of strategic integration, betapharm's social responsibility represents the core of its business strategy: "Social responsibility is an integral part of our mission statement and determines the strategy of the company" (Dr. W. Niedermaier, managing director, betapharm press release, 03.11.2005 at [www.betapharm.com](http://www.betapharm.com)). The priority of CSR is also reflected in its organizational structure. Betapharm's head of CSR is part of the company's top management team. With this extensive social involvement, betapharm reaches a high societal impact score (see Table 5 and Appendix 2).

In terms of business impact, betapharm describes various company-*specific* business benefits from its *voluntary* and *proactive* societal engagement e.g., high employee identification and motivation, high attractiveness for potential job candidates, differentiation from competitors, and positive image. Betapharm's social marketing helped the company to differentiate itself from competition and to become one of the top 5 generics producers in Germany. Betapharm's social initiatives are closely linked with its core business and thus *central*, which is also reflected in betapharm's vision. With its extensive CSR communication, which is integrated into its core business communication, the societal engagement is also highly *visible*. The business impact of betapharm's societal engagement is therefore ranked high. With this positioning, betapharm clearly pursues a sustainability-oriented strategy (see Figure 3). It shows clear characteristics of a sustainable entrepreneur using innovative ways to differentiate itself from competition by focusing on social projects that promote psychosocial care, an area uniquely filled by betapharm in Germany. However, a true sustainable entrepreneur also integrates the ecological dimension into its business. Betapharm does not report on environmental initiatives. Based upon its external communication betapharm is therefore positioned within a societal management approach.

#### 4.2.5 *Sustainability-oriented strategy: The case of Novartis*

With the acquisition of Hexal in February 2005, Novartis integrated one of the biggest generics producers in Germany into its generic pharmaceuticals division. Novartis is the only pharmaceutical company with leadership positions in patented prescription drugs as well as generic pharmaceuticals. With this strategy, Novartis strives to provide innovative pharmaceuticals while at the same time improving the access to medicines by offering low-cost generic pharmaceuticals (see e.g., Novartis Facts and Figures 2006 at [www.novartis.com](http://www.novartis.com)). Novartis is organized into four divisions: pharmaceuticals, vaccines and diagnostics, Sandoz (generic pharmaceuticals), and consumer health (self-medication, animal health, infant nutrition and contact lenses and lens care). In 2006, Novartis had more than 98,000 employees of which almost 50% were employed in Europe and generated sales of more than EUR 27 billion. Its generics division Sandoz reported worldwide sales of about EUR 4.4 billion of which 58% were generated in Europe.

In its external communication, Novartis emphasizes the importance of Corporate Citizenship. In contrast to the narrow definition of Corporate Citizenship in this paper, Novartis uses this term for all its sustainability-related efforts. Novartis' Corporate Citizenship efforts are bundled on a corporate level. Although some Novartis companies report distinct societal activities (e.g., Hexal with a description of the charitable contributions of the Hexal foundation at [www.hexal.de](http://www.hexal.de)) Novartis' generics business division Sandoz refers to the corporate website for further information on its CC activities (see [www.sandoz.com](http://www.sandoz.com)). To evaluate the societal strategy of Sandoz representing one major player in the German generics market, Novartis' overall societal strategy was evaluated in this case study.

With its societal activities, Novartis achieves the highest possible societal impact score (see Table 5 and Appendix 4). Novartis' Corporate Citizenship programs focus on four areas: commitment to patients, ethical business conduct, people and communities, and environmental care. With regard to the narrower definition of Corporate Citizenship in this paper, Novartis' CC activities can especially be found in the areas of commitment to patients and communities. In terms of community engagement Novartis has more than 12 foundations and regularly supports local projects such as a project to support AIDS orphans in Africa. Once a year all Novartis companies and divisions participate in the Community Partnership Day. On this day, Novartis employees volunteer in their local communities engaging in social projects. In terms of its commitment to patients Novartis has an extensive access-to-medicine program, managed by the Novartis foundation. For example, in the developing world Novartis provides free leprosy and tuberculosis treatments. It cooperates with the WHO and UNICEF selling its antimalarial drug Coartem without profit in the developing world and offers discounts for its anticancer drug Glivec for patients without medical insurance in different countries. In New Zealand, Novartis engaged in a 2-year vaccination campaign to fight a New Zealand specific epidemic in cooperation with the New Zealand government. After the vaccination campaign, the disease had decreased by 80%. As the vaccine was developed to fight a rare disease, the project only covered its costs and did not provide profits to Novartis. Although the project was considered philanthropic, Novartis claimed that it did help the company to advance its own knowledge and contribute



