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The Effect of Enterprises' Growth Orientation and Access to Finance on Small Firm Performance: UK Evidence in an Economic Recession

Weixi Liu^{}, Marc Cowling^{**}, Ning Zhang^{***}*

ABSTRACT

Previous research on the relationship between growth orientation and small business growth either failed to consider the longitudinal nature of the relationship, or the possible moderating effects of entrepreneurs' ability to perform the desired growth strategy. This study aims to fill both gaps by examining the effect of past motivation on current growth performance, as well as the 'feedback' from achieved growth to future growth orientation whilst taking into account the effect of human and financial capital as moderators of the relationships. Using a unique data set on UK small businesses, we find earlier growth orientation a significant predictor for growth outcomes, which in turn motivate entrepreneurs to grow further. However our analyses of the data during the latest financial crisis show that it is the access to financial capital rather than human capital moderates the relation between growth and growth orientation in a severe economic downturn.

Keywords: growth, growth orientation, behaviour control, economic recession

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1. Introduction

It is widely recognised that small and medium-sized enterprises (SMEs), can have an important effect on job creation, innovation and economic growth (Acs & Storey, 2004; Audretsch & Keilbach, 2004a, 2004b; Audretsch et al., 2008; Davila, et al., 2003; Lerner, 1999, 2002). However, such firms and the dynamic and volatile environments in which they are born and operate make small business growth a topic of interest and relevance in many different areas of economics and management studies. Although numerous studies have been conducted on small firm growth, our understanding about the phenomenon is far from complete (Davidsson et al., 2010).

A particular area of interest concerns the relationship between entrepreneurs' motivation to grow (entrepreneurial growth orientation) and the actual growth performance achieved. As a result of pursuing business opportunities, the entrepreneurial process involves human agency (Goss, 2008), and people differ in their willingness and abilities to act on these opportunities (Shane et al., 2003). From a psychological point of view, it is the combination of willingness and ability that result in the desired behaviour (Ajzen, 1991). Thus small business growth dynamics differ fundamentally to those in larger firms, where motivation is assumed to be exogenous and behaviours are taken to maximise the value of the firm. For example, Real et al. (2012) show that the influence of learning orientation is greater in SMEs and that this partially mediates the relationship between entrepreneurial orientation and performance.

There is a large body of literature examining the links between entrepreneurs' growth orientations and the performance of small businesses. Many studies have found evidence in support of the view that growth motivation has a positive effect on growth (e.g. Morgan, 2007; Rauch et al, 2009; Tang et al., 2008; Wang, 2008). Chaston and Sadler-Smith (2011) show that this is most salient under conditions of intense competition and where small firms have well-developed internal capabilities. However, many of the previous empirical studies suffer from at least one of the following two fundamental flaws. First, few studies have considered the temporal stability of growth orientation (a few recent examples include Baum et al., 2001 and Delmar & Wiklund, 2008). Since growth is not instantaneous but a process that unfolds over time (Penrose, 1959), in order to achieve actual growth, growth orientation has to be sustained until the behaviour is performed. Thus a temporal separation of (past) intention and (current) performance is necessary so that the causal effect between the two can be correctly measured (Wiklund & Shepherd, 2003). Moreover, a cross-sectional research design results in even fewer studies (Delmar & Wiklund, 2008) addressing the possible 'feedback' effect of actual growth on the intention of entrepreneurs to grow in the future. Therefore, any research that is not longitudinally designed may have a missing variable (i.e. lagged growth or growth orientation) problem and could misinterpret the causal effect of growth orientation on growth outcomes. Second, whilst theories predict that measures of entrepreneurial capability (e.g. education and experience) and resource availability (e.g. access to finance) have positive influences on small business growth, the empirical evidence is far from consistent and can be 'surprisingly weak (Davidsson et al., 2010)'. Wiklund and Shepherd (2003) argue that it is because these studies isolated the entrepreneur's perceived behaviour control (motivation) from the actual behaviour control (skills, knowledge, access to resource, etc.). This can be attributed to the theory of planned behaviour (Ajzen, 1990) where behavioural outcome can be modelled as a joint function of motivation and individual ability. Thus measures of entrepreneurs' actual behavioural control over the entrepreneurial process are expected to moderate the relationship between growth orientations and the achieved growth.

To our knowledge, this study is the first to address simultaneously these two problems in the small business motivation-performance research. It is the purpose of this paper to investigate the

longitudinal inter-correlation between the growth performance of small businesses and entrepreneurs' growth orientations especially in a recessionary environment, by taking into consideration the possible moderating effect of variables such as human and financial capital. Once the time-series relationship between growth and growth orientation is properly modelled, the moderating effect is of particular importance in a severe economic recession, when resources and growth opportunities become even scarcer for the already resource-limited small business sector.

The paper proceeds as follows. Section 2 discusses the theoretical background for our research, which leads to the main hypotheses to be empirically tested. Section 3 then describes our data set and methodologies used, followed by our empirical results. The last section provides further discussion on the empirical findings and the theoretical and practical implications of our study.

2. Theory and Hypotheses

2.1. The effect of growth orientation on SME growth performance

Growth orientation, defined as small business managers' intention to expand the business, reflects the entrepreneur's propensity, or motivation towards innovation, risk taking and strategic proactiveness (Miller, 1983). The theory of reasoned action (Ajzen & Fishbein, 1980) states that an individual's intention to perform a given behaviour is an important indication of the choice, duration and effort of the individual's subsequent behaviour. Growth orientation reflects the behavioural attitude and subjective norm in the theory of reasoned action. As noted in Ajzen (1991), 'the stronger the intention to engage in a behaviour, the more likely should be its performance'.

Based on this theoretical framework, many studies have identified positive correlations between growth orientation and small business performance (e.g. Tang et al., 2008; Wang, 2008; see Rauch et al., 2009 for a comprehensive review of empirical studies on the topic). However only a few studies have addressed the stability of motivation and its effect on business growth (Baum et al., 2001; Delmar & Wiklund, 2008) possibly due to the difficulties in collecting longitudinal data. Since growth is not instantaneous but a process that unfolds over time (Penrose, 1959), in order to achieve actual growth, growth orientation has to be sustained until the behaviour is performed. Failure to consider the stability of growth orientation may lead to weak or no prediction power of growth orientation on growth. Therefore, a relative constant growth orientation over time is the key to the validity of our analysis. Empirically, a positive relation between lagged growth orientation and current growth should be identified.

Hypothesis 1: Growth orientation from the previous period is positively associated with small business growth performance in the subsequent period.

2.2. The moderating role of entrepreneurial ability and financial resources

As an extension of the theory of reasoned action, the theory of planned behaviour (Ajzen, 1991) argues that besides motivation, behaviour is also affected by the ability of an individual to exert a specific behaviour in terms of their control over that specific behaviour, or the extent to which people have volitional control. The more power or ability an individual has in deciding at will whether or not to perform a behaviour, the more likely the individual's *intention* will lead to the observed performance. For behaviours over which people have limited volitional control, the performance of the behaviour will depend on some non-motivational factors such as the availability of requisite resources and opportunities.

