SUSTAINABLE DEVELOPMENT AND SUSTAINABILITY OF COMPETITIVE ADVANTAGE: A DYNAMIC AND SUSTAINABLE VIEW OF THE FIRM

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Abstract

Does the need for sustainable development hinder businesses' ability to create value? Is firms' competitiveness negatively affected by considering that need? Evidence that many of today's economic development practices are causing negative environmental and social side-effects continues to pile up. Yet to change the belief that markets and prices by themselves can, must and will take care of any negative impact that companies have on society is a tough objective. To prove that it is possible to do well by doing right, and that, in the long term, the only way to do well is by doing right, is a Herculean task. The purpose of this paper is to contribute to this task. Since the core idea of the paper relates to the role of business in society at large, first of all the authors quickly review the literature concerning this issue. Then, drawing on the resource-based view of the firm and sustainable development literature, the paper presents a proposal for a dynamic and sustainable view of the firm, explaining the normative and instrumental character of its foundations. It shows how sustainable development changes the competitive landscape and in so doing influences the way in which companies develop their resources, capabilities and activities, fostering the persistence of competitive advantages based on knowledge and innovation. The authors conclude by highlighting the changes in corporate governance which inherently come with this new view of the firm.

Keywords: Sustainable development. Resource-based view of the firm. Corporate governance. Stakeholder management. Knowledge management.

SUSTAINABLE DEVELOPMENT AND SUSTAINABILITY OF COMPETITIVE ADVANTAGE: A DYNAMIC AND SUSTAINABLE VIEW OF THE FIRM

If you say "a company's goal is to make money," nobody will be surprised. But if you say "a company's purpose is to create economic, environmental and social value for shareholders, customers, employees and society at large," everybody will be amazed.

It is obvious that to change the public's world view is one of the most difficult endeavors we can strive to undertake. Consider that 23 centuries after Aristarchus developed the heliocentric theory, five centuries after Copernicus introduced the concept to mainstream society, and four after Galileo pronounced his famous "e pur, si muove," we still say "the sun rises" and "the sun sets," as if the Earth was indeed the center of the Universe.

Similarly, evidence that many of today's economic development practices are causing negative environmental and social side-effects continues to pile up. Yet to change the belief that markets and prices by themselves can, must and will take care of any negative impact that companies have on society is a tough objective. To prove that it is possible to do well by doing right, and that, in the long term, the only way to do well is by doing right, is a Herculean task.

The purpose of this paper is to contribute to this task. The core idea relates to the role of business in society at large. Thus, we will first quickly review the literature concerning this issue. Since our proposal for a dynamic and sustainable view of the firm draws heavily on the resource-based view of the firm and sustainable development literature, we summarize the former and explain the normative and instrumental character of the foundations of the latter. After explaining the reasoning behind our proposal for a dynamic and sustainable view of the firm, we conclude by highlighting the changes in corporate governance which inherently come with it.

Views of the Relationship between the Firm and Society

The relationship between businesses and society has been extensively treated in management literature. From the *efficiency view*, the social responsibility of businesses is to increase their profits (Friedman, 70) with no other limits than those established by law and common decency (Sternberg, 99, working paper; Jensen, 01). There are other strands of literature that consider that there is or should be a closer relationship between businesses and society. The most important of these refer to *corporate social responsibility* (CSR1), which basically states why corporations should be socially responsible or not; *corporate social responsiveness* (CSR2), the purpose of which is to describe firms' responses to social demands; *corporate social performance* (CSP), which started as a way to embrace the main contributions of CSR1 and CSR2 and later focused on the outcome of corporate behavior; and *stakeholder theory* (ST), the aim of which is to determine to whom firms are responsible and how and why companies should manage their relationships with them.

Figure 1. Firms and society relationship views

Approach / Firm view	**Normative**	**Descriptive**	**Instrumental**	**Integrative**
Efficiency	Friedman (1962, 70)			
CSR1	Bowen (1953) Frederick (1960) Davis (1967, 73) Preston & Post (1975)	Jones (1980)		
CSR2		Ackerman (1973, 75) Blake (1974) Ackerman & Bauer (1976) Sethi (1979) Strand (1983)		
CSP	Sethi (1975) Carroll (1979) Swanson (1999)			Wartick & Cochran (1985) Wood (1991) Clarkson (1995) Swanson (1995)
Stakeholder theory	Carroll (1989)	Brenner & Cochran (1991) Mitchell, Agle & Wood (1997)	Freeman (1984, 99) Jones (1995)	Jones & Wicks (1999) Donaldson & Preston (1995)

As Figure 1 shows, all the above theories take one or more of the following approaches (Donaldson & Preston, 95): the *normative* approach states what firms should or should not do; the *descriptive* approach explores what firms in fact do; and, finally, the *instrumental* approach posits that companies will obtain specific outcomes if they adopt specific behaviors. There have also been fruitful attempts to blend these approaches into what we have called an *integrative* approach.