to further progress in this field (see Annual Report 2006, 63f. at [www.novartis.com](http://www.novartis.com)). In 2003, Novartis established the Institute for Tropical Diseases focusing on research to fight rapidly spreading diseases such as dengue fever, malaria and tuberculosis. Overall, Novartis spent about 2% of its sales for access-to-medicine-programs in 2006 and reached about 33.6 million people worldwide. The company is not only engaging in long-term partnerships with societal institutions but also succeeds in leveraging other partners to strengthen its Corporate Citizenship efforts. For example, in 2006 the Novartis Institute for Tropical Diseases received USD 20 million from the Singapore Economic Development Board and the Medicines for Malaria Venture. The company also engages in a broad discourse with its stakeholders through e.g., community panels or meetings with patient advocacy groups and receives recognition for its overall sustainability efforts through the regular inclusion in sustainability ratings and CSR awards.

Novartis highly integrates its Corporate Citizenship efforts into its core business: "Corporate citizenship is integral to the Novartis strategy and key to our success. We consistently focus on improving access to existing medicines, while also conducting research for new therapies to help those with neglected diseases" (Corporate Press Kit at [www.novartis.com](http://www.novartis.com)). Economic, social and environmental goals are an integral part of Novartis' business goals and are reported on an annual basis. Novartis sets annual qualitative and quantitative targets for different areas including societal issues such as human rights, employee involvement, stakeholder engagement or access to medicines. Responsibilities for all aspects of sustainability are integrated into all business functions and levels. For example, at board level, a Corporate Citizenship steering committee assumes responsibility for the implementation of all CC activities within the company, officers for specific sustainability-related topics exist (e.g., 180 part-time compliance officers), and an External Diversity and Inclusion Advisory Council with experts from academia, businesses and NGOs serves as an advisor to the executive committee. Novartis' Corporate Citizenship activities are prominently communicated and integrated into the core business communication.

In terms of business impact, Novartis especially focuses on CC programs that are closely related and thus *central* to its business e.g., its access-to-medicine-programs, yielding *company-specific* benefits: "We believe corporate citizenship is the right thing to do and essential to maintaining our license to operate, innovate and grow" ([www.novartis.com](http://www.novartis.com)). With its extensive communication on its *voluntary* and *proactive* Corporate Citizenship activities, Novartis' societal engagement is also highly *visible*. Therefore, Novartis reaches a high societal as well as business impact. The Novartis Foundation and Institute for Tropical Diseases actively search for innovative solutions to societal problems. They invest into research for rare diseases that does not provide significant profits to the company but does advance Novartis' own knowledge, which can be applied to other profitable areas of the business. As Novartis does not only integrate the social and economic dimensions into its business decisions but also puts forth extensive efforts to reduce its ecological footprint, Novartis' approach to sustainability can be described as sustainable entrepreneurship.

## 5 DISCUSSION AND AREAS FOR FUTURE RESEARCH

Building upon the contributions from earlier research, this paper proposed four value creating societal strategy options:

- an arbitrary strategy with a low impact for society or business and inactivity as a special case,
- a business-focused strategy with a high value creation for businesses but low or no value creation for society and business impact maximization at its utmost end,
- a philanthropic strategy with a high societal value creation and social entrepreneurship as the maximum societal value creating approach,
- a sustainability-oriented strategy yielding substantial societal as well as business benefits leading towards sustainable entrepreneurship.

The societal strategy options were further characterized in terms of the strategic dimensions of CSR as proposed by Burke and Logsdon (1996): centrality, specificity, proactivity, voluntarism, and visibility. The subsequent case studies showed that those characteristics helped to identify the societal strategy options apparent in business practice although they did not exactly match the theoretical dimensions. Exact matches of the proposed strategic dimensions were only realized in the cases of betapharm and Novartis with their sustainability-oriented strategies. In the other cases, the companies tackled the proposed dimensions as well as additional dimensions. However, this does not contradict theory but shows that companies pursuing a certain strategy can also tackle other strategic dimensions of CSR.