In the context of small business, the growth of the firm is an example of a behaviour that is under limited volitional control (Delmar & Wiklund, 2008). An entrepreneur with the intention to expand the business needs to show proven ability in his/her *actual* control over the behaviour, such as the ability to develop suitable strategies and spot growth opportunities (Wiklund & Shepherd, 2003). Higher actual control over entrepreneurial activities is a better reflection, or substitute of *perceived* behavioural control, which in turn influences behavioural intention and achievement (Ajzen, 1991). Therefore, measures of actual behavioural control, proxied by entrepreneurial human capital and the availability of financial resources in our study, are expected to moderate the relationship between growth orientations and the achieved growth.

Human capital is a reflection of the entrepreneur's ability to manage growth as well as his/her perception over the complexity of the task and is generally found to be positively linked to success (Davidsson et al, 2010; Unger et al, 2011) however the relation could sometimes be 'surprisingly weak' due to the failure to consider the interaction between human capital and growth intention (Davidsson et al, 2010). As noted in Penrose's (1959) theory of the growth of the business, entrepreneurial capability is the *conditio sine qua non* of continuous growth. Such skills and knowledge can generally be obtained from education and entrepreneurial experience (Becker, 1975), referred to as formal and informal human capital, respectively (Cowling, 2006). Education equips entrepreneurs with generic skills in running and managing a small business (Shane & Venkatraman, 2000) and empirical evidence shows that businesses with more educated entrepreneurs experience faster early stage growth (Cowling, 2002; Dimov & Shepherd, 2005; Rauch et al., 2005; Storey, 1994). Entrepreneurial experience (e.g. experience in self-employment or running a small business) is more related to the specific skills an entrepreneur acquires through the daily operation of the business especially task-related skills essential for business growth (Unger et al, 2011). Entrepreneurs with higher task-related experience possess better knowledge of the firm and the firm's product and services are usually found to be more likely to succeed (Burke et al, 2000; Chandler et al, 2009; Honig, 1998; Watson et al, 2003; Westhead et al, 2005; Zarutskie, 2010). More generally, Escriba-Esteve et al. (2009) show that top management team characteristics shape strategic orientation and behaviours which then act in a mediating way on performance. The moderation role of human capital is especially important in a recessionary period when external resources become scarcer so firms depend more on the skills and capabilities of the entrepreneur to manage through recession.

Hypothesis 2: Growth-motivated entrepreneurs with (a) more education and (b) more entrepreneurial experience are more likely to achieve growth.

The availability of credit to entrepreneurs is one of the key drivers of economic growth and competition (Beck & Demircug-Kunt, 2006; Cassar, 2007; Marlow & Patton, 2005) by providing essential resources for the entrepreneur to pursue growth opportunities (Dollinger, 1999; Penrose, 1959). It is widely recognised that entrepreneurial activity, and the growth of small businesses, can be constrained by limited access to financial resources arising from imperfections in capital market allocations (e.g., Cooper et al, 1994; Davidsson et al, 2010; Honig, 1998; Marlow & Patton, 2005; Revest & Sapio, 2012; Westhead & Storey, 1997; Cowling et al, 2012). Since perceived behavioural control is assumed to reflect the opportunities and resources needed to engage in behaviour (Ajzen, 1991), higher availability of financial capital should increase the likelihood of an intended behaviour.

Hypothesis 3: Growth-motivated entrepreneurs with high levels of access to finance are more likely to achieve growth.

2.3. The 'feedback' effect of past growth on future growth orientation

Whilst Ajzen realised, in his theory of planned behaviour (Ajzen, 1991), the existence of possible 'feedback' effect of behaviour on intention, previous theoretical research such as Bandura's theory of perceived self-efficacy (Bandura, 1977 and 1982) has also addressed similar feedback mechanisms in psychological literature. Self-efficacy is defined as "the conviction that one can successfully execute behaviour" (Bandura, 1977, p. 193). Therefore, if past behaviour is perceived by an individual as an indicator of success, such perception will increase the individual's confidence in his/her ability to perform, i.e. perceived behaviour control, which in turn increase the motivation of the individual to perform the behaviour in the future.

In the context of our study, if entrepreneurs attribute the growth of their firms to their individual management skills, they are more likely than the others to be growth-oriented in the future *ceteris paribus*. Further, attribution theory (Weiner et al, 1971) states that past success is often attributed to internal causes like ability or effort while past failure is likely to be attributed external causes such as luck. However, this obvious feedback loop from past growth to future growth motivation has received little attention in previous research (Wiklund & Shepherd, 2003) and is only empirically investigated in a longitudinal framework recently (Delmar & Wiklund, 2008). Moreover, given the close relationship between perceived and actual behaviour control (Ajzen, 1991), this "acquired taste" (Davidsson et al., 2002) of ability as a result of realised growth should be enforced by higher *actual* entrepreneurial ability in achieving growth (entrepreneurial experience and access to finance in the context of this study). This latter issue has been explored by McKelvie and Davidsson (2009) who found that, for the most part, access to resources enhances dynamic capabilities, but for access to finance "unexpected" negative effects can occur. Therefore the above discussion leads to the following two hypotheses.

Hypothesis 4: Growth achieved from the previous period is positively associated with growth orientation in the subsequent period.

Hypothesis 5: The positive effect of past growth on future growth orientation will be moderated by (a) entrepreneurial experience and (b) access to financial capital.

3. Method

This section describes the data source for this study and the survey method from which the data is derived, followed by a discussion on both the dependent and independent variables in the analysis.

3.1. Sample

This study is intended to analyse inter-relationships between the growth-orientation of entrepreneurs and the performance of small businesses. Due to the longitudinal nature of the study, data were collected for the sample firms in eight rounds, capturing the entrepreneurs' growth-orientation and firm performance over time.

The earlier set of data is derived from the UK 2007/08 Annual Small Business Survey (ASBS). The ASBS survey is a large-scale telephone-based survey conducted to monitor key trends in the

characteristics and perceptions of UK small business owners and managers among all industry sectors and regions. It has been conducted on an annual basis since 2003. The main purpose of the survey is to gauge the needs and concerns of small businesses and identify the barriers that prevent them from fulfilling their potential. A total of 19,188 SMEs (businesses with fewer than 250 employees) were interviewed using a stratified random sample selection method evenly across thirteen regions in the UK and the samples were randomly drawn across all commercial sectors of the economy.

3,506 out of the 19,188 2007/08 ASBS sample firms were re-contacted a year later in seven waves of 'Business Barometer' surveys to determine how well or badly they have performed in the previous year, and to assess their levels of business confidence going forward. On average 500 SMEs were re-surveyed using questions similar to the 2007/08 ASBS in each of the seven waves, starting from December 2008 to February 2010 with intervals of two to three months. The survey period coincides the latest financial crisis therefore gives us the opportunity to investigate how business attitudes and access to finance by UK SME change pre- and post-recession.