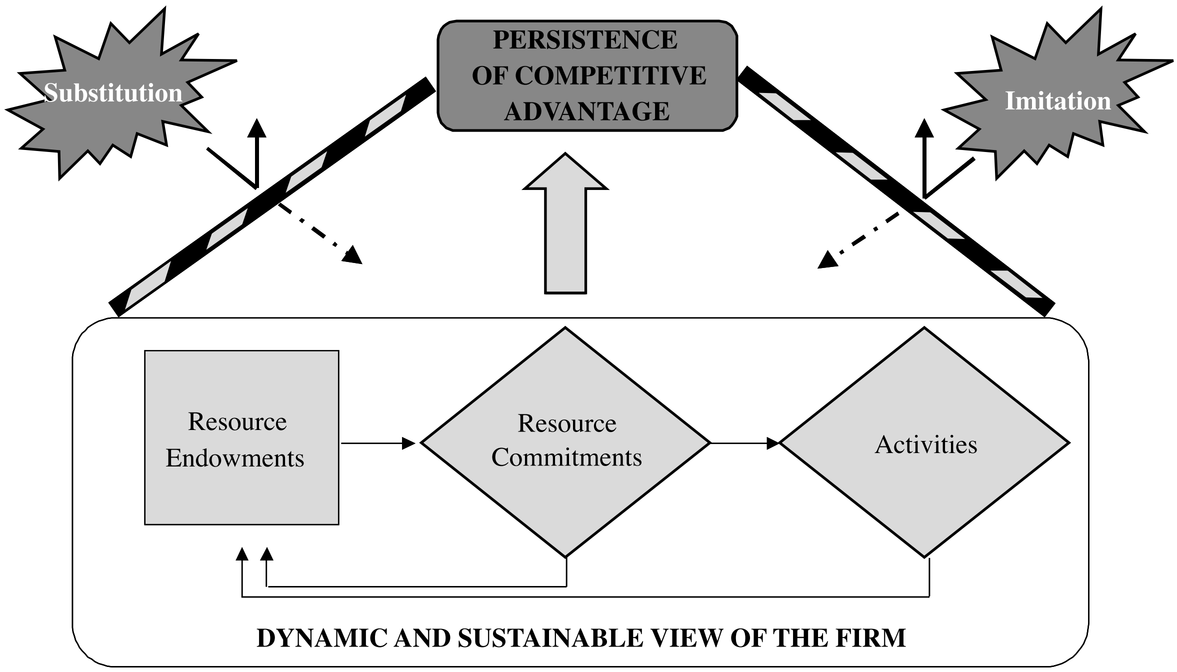
Considering that the sustainable development concept involves economic, social and environmental factors (Gladwin, Kenelly & Krause, 95), and that the dynamic view of the firm (Ghemawat, 99) explains the sustainability of competitive advantages, the theory developed in this paper fits nicely into what could be labeled *a dynamic and sustainable view* of the firm. Before introducing our proposal of a dynamic and sustainable view of the firm, we will briefly review the main features of these two views of the firm in relation to this proposal.

The Dynamic View of the Firm

It is well known that the purpose of all business strategies is to reveal how a business can persistently create more value. Achieving this goal largely depends on industry attractiveness and individual business positioning. A successful business position will, moreover, depend on the persistence of its supporting competitive advantages.

Business management literature has analyzed the persistence of competitive advantages mainly based on two theories: the resource-based business theory (Wernefelt, 84; Barney, 91) and the activity-based business theory (Andrews, 71; Porter, 96). In general outline, the former emphasizes the resources and capabilities generated by the business, and the latter, the business activities themselves. Both lines of thought have been successfully inter-related under the value creation umbrella in the dynamic business view theory (Ghemawat, 99). As shown in graph form in Figure 2, resources, capabilities and activities enable the creation of persistent competitive advantages in so much as they are difficult to imitate and substitute by current or potential competitors.

Figure 2. The dynamic view of the firm and the persistence of competitive advantage (adapted from Ghemawat, 99)