The discussion in this article suggests that not only sustainability-oriented (as argued by Porter and Kramer 2006a and 2006b) but also philanthropic and business-focused strategies can be considered strategic if pursued in a planned and structured way. The case studies also illustrated how each of the strategy options can be executed in practice and which societal management approaches were pursued by the companies in scope. These management approaches matched the societal management approaches proposed in this paper:

- conventional business management with no or low societal impact present within arbitrary and business-focused strategies as shown by the sponsoring activities of STADA and CT Arzneimittel,
- societal administration with low to medium societal impact and shown by STADA's arbitrary Corporate Citizenship activities,
- societal management with medium to high societal impacts achieved through the proactive identification of unique opportunities from societal engagement such as in the case of ratiopharm and betapharm, and

- societal entrepreneurship as in the case of Novartis with an approach towards sustainable entrepreneurship.

One main limitation of the case studies is the research methodology used. In this paper, the research concentrated on document analysis evaluating the external communication of the companies in scope. One main weakness of document analysis is a possible reporting bias reflecting the opinion, selection criteria, and reporting target of the author (see Yin 2003, 85-88). With regard to the above case studies, it is very likely that the information on Corporate Citizenship activities includes certain reporting biases. External sustainability information is often published for a certain target group and aims at creating a positive corporate image. Conclusions about societal impact that are based upon this external information might therefore be overestimated. The same is true if the societal activities are not managed well to achieve their expected societal impact. It is also possible that in some cases the societal impact was underestimated if a company only reported on a small selection of their CC activities such as in the case of STADA, which did not report prominently on its societal involvement. Thus, the case studies included in this paper can only serve as an illustration of the existence of the strategy options developed in the strategy matrix. Further research is needed to truly understand the motivations and foci behind corporate societal engagement and to develop metrics for the measurement of societal and business impacts. This calls for in-depth case studies as well as quantitative research. Such research could also contribute to a further characterization of the strategy options and to an identification of additional influence factors on strategy choice such as company and industry characteristics. For example, philanthropic strategies might be especially adequate for companies with a limited number of owners as in the case of family-owned small and medium sized businesses in which the owners agree to trade-off personal financial rewards for social expenditures as illustrated by the case of ratiopharm. Publicly traded companies need to legitimize the expenditure of stockholders' earnings for societal causes. This will very likely require a stronger focus on business benefits, which might rather lead to business-focused or sustainability-oriented societal strategies. Another link might exist between financial success and strategy choice as a society-focused strategy might only be appropriate for economically successful companies that can "afford" to contribute to society without any pay-backs for the company. If a company gets under financial pressure, societal expenditures without business benefits might be abandoned. To investigate such relationships, broad empirical research is needed.

Organizational and leadership characteristics are another interesting field for future research. Intuitively, it can be assumed that a philanthropic strategy requires strong top management commitment. Societal involvement might either remain the direct responsibility of the leadership group or they might appoint dedicated officers or departments. However, if leadership changes, societal activities within a philanthropic strategy might be cancelled as the new leadership might not accept societal activities without business rationales. In companies with a business-focused strategy, leadership commitment to societal issues might be lower as the focus is on business opportunities and not societal benefits. It seems very likely that societal engagement remains the responsibility of traditional business functions

such as marketing or public relations. With a sustainability-oriented strategy, leadership commitment and societal awareness need to be high. It can be assumed that societal engagement is integrated into the entire business with special leadership attention for such issues. Formal organizational structures might include special task forces or steering committees for certain societal issues as in the case of Novartis. With regard to arbitrary strategies it can be expected that leadership commitment to societal engagement is very low and there are no specific organizational structures in place to tackle societal issues. In the case studies, only Novartis described its organizational design with regard to societal responsibilities in detail. Due to the limited communication on organizational design, in-depth case studies and broad empirical research are needed to investigate actual organizational structures regarding corporate societal engagement.