3.2. *Dependent variables*

Two measures of performance are used in this study, namely percentage changes in employment and sales. In both surveys, questions were asked explicitly on the firm's current number of employees and turnover, as well as the performance the year before. Past growth¹ ($GROWTH_{t-1}$) is calculated as the percentage change in employment and sales between the 2007/08 ASBS and the previous year. Current growth ($GROWTH_t$) is calculated as the percentage change in employment and sales between the 'Business Barometer' surveys and 2007/08 ASBS. In both cases, the performance variables are winsorised at 1% level to remove the effect of outliers.

As well as exploring recent actual performance, this study also seeks to understand the future growth aspirations of smaller firms going forward. We define entrepreneurs' growth orientations in employment and sales as the percentage change between the present and expected employment and sales. In both surveys, owner-managers were asked about their expectations on employee numbers and sales in twelve months' time, and past growth orientation (GO_{t-1}) is derived from the ASBS and current growth orientation (GO_t) from the 'Business Barometer' surveys that follow.

Alternative measures of growth orientation also exist in our dataset. The first is a generic measure on whether the entrepreneur "aims to grow the business" over the next two to three years. Although this measure is probably more precise in capturing the subjective attitudes towards the behaviour (i.e. business growth) as in Ajzen (1991)'s theory of planned behaviour, it is inappropriate in this study since it fails to identify growth orientations on employment and sales specifically. The second is a categorical variable stating whether the entrepreneur expects employment/sales to increase, stay the same or decrease. This variable is a pure reflection of the difference between the current and expected employment/sales (correlation > 0.99). On one hand, using this measure does not alter our empirical results significantly, secondly, as argued in Delmar and Wiklund (2008), a consistent measure between actual growth and growth orientation is an essential prerequisite in the motivation-behaviour study (Ajzen & Fishbein, 1980; Eagly & Chaiken, 1993). Therefore we feel that our measure of growth orientation as a continuous variable is a more appropriate choice.

¹ The growth variables use one generic variable name ($GROWTH$) but will stand for employment or sales growth in respective regressions. This is the same case for growth orientation variables (GO).

3.3. *Explanatory variables*

We use the common set of variables that have been found useful in explaining small business growth (Storey, 1994; Delmar, 1997) and these variables can be classified into three groups: business characteristics, owner/entrepreneur characteristics and access to finance. The main business characteristics include firm size (number of employees), age, sector, and corporate structure (whether the firm is incorporated, family owned or urban-located). Standard industrial classification is used in defining sector dummy variables. We use education (*EDU*) and experience (*EXP*) to capture the effect of entrepreneurial human capital. The former is a binary variable equal to 1 if the owner has a university degree and above and 0 otherwise. An experienced employer is defined as having previously set up a business, charity or been self-employed.

Both the ASBS and 'Business Barometer' surveys asked whether or not the entrepreneur applied for any external finance and the outcome of finance seeking. Depending on the outcome, a business can be fully constrained (*NOACCESS*) if it applied for external finance but failed to obtain any, or partially constrained (*PARTACCESS*) if it only managed to secure some but not all of the finance applied for. The base category is firms either with no need for external finance or those that have successfully obtained all the finance required.

3.4. *Methodology*

It is obvious that businesses entering the later round survey (i.e. 'Business Barometer' surveys) must be surviving firms. Selection bias may arise when small business survival is a non-random process (Heckman, 1979) so firms re-contacted for the second-round survey may not be representative of the small business population. As a result OLS regressions of small business performance and growth orientation on their determinants may lead to biased estimates.

In this case, the Heckman selection model (Heckman, 1976 & 1979) is used to tackle the possible selection bias problem within our empirical analyses. This is a two-stage estimator where a firm has to survive (1st stage or selection equation) so that its performance and growth orientation can be observed (2nd stage or main equation). Unfortunately we have no information on whether a firm failed between the first and second survey. However we do know whether or not a firm was re-contacted for the second survey, which is only possible if the firm still survived then, and this is used as a proxy of firm survival. Small business survival is usually discussed in conjunction with small business growth and they share a common set of determinants (see Cowling, 2006 for a comprehensive review on the topic). In this study we use firm size, age and industry as explanatory variables in the selection equation for business survival.

4. **Results**

This section first reports sample descriptive statistics for the variables and then the empirical results from multivariate regression analysis.

4.1. Descriptive statistics

Table 1 reports the descriptive statistics of, and correlations between dependent and independent variables. On average the sample firms' sales decreased by 7.6% whilst employment increased by nearly 4% during the recession, both lower than their pre-recession levels. On the other hand entrepreneurs' expectations on future sales and employment during the recession exhibit exactly the opposite pattern, with expected sales increasing by 1.3% and employment decreasing by almost 1%. Again, entrepreneurs are more pessimistic about post-recession firm growth compared to pre-recessionary periods. The correlations between past growth orientation and growth performance are 0.10 and 0.12 for sales and employment, respectively. The relatively modest correlations indicate entrepreneurs' low volitional control over firm growth and possible moderating effects of other variables. The correlations between past growth and future growth orientation are 0.06 and 0.05 for sales and employment, respectively and are lower compared to those found by Delmar & Wiklund (2008), probably because adverse economic conditions weaken the motivating role played by past growth. Both human capital and access to finance alone have weak correlations with growth performance. However, education is found to be positively related to future growth orientation and problems in securing enough external finance are associated with lower future growth motivations.

4.2. Multivariate regression results

Table 2 shows the regression results for small business recessionary growth performance and growth orientation using a Heckman selection model. Each set of the regressions includes a base model that shows the temporal correlation between growth and growth orientation, and another model with additional variables to test the moderating effect of human capital and access to finance variables. The first finding to be noted is that for all but one set of regressions (employment growth), the significance of the model (depicted by χ^2) is substantially improved by adding the interaction terms. Secondly, with the only exception of the employment growth orientation equations, the correlation coefficients between the selection and main equations in the Heckman model are significant at 1% level, indicating the existence of sample selection bias². Eight industrial dummies are included in the regressions but they have little prediction power so are excluded from the table. Model 1 is the base model that predicts sales growth. There is a significant albeit modest lag effect between past and current sales growth ($\beta = 0.08, p < 0.01$). Larger firms are more likely to achieve sales growth, implying size is an indicator of resource availability in small business sector critical for firm growth. As predicted by Hypothesis 1, the coefficient estimate for past growth orientation is 0.09 and significant at the 1% level. When interaction terms are added in model 2, it can be seen that access to finance significantly affects firm's sales growth. On average, firms that could not secure all the finance needed underperformed other firms by 16% ($p < 0.05$). More importantly, there is evidence that severe financial constraints (*NOACCESS*) moderates the relation between growth orientation and growth, where firms failed to find any external finance have the lowest sales performance. However, there is neither independent nor moderating effect for human resource variables.