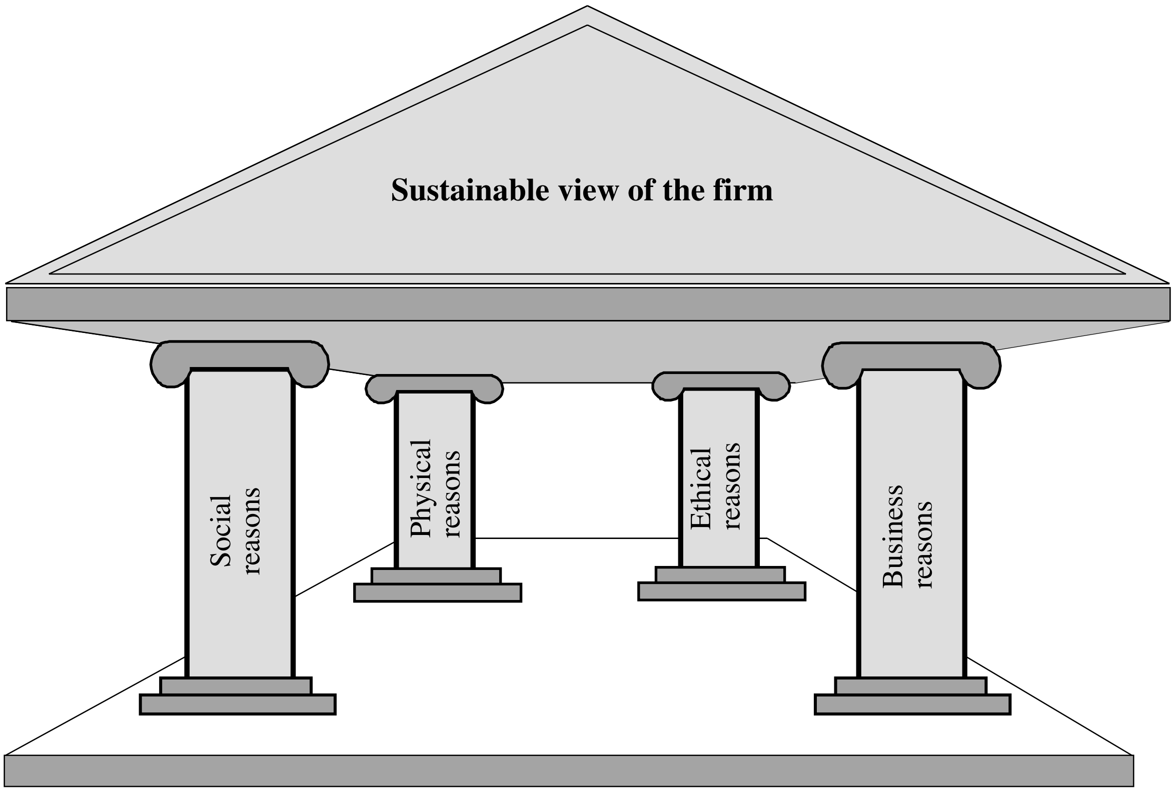


As we will explain later, accepting the responsibilities associated with sustainable development furthers the persistence of competitive advantages.

The Sustainable View of the Firm

The sustainable view of the firm is based on the need for companies to fully accept the fact that the business world is part of the natural (Shrivastava, 94) and social (Eells & Walton, 61; Davis & Blomstrom, 66) system; this fact has two dramatic implications for the corporate world: acceptance of the scarcity of natural resources (Hart, 95) and the notion of business and society's co-responsibility for the use and development of social resources (Eells, 60; Frederick, 87).

Figure 3. The four pillars of the sustainable firm



As we propose and represent graphically in Figure 3, the sustainable view of the firm is based on four pillars. All of them relate to each other and support the idea that firms should create sustainable value (that is to say, economic, social and environmental value) in the double sense of the word *sustainable:* in a persistent way and in a way that is consistent with the principles of sustainable development. As we exemplify below, the normative and instrumental approaches co-exist in all four.

Physical Reasons. Up to the middle of the 20th century, industry and trade were able to grow as if there were no natural constraints. This was possible because the global consequences of these activities on the planet were quite limited, or even negligible. The magnitude of the pollution and use of natural resources derived from industry and trade was not sufficient to represent a threat to the biosphere.

In the last few decades, the physical limits of our planet, both as a provider of resources and as a sink for waste disposal, have been well established in theories, studies or concepts such as ecosystems biodiversity (Constanza, Norton & Haskell, 92; Gladwin, 93; Hawken, 93), carrying capacity (Daly & Cobb, 89), the limits to growth (Meadows, Meadows, Randers & Behrens III, 72; Meadows, Meadows & Randers, 92) or ecological footprint (Wackernagel & Rees, 96). According to a systems approach to strategy, companies must broaden the environment that they take into account, including our natural environment.

Examples of physical reasons

Normative approach. Firms should consider this reality in order not to threaten the survival and development of present and future forms of life (Shrivastava, 94).

Instrumental approach. Companies should consider this reality because natural constraints are bound to be one of the most important drivers of new strategic resources and capabilities (Hart, 95).

Social Reasons. In the past, the social role of corporations was practically limited to creating employment, paying taxes and operating within legal limits. And indeed, for some scholars this is still the case. In any case, this was possible when firms' playing fields were clearly delimited and society, while entrusting the satisfaction of others' needs to governments and other institutions, did not expect much more from businesses than fair conduct as providers of employment and products.

Nowadays, society's expectations have changed. One of the primary reasons behind this change is the globalization process. This process has transferred power from society to businesses, and society is demanding a parallel increase in their social responsibilities. Also, more educated and well informed citizens tend to be more sophisticated and, as a result, more demanding with firms. As polls confirm both in first world (MORI, 2000) and less developed countries (Millenium Poll, 99), citizens are increasingly demanding that corporations play a more active social role and take this into consideration in their purchase or investment decisions. In any event, social pressures can be powerful enough to turn demands into laws. Therefore, the systems view of strategy involves a further broadening of firms' environments to include society.

Examples of social reasons

Normative approach. Corporations should act upon both formal (legal) and informal social demands (Sethi, 79).

Instrumental approach. Social awareness will be rewarded, for instance, through workforce satisfaction, better R&D management or reputation enhancement (Pfeffer, 98; Atkinson, Waterhouse & Wells, 97).