The societal strategy options developed in this paper contribute to a stronger focus of sustainability and CSR management towards value creation. It can be assumed that, if managed from a value creating strategic perspective, societal activities will yield stronger impacts for society as well as businesses. To implement such a strategic approach towards societal engagement, companies need to integrate societal decisions into their strategic management. The choice of societal strategies needs to be closely tied to company strategy and characteristics. Management systems need to be in place to evaluate societal and business benefits. Further research is needed to develop tools and systems that guide managers in their strategic planning of societal issues and help them identify unique opportunities from societal engagement on their way towards sustainable entrepreneurship.

## 6 APPENDIX

### 6.1 Company Information

Com-pany	Head-quarter	Sales (€ million) 2006	Em-ployees 2006	Sources evaluated in research
beta-pharm Arzneimittel GmbH	Augsburg, Germany	184	370	<p><u>Websites:</u> www.betapharm.com; www.betapharm.de</p> <p><u>Documents from company websites:</u> "Jahresrückblick 2005"; "10 Jahre soziale Verantwortung"; "Soziales Engagement"</p> <p><u>Press articles published on company websites:</u> e.g., "Profit mit Non-Profit" <i>Brand Eins</i> 10/2004; "Lohnendes Engagement" <i>Die Welt</i> (09.04.05); "Ethik statt Taktik" <i>Financial Times</i> (24.03.05)</p> <p><u>Company presentations:</u> "Die Botschaft hör ich wohl – was taugen Corporate Social Responsibility Programme"</p>
CT Arzneimittel GmbH	Berlin, Germany	150	185	<p><u>Websites:</u> www1.ct-arzneimittel.de; www.catania-online.org</p> <p><u>Documents from Catania website:</u> e.g., image brochure; news sheets ( 1, 2, 4, 5, 6); "Mehr Licht im Dunkeln"; patients brochure; trauma brochures</p>
Novartis AG	Basel, Switzerland	27,504*	98,788	<p><u>Websites:</u> www.sandoz.com; www.hexal.de; www.foundation.hexal.de; www.oncocare.de; www.novartis.com; www.corporatecitizenship.novartis.com</p> <p><u>Documents from Novartis websites:</u> Annual Report 2005, 2006; Corporate Citizenship Review 2006; CC policies e.g., code of conduct, CC Guidelines # 1-5; brochures e.g., Novartis in Switzerland; fact sheets e.g., Sandoz at a glance, CC overview; CC brochures e.g., "Bringing hope to AIDS orphans in Africa"</p> <p><u>Documents from Hexal website:</u> "Hexal Sozialbroschüre"; Hexal image brochure</p>
ratio-pharm GmbH	Ulm, Germany	1,702	5,373	<p><u>Websites:</u> www.ratiopharm.com; www.ratiopharm.de; www.world-in-balance.de</p> <p><u>Press releases from websites:</u> e.g., "Ein Herz für UNICEF" (28.10.2003), "World in Balance: Schiffstour!" (10.05.2007)</p>
STADA AG	Bad Vilbel, Germany	1,245	5,442	<p><u>Websites:</u> www.stada.de; www.stada.de/english; www.fh-fresenius.de/stada-arzneimittel.345.de</p> <p><u>Documents from company websites:</u> Annual Report 2006; "Personal- und Sozialbericht 2005"; press releases on Kosovo donation (25.05.1999) and professorship (02.12.2003)</p>

\*Exchange Rate USD/EUR from June 26, 2007

Appendix 1: Company Information on case examples

## 6.2 betapharm – societal impact evaluation

		Scores		0	1	2	3
Category	Indicators						
Community impact	Value of community support						~ 2% of sales per year, employee volunteering
	Geographic scope / Number of beneficiaries					Regional: focus on Germany but with high penetration (psycho-social case management used by 1/3 of Germany's doctors and pharmacists, country-wide nursery school prevention program)	
	Outside leverage						Additional funding from other companies (e.g., BMW) and government
General societal performance indicators	Sustainability ratings and awards					Ethics in Business Quality Sign 2005 (Oekom rating), "Bürgerkulturpreis" 2006, 1st place "Freedom & Responsibility" competition 2006	
	Societal partners						Various research institutions, government, NGOs, networks
	Stakeholder dialogue					Regular workshop and conference attendance (e.g., EU consultation, university workshops)	
Integration of societal issues into core business	Strategic integration						Entire business model CSR-oriented, CSR basis for business success and part of overall strategy
	Organizational structure					Head of CSR in top management group, dedicated CSR officer in communication department, no communication about further organizational CSR structure	
	Communication						CSR represents main focus of business communication