The results for employment growth are reported in models 3 and 4. The base model (model 3) shows that larger but also older firms are more likely to perform better. Firms incorporated are found to have higher employment growth whilst family-owned businesses have seen a declining employment number. Similar to sales growth, growth orientation is positively associated with employment ($\beta = 0.13, p < 0.01$). There are significant moderating effects for both human capital

² In case of the employment growth orientation equation, we also run the unconditional OLS regression and the main results still hold. Here we choose to report the results from the conditional model for the sake of consistency.

and access to finance on employment growth. Entrepreneurs with a university degree or above achieved a larger increase in employment and this is especially true for those with high growth orientations. Similarly, financial constraints moderate the effect of growth orientation on employment growth. The coefficient estimate for the interaction term between full financial constraint and growth orientation is -0.29 and significant at the 10% level.

The last 4 models in Table 2 examine the feedback effect from past growth to growth motivation taking into consideration the moderating effect of human and financial capital. Model 5 is the base model that predicts growth orientation in sales. The significant coefficient estimate for lagged growth orientation shows that entrepreneurs are likely to have a sustained intention on growth. This stability of growth orientation ensures that entrepreneurs are sufficiently motivated to perform the desired behaviour (Ajzen, 1995), i.e. firm growth. Generally, larger and older firms have higher growth motivations, not surprising given that managers of these firms are likely to have a higher volitional control over their behaviours. Further, younger entrepreneurs are more likely to be growth orientated, possibly because of their higher risk preference during the entrepreneurial process. With additional interaction terms in the sales growth orientation equation (model 6), past growth is found to be positively associated with current growth orientation, although the effect is only marginally significant at the 10% level. Both human capital variables (experience and education) are positively and significantly ($p < 0.01$) related to growth orientation independently but have no moderating effect on past growth. As predicted, the availability of financial resources moderates the relation between growth achieved and growth motivation. Here, when interacted with past growth, firms with only partial access to the finance required have the lowest growth orientation in sales ($= -0.77, p < 0.01$).

The results from the employment growth orientation equations (models 7 and 8) are fairly similar except for that now it is the younger firms that are more likely to be growth oriented. There is a modest feedback pattern from past employment growth to future expectations on employee numbers. Entrepreneurial experience alone is positively and significantly associated with growth intention but no moderating effect is found. Access to finance, especially in the case of partial access, moderates the feedback effect of past growth. Interestingly, although it is the case that inability to secure any external finance lowers the entrepreneurs' growth orientation by an average amount of 9.9%, when interacting with achieved employment growth, these firms actually have the highest growth orientation compared to other firms. This is possibly because entrepreneurs also tend to treat employment as a form of resource (even as a substitute of financial resources), besides its role as an indicator of firm performance. Therefore, an entrepreneur with severe financial constraints could choose to employ more people to improve the firm's productivity, rather than undergoing capital investment projects.

To summarise our empirical results, consistent with hypothesis 1, we find entrepreneurial growth orientation an important predictor of small business growth performance. Although modest, we also find support for the feedback effect from past growth to growth orientation (hypothesis 4). On examining of the interaction between human/financial capital and past growth/growth orientation, we find that the moderating effect is more likely to manifest through resource-oriented channel (hypothesis 3 and partially hypothesis 5) than entrepreneurial capability in a severe economic recession.

5. Discussion and Conclusion

This study aims to fill the research gaps in the current growth orientation – growth literature from two aspects. First, we investigate the longitudinal *inter-relation* between the two in a recessionary environment. Second, we recognise the complexity in the relationship between aspirations and growth and consider possible moderating effects of human capital and access to finance. This moderating effect is especially important in a severe economic recession, when resources and growth opportunities become even scarcer for the already resource-limited small business sector.

Using data collected from two complementary surveys (base survey plus seven waves), we estimate a series of regressions considering both the effect of growth orientation on subsequent growth performance, as well as the feedback loops from achieved growth to future growth motives. Our first finding is that during the latest recession, sales declined by 7.6% while employment was also growing at a slower pace (3.9%) than the pre-recession period (5.7%). Despite the adverse economic conditions, entrepreneurs with higher growth orientations still managed to grow their business, in terms of both sales and employment, by a larger percentage. This finding is consistent with previous empirical research especially in a longitudinal setup (cf. Delmar & Wiklund, 2008). We also find a significant sustainability of growth orientations by entrepreneurs over time and previous growth outcomes, in turn, affect growth motivation. This is an important finding as motivation theories show that a stable growth motivation is the key to better growth outcomes.

Moreover, we consider the heterogeneity within growth-motivated entrepreneurs and find the firms' access to external finance significantly moderates the inter-relation between growth orientation and growth. However, there is only limited evidence that entrepreneurial human capital affects growth performance when interacted with growth orientations, indicating that resource availability is a better measure of *actual* behaviour control when small business owners intend to grow their firms in an economic downturn.

5.1. Theoretical and practical implications

This paper has important implications from both theoretical and practical perspectives. Theoretically, we have presented a refined model setup when investigating the relation between growth and growth orientation. Previous research either relied on cross-sectional designs and ignored the temporal stability of motivations and the effect of previous behaviour on motivations (Baum et al., 2001; Delmar & Wiklund, 2008), or failed to consider the possible direct or moderating influence of other variables (Davidsson et al., 2010; Wiklund & Shepherd, 2003). Our more sophisticated, longitudinal analyses show that both effects should be considered in future research. In particular, for the case of both sales and employment, we find lagged dependent variable a significant predictor of future growth and growth orientation, which suggests that a time-series model is a more appropriate approach to avoid missing variable problems.

More importantly, our study provides up to the minute evidence regarding the determinants of growth and growth orientations in a severe economic recession. Using a unique data set covering a full, and severe, economic recession cycle, we are able to have a closer look at small business growth dynamics when the whole sector faces a severe rationing of credit and lack of growth opportunities. Therefore, this study can serve as a valuable reference to previous research, most of which has been undertaken in a non-recessionary period. Specifically, when entrepreneurs' volitional control over behaviour (i.e. growth) is further weakened by the recession, it is the access of financial capital rather than the more subjective personal ability measures that is more important in determining growth performance or whether the entrepreneur is ready to pursue a growth-oriented strategy. So

a natural extension of this study is to investigate in details how different business characteristics affect entrepreneurs' perceived behavioural control under a planned behaviour theory framework.

Our third theoretical contribution is that we add further evidence regarding the debate over the difference between small business growth measures. Whilst firms with similar characteristics generally achieve growth in both sales and employment, we find substantial differences in the mechanisms leading to sales and employment growth motivations. Our findings suggest that entrepreneurs tend to treat employment as a form of resource (Penrose, 1959) and sales as a measure of performance. Therefore the intention to increase employment is more likely a result of strategic considerations. For example, we find younger firms more motivated to increase employment perhaps as a result of early-stage development strategy, whilst more mature businesses with a relatively stable labour force are more cautious on operating costs and tend to concentrate on sales growth. This could also explain the fact that growth-motivated entrepreneurs may still choose to increase employee numbers even if they are financially constrained. Taken together these findings suggests that certain types of entrepreneurs and firms tend to view recession as times to scale down their activities and try and weather the economic storm, whereas others see recessions as opportunities to gear up their firms for future growth.