Ethical Reasons. Companies are systems the structure of which is fundamentally based on people and the relationships between them. From an ethical point of view, to be members of a company or any kind of organization should contribute to people's overall betterment as individuals. And it is obvious that this is not possible if they have to abandon their personal values when at work. Therefore, if as citizens people are demanding an increase in companies' social obligations, they should be allowed to behave accordingly as employees. In short, the enlargement of firms' environments to include nature and society involves an increase in their ethical obligations.

Another important consideration from an ethical point of view is that the whole architecture of the western paradigm is based on the fundamental right of every human being to enjoy equal opportunities to run his or her own life. However (UN Human Development Report, 01), one out of five human beings has to survive on less than 1 dollar a day and has no access to clean drinking water; more than fifty per cent of the developing world lacks the most basic sanitation; one out of every six children receives no schooling; differences between rich and poor countries keep growing; per capita income in fifty countries is lower now than ten years ago; dozens of countries suffer endemic armed conflicts; democracy and respect for human rights are still the exception. Since the fundamental right to equal opportunities is still a wish, firms must help to make it come true.

Examples of ethical reasons

Normative approach. Firms have a social role and an ethical obligation to improve people's living conditions and fight the most obvious types of injustice (Gladwin et al., 95).

Instrumental approach. Firms' ethical conduct will improve their internal cohesion and help to build trust in their relations with their internal and external stakeholders.

Business Reasons. Business reasons are a result of physical, social and ethical reasons. If we again consider the three statements above representing an instrumental approach, we can easily agree on their business lineage. However, business reasons are not purely instrumental. If companies act correctly only because it pays off, it does not work. People and society look for consistency. And this is only possible if firms' conduct is the result of profound beliefs and shared values among all their members. Therefore, business reasons are also normative. Or, better still, it is a perfect integration of the normative and instrumental approaches. This is the message at the core of this article: as we will explain in detail, considering the need to point towards a more sustainable development model deeply and positively affects the sustainability of firms' competitive advantages.

Example of business reasons

Normative-instrumental approach. Considering sustainable development for the right reasons enhances the sustainability of companies' competitive advantages.

A dynamic and sustainable view of the firm

Our proposal for a dynamic and sustainable view of the firm is built on the following reasoning:

1. The need for a more sustainable development significantly changes firms' competitive landscape.

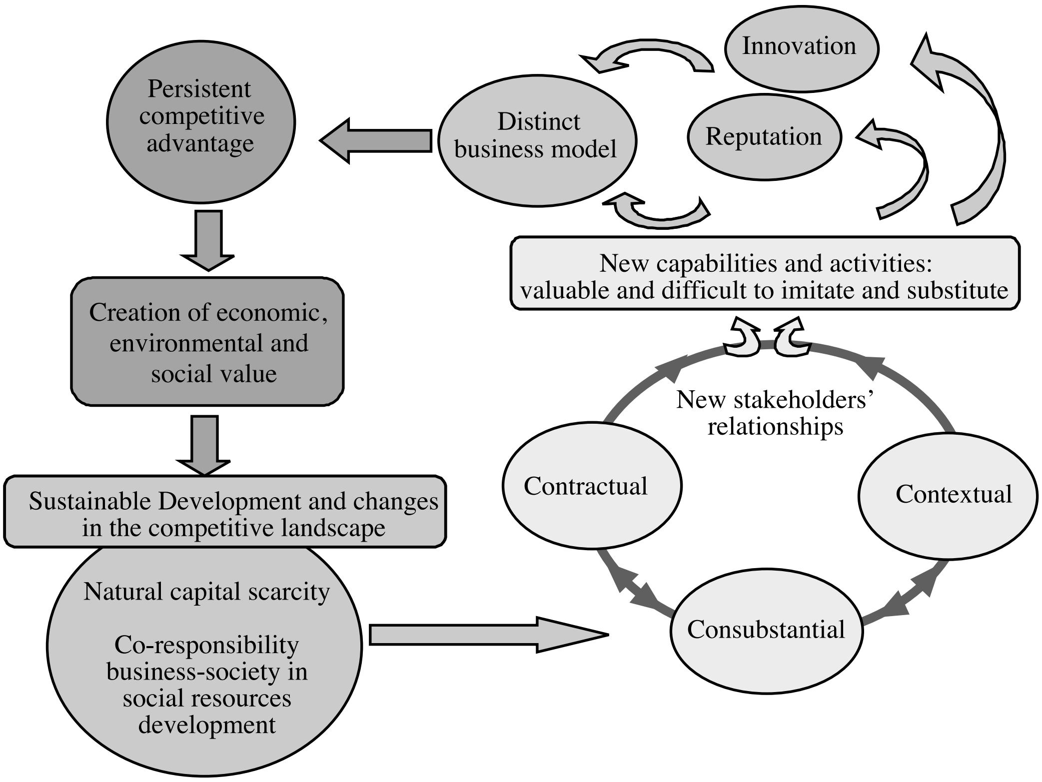
2. Internalizing the need for a more sustainable development radically influences the way in which firms develop their resources, capabilities and activities.

3. Internalizing the need for a more sustainable development positively influences the strategic nature of firms' resources, capabilities and activities.

4. The new resources, capabilities and activities drawn upon the need for a more sustainable development promote firms' reputation and innovation as persistent sources of competitive advantage.