N/A = information not available

Appendix 2: Societal impact evaluation betapharm

### 6.3 CT Arzneimittel – societal impact evaluation

Scores		0	1	2	3
Category	Indicators				
Community impact	Value of community support			>EUR 200,000 donated to Catania annually + additional donations	
	Geographic scope / Number of beneficiaries			Regional: focus on Germany but also donations to local hospital in Tansania	
	Outside leverage		Call for donations on homepage		
General societal performance indicators	Sustainability ratings and awards	N/A			
	Societal partners				Catania gGmbH, Mbesa Hospital, Red Cross
	Stakeholder dialogue	N/A			
Integration of societal issues into core business	Strategic integration	N/A			
	Organizational structure	N/A			
	Communication			Dedicated CC link on homepage	

N/A = information not available

#### 6.4 Novartis – societal impact evaluation

Scores		0	1	2	3
Category	Indicators				
Community impact	Value of community support				2006: USD 755 million for access-to-medicine programs (~2% of sales), >100,000 volunteers at Partnership Day
	Geographic scope / Number of beneficiaries				Worldwide: 33.6 million patients reached by access-to-medicine programs (2006), 62 million treatments with anti-malaria drug
	Outside leverage				2006: USD 20 million granted by partners to Novartis Institute for Tropical Diseases
General societal performance indicators	Sustainability ratings and awards				Regular inclusion in ratings e.g., Dow Jones Sustainability Indices, FTSE4Good; regular awards e.g., Excellence in Corporate Philanthropy Award 2005, Best Corporate Citizen 2006 (Taiwan)
	Societal partners				WHO, UNICEF, Medicines for Malaria Venture, Hasanuddin University and others
	Stakeholder dialogue				Regular community panels, focus groups, meetings with patient advocacy groups
Integration of societal issues into core business	Strategic integration				Entire business model sustainability oriented, integration into business strategy and goals, annual measurement of economic, social and environmental indicators
	Organizational structure				Societal responsibilities integrated into all business functions: e.g., steering committee at board level, officers for certain areas
	Communication				Societal communication integrated in annual report, additional separate CC communication

N/A = information not available



### 6.5 ratiopharm – societal impact evaluation

Scores		0	1	2	3
Category	Indicators				
Community impact	Value of community support			2006: EUR 1.7 million by World in Balance and EUR 1.8 million for disaster relief (~0.2% of sales)	
	Geographic scope / Number of beneficiaries				Global: support of projects in various regions of the world; 120,000 people to be tackled by project in Ethiopia
	Outside leverage			Inclusion of general public in World of Balance project	
General societal performance indicators	Sustainability ratings and awards		Awards for environmental performance mentioned but not further specified		
	Societal partners				UNICEF, Menschen für Menschen foundation
	Stakeholder dialogue	N/A			
Integration of societal issues into core business	Strategic integration			Overarching strategy for World in Balance supplemental to core business	
	Organizational structure			Dedicated World in Balance office	
	Communication			Dedicated CC link on corporate website, prominent link to World in Balance on German website	

N/A = information not available

## 6.6 STADA – societal impact evaluation

Scores		0	1	2	3
Category	Indicators				
Community impact	Value of community support			2007: EUR 500,000 donated to "Dolphin Aid" (0.06% of sales), various other sponsoring activities	
	Geographic scope / Number of beneficiaries			Regional: focus on Germany	
	Outside leverage	N/A			
General societal performance indicators	Sustainability ratings and awards	N/A			
	Societal partners				Dolphin Aid, Fresenius College, Wheel Chair Basketball Club Lahn-Dill
	Stakeholder dialogue	N/A			
Integration of societal issues into core business	Strategic integration	N/A			
	Organizational structure	N/A			
	Communication		Sporadic CC communication: CC mentioned in press releases and 2005 personnel report; CC link on website difficult to find		

N/A = information not available

Appendix 6: Societal impact evaluation STADA

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