The practical implications of our study are three-fold. First, we find that even under a severe economic downturn there is a positive synergy between sales and employment growth. What this does suggest is that any policy levers stimulating either job or sales growth will be more likely to create a positive economic multiplier. Second, our results indicate that growth orientation has a long-term effect on firm growth through the possible feedback effect of past growth on future growth orientation. Thus future entrepreneurship policies should aim at increasing small business managers' growth intentions besides providing necessary resources for the growth of small businesses. Moreover, our findings re-emphasise the importance of policy support for early-stage growth, as successfully achieving growth as a young firm will reinforce entrepreneurs' intention to grow, leading to further favourable performance. Third, access to financial capital is still a major barrier to small business growth. Therefore, the rationale in public intervention in small business credit market is still valid, especially when taking into consideration the growth multiplier effect such policy levers will create.

5.2. *Limitations and future research*

Whilst our analysis is UK-centric, we do compare our results against previous research on various other countries (cf. Rauch et al., 2009) and find important similarities regarding the causality between growth and growth orientation. Therefore, it is reasonable to believe that our results are robust and can be generalised to other countries. However, it still remains an interesting question how cultural differences inherited within each country affect such studies.

A key contribution of our study is our analysis in a recessionary context. Now it is four and half years into the recession, there is still little evidence that global economy has recovered from the single largest downturn from the Great Depression (for example, the current UK GDP is 3.31% lower than its pre-recession figure). With the continuing decline in the flows of business lending (Bank of England, 2011), firms without surplus cash balances were quantity constrained, even when financial institutions were prepared to advance credit. So a valuable future avenue of research is to look at the growth and growth orientation dynamics in a prolonged economic downturn.

This study examines the moderating effect of third variables in measuring growth motivation and growth. In particular we find measures of entrepreneurs' actual control over firm growth plays an important role in predicting growth and growth motivations. However, we were not able to investigate the mechanisms through which such measures affect entrepreneurs' growth strategies using the current data. This has important implications on our understandings on how external factors influence entrepreneurs' perceived control over the entrepreneurial procedure in a planned behaviour theory context. Future research perhaps using a detailed case study methodology is therefore called for to fill this research gap.

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Table 1

Descriptive Statistics and Selected Correlation Coefficients (N = 2957)

Variable	Mean	Std. Dev.	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
(1) $SGROWTH_t$	-7.634	24.767	1							
(2) $SGROWTH_{t-1}$	7.055	18.588	0.096	1						
(3) $EGROWTH_t$	3.944	58.908	0.157		1					
(4) $EGROWTH_{t-1}$	5.647	25.927	0.074	0.361	-0.057	1				
(5) SGO_t	1.295	31.246		0.059	0.067		1			
(6) SGO_{t-1}	8.574	21.997	0.103	0.376	0.049	0.202	0.075	1		
(7) EGO_t	-0.894	33.988	0.093	0.090		0.049	0.294	0.101	1	
(8) EGO_{t-1}	1.283	33.423	0.038	0.107	0.123	0.050	0.061	0.226	0.158	1
(9) $SIZE_{t-1}$	35.633	45.713	0.040	0.038	-0.141	0.038				

(10)	AGE_0TO10	0.030	0.171		0.114	0.038	0.113		0.137	0.064	0.085
(11)	AGE_11TO20	0.182	0.386		0.129	0.050	0.149	0.037	0.101	0.040	0.097
(12)	AGE_20MORE	0.788	0.409		-0.171	-0.065	-0.188	-0.046	-0.157	-0.067	-0.130
(13)	FAMOWN	0.604	0.489	-0.045						-0.035	
(14)	CORPORATION	0.883	0.322		0.063						
(15)	URBAN	0.819	0.385							0.041	
(16)	PRIMARY	0.063	0.243								-0.039
(17)	METALS	0.213	0.410	-0.088		-0.043					
(18)	MANUFACTUARY	0.126	0.332	-0.049				-0.047			
(19)	CONSTRUCTION	0.242	0.428	0.074					-0.047		
(20)	RETAIL/WHOLESALE	0.062	0.241				-0.039				
(21)	TRANSPORT&COMM	0.202	0.401		0.037				0.059	0.041	0.082

(22)	BUSINESS SERVICES	0.049	0.215	0.071					
(23)	OTHER SERVICES	0.043	0.204	0.047	0.035				
(24)	OWNERAGE	50.763	9.443		-0.078	-0.096	-0.048	-0.037	-0.093
(25)	EXP	0.188	0.390						
(26)	EDU	0.466	0.499	0.065	0.052	0.060	0.060		0.046
(27)	FULLACCESS	0.970	0.171	0.041			-0.111	0.045	
(28)	PARTACCESS	0.005	0.073			-0.043			
(29)	NOACCESS	0.025	0.155				0.112	-0.040	

Note: Correlation coefficients significant at $p < 0.05$ or above are reported.

Table 2

Heckman Selection Model: Employment/Sales Growth and Growth Orientation

	Sales Growth		Employment Growth		Sales Growth Orientation		Employment Growth Orientation	
	Model 1	Model 2	Model 3	Model 4	Model 5	Model 6	Model 7	Model 8
<i>GROWTH_{t-1}</i>	0.078***	0.074**	-0.102***	-0.106***	0.030	0.064*	0.048*	0.043
	(0.029)	(0.029)	(0.031)	(0.030)	(0.025)	(0.034)	(0.026)	(0.028)
<i>GO_{t-1}</i>	0.093***	0.086**	0.127***	0.068**	0.061***	0.081***	0.114***	0.113***
	(0.024)	(0.036)	(0.024)	(0.031)	(0.021)	(0.020)	(0.020)	(0.020)
<i>SIZE_{t-1}</i>	0.035***	0.036***	0.171***	0.190***	0.139***	0.136***	-0.016	-0.017
	(0.013)	(0.013)	(0.032)	(0.032)	(0.016)	(0.016)	(0.021)	(0.021)
<i>AGE_11TO20</i>	4.007	4.709	21.939***	23.179***	10.026***	10.858***	-8.065*	-7.636*
	(3.022)	(3.049)	(6.983)	(7.038)	(3.633)	(3.652)	(4.138)	(4.132)
<i>AGE_20MORE</i>	4.040	4.734	28.759***	29.098***	12.853***	13.525***	-9.523**	-9.488**
	(2.925)	(2.955)	(6.615)	(6.675)	(3.450)	(3.471)	(4.138)	(4.126)
<i>FAMOWN</i>	-1.319	-1.216	-4.278**		-2.323**	-2.125**	-2.474*	-2.684*
	(1.059)	(1.069)	(1.717)		(0.969)	(0.964)	(1.427)	(1.425)