In short, as we explain in more detail below, sustainable development and sustainability of competitive advantages are clearly and strongly interconnected (see Figure 4).

Figure 4. A dynamic and sustainable view of the firm



A New Firm Landscape

The speed and significance of technological changes and discontinuities has not come to represent the end of the industrial era, but its acceleration and growth (Senge & Carstedt, 01). To use the term post-industrial era implies, as proposed by sustainable development, fundamental changes in the way the economic system affects and is related to the social and natural system in which it operates. In this respect, sustainable development introduces the notion of the scarcity of natural resources and the co-responsibility of companies and the societies in which they operate for the development and use of social resources.

Scarcity of natural resources (1)**.** The industrial era began, developed and continues to operate based on the implicit idea that natural resources are unlimited. This has led to an industrial system organized in a linear fashion, with the basic elements following a

(1) For an in-depth analysis of the subject, see, for example, the following articles: Senge, Peter, "Innovating Our Way to the Next Industrial Revolution", *MIT Sloan Management Review*, Winter 2001; Hart, Stuart, "A Natural-Resource-Based View of the Firm", *Academy of Management Review*, Vol. 20, 4, 1995; Hart, Stuart, "Beyond Greening: Strategies for a Sustainable World", *Harvard Business Review*, January-February, 1997; Porter, Michael E. and Claas van der Linde, "Green and Competitive: Ending the Stalemate", *Harvard Business Review*, September-October 1995; Shrivastava, Paul: 1995, "The Role of Corporations in Achieving Ecological Sustainability", *Academy of Management Review*, 20(4), 936-960; Shrivastava, Paul: 1994, "Castrated Environment: Greening Organizational Studies", *Organization Studies*, 15(5), 705-726.

sequence consisting of extraction-manufacture-sale-use-disposal, generating waste at each step. The impact of this type of operation on the maintenance of natural assets was not severe as long as the level of development remained within certain limits. However, the acceleration and growth of the number of beneficiaries, plus the ethical need to benefit the world's entire population, has made apparent the intrinsically non-sustainable nature of this development model. In this respect, acknowledgement of the scarcity of natural resources and, therefore, the need to reduce the use of these resources and the waste generated by business activities, may be of primary significance for the development of new capabilities and activities, which could create persistent competitive advantages (Hart, 95).

Co-responsibility between businesses and society for the development of social resources. In practice, businesses operate independently from the social and natural systems that surround them. Sustainable development introduces the need to change this both in business operations in developed countries and, in particular, in under-developed and developing countries. There are two reasons for this: the increasing transfer of power and, therefore, responsibility from society to the business world, derived from the globalization process, and the possibility of creating economic value for shareholders (2).

Development of New Resources, Capabilities and Activities

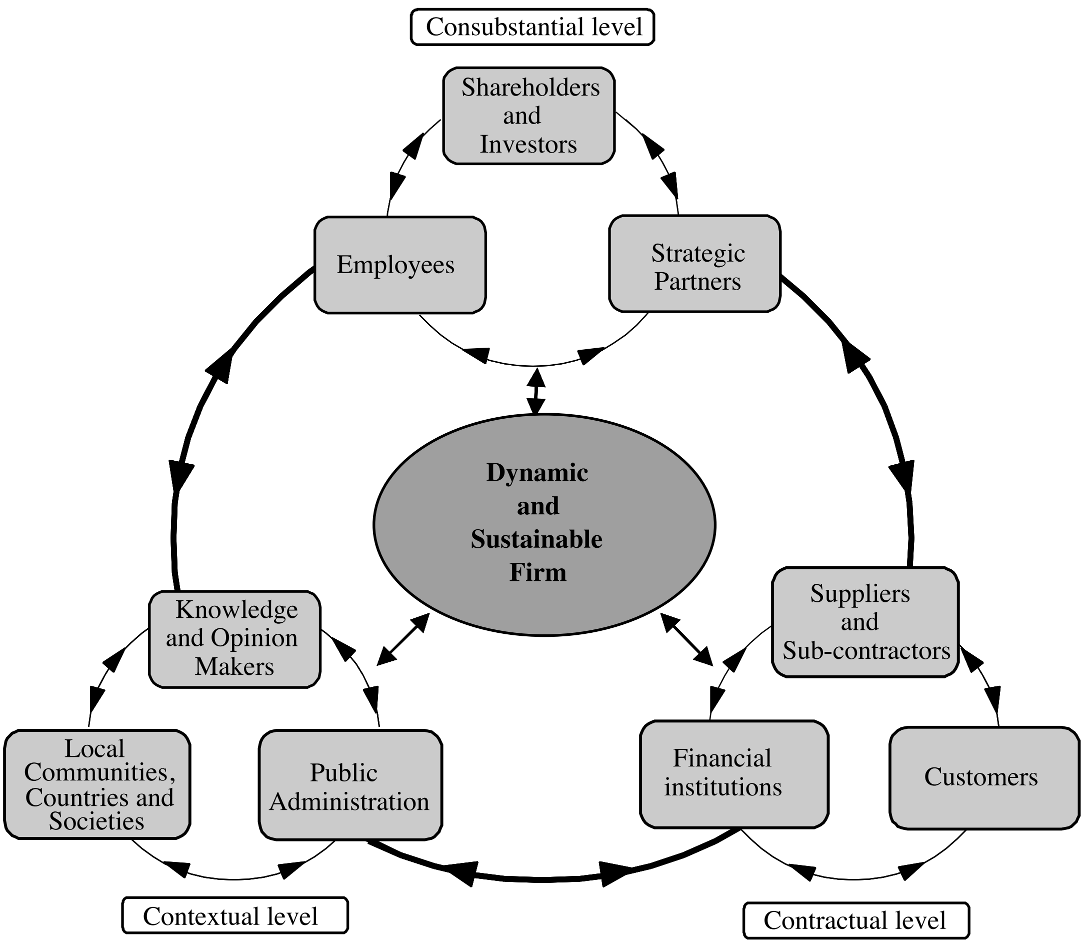
Companies have to develop new resources, capabilities and activities for the acceptance of the idea of the scarcity of natural resources and the co-responsibility between businesses and society for the development of social resources to give rise to persistent competitive advantages. Considering the specific characteristics and circumstances of each company, these resources, capabilities and activities will be the result of establishing new relationships with stakeholders. This is evidently nothing new (Freeman, 84; Jones, 95; Donaldson & Preston, 95). Indeed, firms have a large number of varied experiences in this field. What is proposed is that they take on new forms, based on new values and new content, so that they give rise to persistent competitive advantages. In any case, not all stakeholders or firms have the same characteristics. Therefore, although we will now provide a generic view of a sustainable business and its stakeholders, each company will need to develop its own.

Sustainable Businesses and their Stakeholders. The stakeholders who are more or less common to most companies are the following: shareholders and investors, public administration, customers, local communities, countries and societies, opinion leaders, employees, financial institutions, suppliers and sub-contractors, and strategic partners. As we mentioned earlier, the relations between firms and their stakeholders are evidently not all of the same kind. Depending on what they are like, and with no implications for the importance of each of the stakeholders for companies, we propose to classify these relations as three main types or levels: the consubstantial level, the contractual level and the contextual level. By **consubstantial stakeholders** we mean the stakeholders that are essential for the business itself to exist. **Contractual stakeholders,** as their name implies, have some kind of formal contract with the business. Finally, **contextual stakeholders** play a fundamental role in obtaining business credibility and, ultimately, the acceptance of their activities (business license). They represent, moreover, the firm defense of common assets such as the environment, peace, safety, freedom and justice. Ultimately, of course, these relations will depend on the specific circumstances in each case. For example, in some situations, the

(2) One basic article on this subject is by Prahalad, C.K. and S. Hart "The Fortune at the Bottom of the Pyramid", *Strategy + Business* 26, 1-14.

relationship between a firm and its clients, or one client in particular, may be more consubstantial than contractual. In any case, we consider that this classification may be of help for companies that acknowledge the importance of improving how they manage their relationships with stakeholders. Initially, in spite of its generic nature, it provides an initial approximation and structured perspective of a certainly complex issue. Secondly, although each company has to build its own “relations map”, they are all likely to have relationships with stakeholders that could in one way or another be defined using these three labels: some are essential for the business itself to exist, others are the subject of primarily contractual relationships, and others will be the legitimate representatives of the social and natural systems in which the business operates. As we said earlier, this classification is not intended to introduce value judgements on their relative importance. Indeed, it is intended to emphasize the different nature of stakeholders and, therefore, the need for firms to establish the types of relationships that are most appropriate in each case. Figure 5 shows stakeholders classified according to the type of relationship in question. It can be clearly seen that, in addition to the bi-directional relationships between the firm and each stakeholder, there are also crossover relations between stakeholders that have to be taken into consideration by the business concerned.

Figure 5. The dynamic and sustainable firm and its stakeholders



New relations with consubstantial stakeholders. This section makes particular reference to employees. The image of a machine as the organizational paradigm of the industrial era has led to impressive productivity figures. However, this process has also involved the de-humanization of labor relations and generated, therefore, a general lack of interest on behalf of employees in their firms. Although as W. Edwards Deming said, "people are born with intrinsic motivation, self-esteem, dignity and curiosity to learn, joy in learning", it is nevertheless a fact that employees are not a part of their companies. All companies do is hire them part of their time. In the so-called information society, this situation has to change and man's natural desire to learn has to be reinforced. For the learning culture to be a fact, and therefore for creativity and imagination in general to increase, most companies' current control orientation has to be replaced by a culture based on trust and self-control (Senge & Carstedt, 01). As a large number of companies have discovered, considering the alignment with personal values involved, nothing is as powerful as sustainable development when it comes to attaining employee satisfaction and, consequently, commitment and global involvement (Senge & Carstedt, 01; Smith & Yanowitz, 98). The creation of a culture like this evidently requires, among other things, changes in management style, structure, policies on the transparency of information, selection and payment systems, occupational safety, etc., and... time (Pfeffer & Veiga, 99; Mueller, 96; Olalla, 99; Greening & Turban, 00; Hillman & Keim, 01). But the results are well worth the effort (Huselid, 95; Pfeffer, 98).