<i>CORPORATION</i>	-0.452	-0.509	5.311**		2.742**	2.680**	2.530	2.538
	(1.540)	(1.551)	(2.305)		(1.357)	(1.353)	(1.996)	(1.991)
<i>URBAN</i>	-2.632**	-2.479*	-1.492		1.285	1.467	3.501**	3.728**
	(1.294)	(1.294)	(2.099)		(1.187)	(1.175)	(1.751)	(1.748)
<i>OWNERAGE</i>	0.038	0.039	0.032	0.008	-0.098**	-0.083*	-0.023	-0.019
	(0.053)	(0.053)	(0.083)	(0.083)	(0.048)	(0.047)	(0.070)	(0.070)
<i>EXP</i>		-2.233		0.936		4.325***		4.639**
		(1.474)		(2.230)		(1.290)		(1.898)
<i>EXP*GO_{t-1}</i>		-0.080		0.072				
		(0.060)		(0.070)				
<i>EXP*GROWTH_{t-1}</i>						0.024		-0.021
						(0.072)		(0.079)
<i>EDU</i>		-0.005		3.089*		2.566***		
		(1.111)		(1.662)		(0.978)		
<i>EDU*GO_{t-1}</i>		0.064		0.082*				
		(0.045)		(0.050)				
<i>EDU*GROWTH_{t-1}</i>						-0.070		

						(0.045)		
						-		
<i>PARTACCESS</i>	-15.923**		3.408			27.446***		-10.010
	(6.780)		(10.699)			(7.678)		(9.316)
<i>PARTACCESS*GO_{t-1}</i>	0.112		0.095					
₁	(0.136)		(0.377)					
						-0.771***		-1.398*
<i>PARTACCESS * GROWTH_{t-1}</i>						(0.201)		(0.770)
<i>NOACCESS</i>	-1.356		-4.315			-4.600		-9.902**
	(3.987)		(5.920)			(3.261)		(4.831)
<i>NOACCESS*GO_{t-1}</i>	-0.126*		-0.287*					
	(0.076)		(0.150)					
						0.120		0.327**
<i>NOACCESS * GROWTH_{t-1}</i>						(0.113)		(0.163)
<i>Constant</i>	-0.257***	-0.261***	-1.822***	-1.832***	-0.836***	-0.871***	0.008	0.008
	(0.006)	(0.006)	(0.009)	(0.08)	(0.005)	(0.005)	(0.012)	(0.011)
<i>Observations</i>	18688	18688	18787	18787	18690	18690	18806.	18806

<i>Uncensored obs.</i>	2534	2534	2909	2909	2503	2503	2723	2724
	-	-	-	-	-	-	-	-
<i>log likelihood</i>	19016.013	18927.806	23445.261	23576.846	18726.150	18602.994	21105.260	21096.846
			112.203**	111.468**	143.883**	212.188**		
²	51.422***	71.423***	*	*	*	*	59.882***	77.144***
<i>Rho</i>	0.304***	0.301***	0.973***	0.974***	0.950***	0.953***	-0.062	-0.064

Note: p .10; ** p .05; *** p .01. Robust standard errors reported in the parentheses. Industrial dummies are included in the regression but the coefficient estimates are not reported in the table as none of them is significant.

Corporate Social Responsibility: A Discussion with Examples from the Pulp and Paper Industry

Haiyan Qiu*, Dieu Hack-Polay**

ABSTRACT

Corporate social responsibility (CSR) involves multi-faceted concerns and interested parties. The theoretical paper argues that pursuing CSR policies creates value for sustainable economic prosperity for the pulp and paper sector. The pulp and paper industry is one of the largest industrial sectors worldwide and plays a critical role in global development. As the fourth largest energy user and CO2 emitter, the industry is subject to the vicissitudes of global society and environment. Irresponsible pulp and paper operations are now shunned by various stakeholders, which ultimately affect their economic bottom lines. Sustainable operations bring continuity and competitiveness along with innovation, efficiency and social recognition to the industry. Using the criteria of the triple-bottom-line theory (economic, environmental and social), this paper demonstrates that a strong CSR framework and proactive initiatives add value to the pulp and paper business.

Key words: CSR, pulp and paper industry, triple-bottom-line theory, migrant labour

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1. Introduction

This theoretical paper discusses how CSR brings value, though not always quantifiable, to business by employing the 'triple-bottom-line' theory and illustrates this value with reference to the pulp and paper industry. The acknowledgement of corporate social responsibility (CSR) as a business strategy has been seen at the highest corporate levels in recent years. A number of business gurus have taken positions in favour of the incorporation of CSR into overall business strategy. "Our fundamental belief is that doing good is great for business" said Sir Richard Branson (2009:289), the iconic entrepreneur and founder of Virgin Group. Sir Richard Branson's belief is the epitome of the mutually reinforcing relationship between corporate social responsibility and business values. Industry Canada also promotes corporate social responsibility, strongly believing it will bring innovation, productivity and competitiveness to its industry in the global arena (Industry Canada, 2013).

In her speech at the '11th Chinese People's Political Consultative Conference', Helen Clark, UNDP administrator and chair of the influential UN Development Group, spoke about their work with companies incorporating corporate social responsibility in business models about the benefits from improved efficiency, cost savings, stronger branding, etc. and the adverse risk of reputational loss for not engaging in CSR (Clark, 2012).

In academia, many authors have supported a positive standpoint about the validity of corporate social responsibility as a valuable aspect of a viable contemporary business model. Porter (1995), Davis (1999), McWilliams et al. (2006), Carroll (2012), to name just a few. Dr Olson, director of the Pulp and Paper Center at the University of British Columbia argues in his director's message that people, especially those working in the forest industry, understand clearly about the societies' need for true sustainability and the equilibrium it plays with economic affluence (University of British Columbia, 2013).

This pre-eminence of corporate involvement with society has been exemplified in contemporary definitions attributed to the term. One such definition is provided by Needle who contends that corporate social responsibility or CSR with the corporation's development and management of "its relationships with various stakeholders: employees, customers, suppliers, the community, society and government. It also has a responsibility towards the sustainability of the environment" (Needle, 2010: 300).

The rationality of CSR is no longer contentious. This was supported by a special report for the Economist in which only 4% of respondents thought that CSR was "a waste of time and money" (The Economist, 2008). Many business school academicians like John Ruggie of Harvard University's Kennedy School of Government concur that it is not whether there should be CSR but how corporations can best incorporate CSR to their advantage (Smith, 2003; The Economist, 2008; Rangan, Chase & Karim, 2012).

What impacts does CSR have on businesses? The impact of corporate social responsibility is multidimensional. "CSR enhances reputation and builds positive bridges to communities, customers and the public at large and in doing so affects the bottom line" (CSR Press Release, 2013). The point here is that CSR is not only cogent in the business context but it can bring value and sustainable corporate

development. The synergistic effect of CSR between business and its social and environmental stakeholders can bring about tremendous competitive advantages in terms of efficiency, reputation and innovation.

John Elkington (in Buchholtz & Carroll, 2012) described the triple-bottom-line analysis to sustainable development as including economic, environmental and social aspects. The aim is corporate sustainability, which is to create continuing long-term shareholder value by taking responsibilities for and initiatives in respect of the economy, environment and society.

According to Carroll's CSR Pyramid (2012), there are four facets of CSR, one of which is legal responsibilities. Considering that the fundamental aspect of being socially responsible germinates from abiding by laws and being responsive to regulatory changes, business would be suicidal if they only pursued the 'bottom-line'. Thus, this necessary conformity to law and regulation will not be further elaborated. The triple-bottom-line theory will be applied to discuss in detail why and how CSR brings sustainable competitive advantages via pursuing more than just the shareholder or the 'bottom-line' theory. It will also elaborate on the economic merits of proactive CSR approaches taken by pulp and paper operations (Needle, 2010).

The pulp and paper industry is one of the largest industrial sectors worldwide, and plays an important role in global economic and social development (Food and Agriculture Organization of the United Nations, 2013; WWF, 2014). However, unsustainable pulp and paper operations have caused great losses to the world's ecosystem and incurred issues like illegal logging, human rights and social conflicts. Responsible pulp and paper operations can contribute to sustainable forest plantations, world economies and employment (WWF, 2014).

This discussion will proceed from these three interwoven constructive aspects of CSR: economic, environmental and social.

2. CSR and the Pulp & Paper Industry

2.1. Economic Aspects of CSR for the Pulp & Paper Industry

Being socially responsible in business brings more gain and risks little loss. Arguably, taking CSR approach is not cost free, however, the long term benefits outweigh the foreseeable costs. CSR is an inevitable socio-economic force and a proactive CSR approach can augment business's economic bottom line. According to CEPI (Confederation of European Paper Industries), the pulp and paper industry is a European strategic sector which is vital for Europe's sustainable industrial development. However, the pulp and paper sector faces strong competition from other countries as well as plastic and digital substitutes. The strategy employed by CEPI is to incorporate sustainability into the industry which contributes to reduced production costs and environmental footprints. The focus on sustainability by the European pulp and paper industry brings greater competitiveness and profitability, which is critical for the industry to adjust to tougher global competition and stricter regulations (Sustain, 2013).

Potential investors are increasingly using CSR performance as an indicator when making capital investment decisions on whether to invest in a business (Chartered Management Institute, 2012).

Easy and instant dissemination of news globally, reinforced by courageous whistle-blowers, leave no-hiding room for unethical and unlawful corporate practices. They act as a 'yellow traffic light' warning for business operations. Irresponsible corporate behaviour dilutes the soundness of the company's reputation and eventually leads to economic anguish. The unfortunate case of the Republic of Iceland demonstrates that irresponsible and unethical corporate behaviour is powerful enough to bring down a country.

Too many antecedent scandals like The Gunns Limited caused investors to be stricter about a firm's responsible reputation. The Gunns, once the dominant timber corporation in Australia went into administration in 2012 due to poor financial management and relentless community campaigns against its unsustainable pulp business operations (The Sydney Morning Herald, 2012; ABC News, 2014). With growing concerns over business sustainability, investment bodies and shareholders seek to put their money into reliable and responsible recipients. Social watchdogs and reporting venues, e.g. social auditing, CSR reporting, social performance reporting, make it impossible to attract investment and funding with an irresponsible and unsustainable social image. Stora Enso, a leading Finnish pulp and papermaking group, lost funding support from Nordea bank and SPP due to its irresponsible and unsustainable operations in Guangxi, China. Conversely, a firm with a good CSR reputation can attract external investment and retain shareholder confidence, e.g. a responsible and sustainable image can permeate through social screening and win social responsibility investments (SRI). "A January 2005 survey of mainstream investment managers found that 73% predicted that socially responsible investment indicators will become commonplace in mainstream investing within 10 years" (As You Sow, 2013).

CSR is a social force that can bring a corporation down or elevate it depending on its strategic approaches to the CSR agenda. Japanese paper industry's recycling scandal rendered the industry's reputation in tatters. The scandal involving several of Japan's leading papermakers like Nippon Paper and Oji Paper, the country's biggest paper and pulp producer, have been exposed for lying about the real percentage of recycled content in their paper products. This incident affected the companies' 'bottom line' which has seen drastic drops in shares (The Guardian, 2008; Environment Graffiti, 2008). This scandalous concealment led to the realization that such whitewashing approach in business operations eventually bring about fatal backlash.

Acknowledging CSR as an unavoidable duty of "corporate citizenship" (Verbeke, 2013: 483) to contemporary society and instead of taking a reactive or defensive approaches, corporations can take initiatives to transfer it into unique firm specific advantages (FSAs) (Rugman, 2009) and gain first mover advantages. This strike-first-to-gain-initiative approach is a perfect fit with Machiavelli's strategic belief that knowing the inevitability of war, delaying it will only give advantages to its competitors (Clegg et al., 2012). A good example is Tralin Paper Co. Ltd., a top ten paper producer in China, and its new technology to produce pulp from wheat straw received approval from the Ministry of Environmental Protection of the People's Republic of China in 2011. With the pulp and paper industry under increasingly regulatory pressure to stop pulp making from agricultural straw and stalks due to a lack of clean technologies, Tralin took initiatives to research and successfully developed a breakthrough

technology for producing pulp from agricultural by-products. The success made Tralin the forerunner for profiting from sustainable technology in the pulp and paper industry in China. Tralin's innovative technology of producing pulp from agricultural waste has not only received governmental applause as a milestone in the development of pulp and paper industry in China, but has also brought economic gains to itself and farmers supplying these resources that were left to waste in the field or were burned causing smog pollution (Ministry of Environmental Protection of the People's Republic of China, 2011; National Development and Reform Commission, 2011).

A proactive CSR brings economic returns through efficiency and innovation seeking in both operating and resource utilization, e.g. much successful entrepreneurship initiated from seeking green and alternative energy. A proactive CSR mindset keeps business responsive and innovative. For example, Siemens pursues the economic bottom line by creating portfolios of efficient energy-saving technologies like SIPAPER Reject Paper which can be beneficial to the environment and its customers in the global pulp and paper industry by reducing energy consumption and CO₂ emissions (Siemens, 2014). Furthermore, proactive CSR can create innovative ways to improve profitability, within environmental and social constraints (Chartered Management Institute, 2012). A good example in the pulp and paper industry is Ashland Water Technologies, a leading global producer of papermaking chemicals. With the objective of improving sustainability in the pulp and paper industry, Ashland endeavours to work towards practical innovations. For instance, the company's latest innovation, 'Biobond technology', this won the 2013 'Breakthrough Technology of the Year' award from Pulp & Paper International and made it the desirable choice for paperboard producers internationally. This technology brings efficiency and improved quality to its customers by decreasing the loss of starch and improving mechanical properties in the papermaking process. The technology also improves the sustainability of paper production by reducing water consumption and levels of COD (Chemical Oxygen Demand) (RISI, 2013). Both of these technologies generate profits and reinforce the cogency of Ashland's innovative and sustainable business models at the same time as bringing benefits to their pulp and paper customers.