New relations with contractual stakeholders. We specifically refer to clients, suppliers and sub-contractors. Traditionally, relations with them have been primarily of a competitive nature. Special emphasis has even been placed on the bargaining power of the different parts of the value creation chain (Porter, 85). In this respect, their capacity to demand value has been considered more important than their capacity to create, and therefore, deserve value. The new competitive landscape based on sustainable development implies that companies establish new relations with these stakeholders, in order to develop the products and services that the markets and society need, value and accept. These relations, for the same reasons as employee relations, should be based on trust instead of control. And emphasis will, moreover, be placed on the exchange of information, training, technologies, etc., in addition to long-term commitments. Although these relations may be formally of a contractual nature, the increasing lack of definition of where businesses end means that the most important, if not all, of them could ultimately be considered to be partners in the innovation process and in the creation and appropriation of value. These collaborative relationships, even acknowledging that there will always be some degree of competitive tension, are fundamental in the corporate and business strategy of sustainable companies (Champy & Nohria, 96).

New relations with contextual stakeholders. Contextual stakeholders are the public administration, opinion leaders and creators of knowledge (the media, NGOs, universities, scientific community, etc.), and the communities, countries and societies in which companies operate or on which they have an impact. The practical conviction that the business system is a part of the social and natural system has significant consequences for the characteristics of contextual stakeholder relations. It implies that business and society are not only independent, or merely inter-related, but that they are indeed interdependent (Chakravarthy, 86; Freeman & Evan, 90). It implies, therefore, that we must cease to consider that a company's sole mission (and therefore its executives' sole purpose) is to generate profit for shareholders. The mission of companies is, in fact, to identify opportunities that are beneficial both for itself and for society. In other words, since stakeholder relations are a vital source of diversity and involvement that provide businesses with a mission and valuable resources, managers have to cease to be mere shareholders' agents to become builders of stakeholder relations (Kennelly, 95). They will then be more capable of rapidly and easily foreseeing, understanding and responding to changes in their environment (Porter & Stern, 01).

Strategic nature of the new resources, capabilities and activities

For resources, capabilities and activities to have strategic value and, therefore, give rise to persistent competitive advantages, they must satisfy the following conditions (Barney, 91; Wernefelt, 84; Rumelt, 84): they have to be difficult to imitate by current competitors; they have to be difficult to substitute by current and new competitors; and they have to be valuable, i.e. positively valued on the market. We will now see how the resources, capabilities and activities whose development depends on the previously defined stakeholder relations help us to meet these conditions (3).

Difficult to imitate. Certain capabilities relating to matters such as location, technologies, products or production processes may be difficult to imitate. Nevertheless, they are all subject to the possibility of being copied, or even acquired, by our competitors to some extent and at some time. However, resources, capabilities and activities that are socially complex (because a large number of individuals are involved in developing and maintaining them), or for which history and experience are important factors in the sense that their present status depends on their earlier status, or which are of a tacit nature (in that they cannot be verbalized or formalized) are in practice inimitable. The proposed types of relations and their results comply perfectly with these premises. It can be said that they are difficult to imitate because they depend on a large number of people or teams and because they are intangible assets based on practical learning derived from experience and perfected with practice. Because of their socially complex and tacit nature, our competitors will be unable to obtain them by hiring our employees.

Difficult to substitute. All business models run the risk of being substituted sooner or later. Accepting the changes that sustainable development brings about in the competitive landscape and developing stakeholder relations does not totally protect companies against this risk, but it does considerably reduce the risk. In the first place, because the information and know-how involved will be considerably and constantly more complete. Secondly, because most of the risk of substitution of resources, capabilities and activities will be increasingly related to the new implications derived from the need for more sustainable development.

Valuable. The resources, capabilities and activities proposed will be valuable if, in addition to distinguishing our business model from that of our competitors, they develop competitive advantages and increase their persistence. This partly depends on the evolution of society, and it is increasingly clear that society is increasing its demands that business conduct allow for more sustainable development (Millenium Poll, 99; MORI 2000). Moreover, stakeholder relations like those described earlier may not guarantee that the innovations that directly or indirectly result from them are those needed by the market and society in general, but they will certainly make it more likely that they are, and will therefore be positively valued.

(3) For an integration of the natural environment in the resource-based view of the firm see Hart, S.L.: 1995, 'A Natural-Resource-Based View of the Firm', *Academy of Management Review* 20(4), 986-1014.

Sustainable development and innovation as a source of persistent competitive advantage

Acceptance of the changes in the competitive landscape deriving from sustainable development, and development of the kind of resources, capabilities and activities defined above, leads primarily to the reinforcement of two clear sources of persistent competitive advantage: innovation and reputation. Both help us to establish a business model different from that of our competitors, and as we all know, this is a fundamental strategic element. However, innovation and reputation have radically different characteristics: reputation, being a scarce, valuable and hard-to-imitate resource, generates Ricardian rents, whereas innovation, implying the capacity to continuously develop new combinations of resources, produces Schumpeterian rents. Although reputation is therefore of undeniable importance, particularly if we consider that it is one of the reasons for the often enormous difference between the book value and the market value of businesses (Vergin & Qoronfleh, 98; Black & Carnes, 00; Srivastava, Crosby, McInish, Wood & Capraro, 00; Kotha, Rajgopal & Rindova, 01), we will focus on innovation, since it is a source of competitive advantage that generates value not only for the company but for society as a whole.

Innovation. Innovation, understood as the result of research and development (R&D&I), has become an essential condition for competitive success. In a discontinuous world, strategic innovation is the key to the creation of wealth. As Hamel (98) says, "Strategy innovation is the capacity to conceive the existing industrial model in ways that create new value for customers, foil competitors and produce new wealth for stakeholders". In this respect, a great deal has been said and written (Edvinsson & Sullivan, 96; Riesenberg, 98; Bouty, 00), and to a smaller extent applied, on the importance of intellectual assets as the input to R&D&I processes.

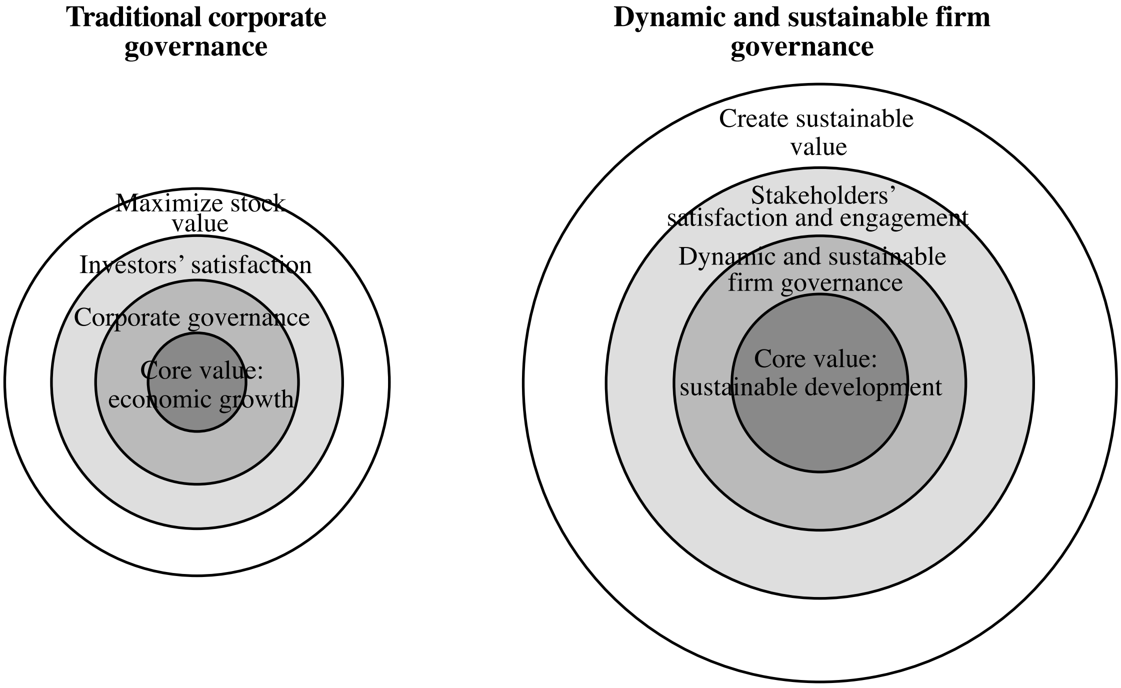
The challenges deriving from the demand to advance towards sustainable development help companies to question established ways of thinking and acting, and create the need to develop new products, services and technologies. They are therefore a stimulant for organizational change and an undeniable source of opportunities for innovation. Establishing new stakeholder relations leads firms to adopt a wide range of current and future perspectives and views of the world, to obtain information and knowledge of these opportunities, and to establish the collaborative arrangements required to make the most of them. Moreover, the process itself will help them to obtain the necessary credibility to gain social approval for their innovations.

Conclusions

As we have seen throughout this paper, the dynamic and sustainable firm is a knowledge-based, knowledge-creating company. The creation of this knowledge and its use as a revenue generator depend, among other things, on the following connected factors: the enlargement of the firm's environment to include the physical and social system; the broadening of the firm's ethical obligations; and the establishment of new stakeholder relations based on open, fluid and honest dialogue. As a result of this, its ability to produce and obtain revenue in a persistent manner depends on and is inextricably entwined with its ability to produce social revenue.

Our proposal for a dynamic and sustainable firm is, clearly, a matter of governance. It implies fundamental changes in our understanding of corporate governance, and in the values and objectives towards which it must aim. Figure 6 is a graphic representation of these changes.

Figure 6. From traditional corporate governance to the dynamic and sustainable firm governance



Since traditionally the core value guiding corporate governance has basically been of an economic nature, its goal has been to maximize stock value through investor satisfaction. In our proposal for a dynamic and sustainable firm, the core value is not economic growth but sustainable development. Because of this, the ultimate goal is to create value for firm shareholders and society as a whole in a persistent and sustainable fashion through stakeholder satisfaction and engagement. And this is only possible if firms not only do the right thing, but do so for the right reasons.

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