Proactive CSR efforts can bring about cross-industry cooperation to create synergy for achieving business development and social sustainability. Nippon Paper Industries Co., Ltd and Coca-Cola (Japan) Co., Ltd joined forces to create benefits for their local communities. Each company has committed to social and environmental development when doing business using their respective strengths and focuses. Nippon's experience in biodiversity and Coca-Cola's in water preservation led to a collaboration which will allow the synergetic use of both companies' assets and experience to create business value and benefits to a wider community (RISI, 2013).

Succinctly, CSR initiatives create value for sustainable economic prosperity in business beyond the level of statutory obligations.

2.2. Environmental Aspects of CSR for the Pulp & Paper Industry

Unfortunately, some solely economic bottom-line seeking opportunists advocate CSR only rhetorically to gain regulatory favour or to be on the trend wagon. Society is not ignorant and will not tolerate such 'green wash' practices. Business needs to practise what it preaches through simultaneous economic and social action in order to sustain its competitive advantage (Verbeke, 2013).

Shareholder theory or the 'bottom-line' theory contends that a corporation's ultimate goal is to augment economic profits, arguing that environmental issues are not its responsibility. In contrast, the 'triple-bottom-line' theory sees the environment as a main stakeholder, advocating that being responsible to environment is essential to business. This perspective is supported by Needle (2010) who claims that the environment attracts the most public attention and holds the highest cost risks. Discussions here examine why corporations need to look beyond the 'bottom-line' to the economic impacts of environmental sustainability.

There are studies which corroborate the existence of a positive relationship between environmental and economic performance. Unsustainable environmental performance is negatively correlated with the intangible asset values of firms, e.g. reputation, brand equity, etc. (Wagner, 2005; Konar & Cohen, 2001).

Shrivelling world distances and shrinking resources put business under high-pressure for green operations. Consequently, corporate environmental activities receive increasing attention and scrutiny from the public which requires corporations to treat sustainable environment management as a priority. Indonesia's joining the Voluntary Partnership Agreement with the European Union in September 2013 highlights the importance of sustainable environment management. The Forestry products made in Indonesia had been banned from entering European markets for many years because of the country's unsustainable use of tropical forests. Without Indonesia's commitment to following sustainable operations, the European market would remain inaccessible to the country's forestry products while commitment could convey unprecedented trading opportunities for its forestry industry (Lesprom, 2013).

The pulp and paper industry has a plethora of real cases that demonstrate the above statement. Take Domtar Inc. and Resolute Forest Products Inc., two Ontario-based pulp and paper producers in Canada for example. The Ontario Provincial Court sentenced Domtar to pay 75,000 USD for violating the Fisheries Act. Following this incident, Greenpeace reported the suspension of FSC (Forest Stewardship Council) certificates for Resolute Forest Products for not following environmental and strict logging rules. The loss of the FSC certification hurt the company's image and marketability in a marketplace increasingly concerned with sustainability (RISI, 2013; Ravensbergen, 2013).

Additionally, the ever-growing influence of standards-setting bodies like the ISO (International Organization for Standardization) and FSC are significant for business. In June 2013, APRIL (Asia Pacific Resources International), the second largest Indonesian paper and pulp producer, withdrew from FSC certification trying to avoid scrutiny for violations of FSC standards (Maitar, 2013). The move marked it as a notorious pulp and paper producer and forest destroyer. It is not difficult to imagine the economic losses, considering that FSC certification is a must have in the international pulp and paper market.

Unlike APRIL, APP (Asia Pulp and Pulp), the largest pulp and paper producer in Asia, metamorphosed itself from irresponsible resources exploiter to a leader in implementing CSR (Greenpeace, 2013). Persistent campaigns by large NGOs against APP's deforestation of tropical and endangered forests caused APP to lose some major customers and also brought a negative image to APP's brand and reputation which only long-term environmental commitment could repair.

The evolution of social, economic, and global environmental issues has resulted in the environmental performance to become an inseparable component of a company's reputation which is an intangible asset that influences marketing and financial performance (Miles & Covin, 2000). APP's environmental reputation has made it a target for green pressure groups that have successfully persuaded some American companies not to buy its products and also caused obstacles to its business acquisitions in the United States and Canada (Forest Business Network, 2011).

APP learned its lessons quickly and took action involving social media to communicate its CSR commitment and carbon footprint. One prominent commitment was its introduction of the “‘Zero Deforestation’ policy” (Mongabay, 2013). Such a policy from APP is seen as a transformation for sustainable forest utilization in that the company's clout will force other producers to follow suit, which can lead to positive spill over effects in the industry. As part of responsible supply chain management—APP requires its suppliers to hold international certifications, e.g. FSC, PEFC (Programme for the Endorsement of Forest Certification), and strictly pursue sustainable and responsible criteria. APP's social and environmental activities are available to society on many media channels with frequent updates. Its open communication and proactive CSR approach has already started to regain confidence from social media and environmental pressure groups. However, the public remain sceptical of APP's long term commitment. APP will be under continuing and close scrutiny by environmental watchdogs. A good strategy for APP is to take long term environmental responsibility and turn the close supervision into positive promotion for itself. APP's mixed experience with Greenpeace and other environmental groups showcases the gains and losses that can occur.

2.3. Social Aspects of CSR for the Pulp & Paper Industry

As opposed to Milton Friedman's shareholder theory, business is more than just business. According to the Economist, “Even capitalist Mr. Jack Welch has expressed doubts: ‘on the face of it, shareholder value is the dumbest idea in the world’”. Admittedly, Friedman is not completely wrong about a business's goal being to maximise profit (Cadbury, 2006), which falls in the framework of the narrow and myopic shareholder theory. This discussion views it as a part of the ‘triple-bottom-line’ because shareholders are only one part of the business's stakeholder composition and profit-making is only one aspect of modern business. For example, the Brazilian pulp and paper industry strives for industrial competitiveness by pursuing benefits for and involvement of various economic, environmental and social stakeholders (National Confederation of Industry, 2012).

An exclusive shareholder approach gives rise to a divorce between business and its community or society. “In some cases, businesses fail because of their lack of engagement with society. Involvement in social and community action has emerged as a survival tactic” (Hack-Polay, 2013: 11). This section discusses and emphasises how being responsible to social stakeholders brings value to the business, from the perspectives of human resource management (HRM), supply chain management, and China's migrant workforce in the pulp and paper industry.

According to the British Chartered Management Institute, CSR is becoming a key factor in staff recruitment and retention. Responsible human resource management brings out initiatives and commitment from employees and that, in turn, engenders sustainable staff retention and promotes

their initiatives. Staff training and development is a costly and time consuming investment. It returns the investment with high staff retention; otherwise, it would be a capital cost to the firm and a gain for competitors. Treating employees ethically and responsibly is a first step towards obtaining staff commitment. CSR in HRM can also add value by encouraging employees to take ownership of their work. This fosters employees' pride in being an important part of the firm by bringing personal initiatives to work. For instance, Peace River Pulp Division, a pulp producer located in Alberta, Canada, won 'the Achievers 50 Most Engaged Workplace™ Awards' by being a top leader in engaging employees in the workplace (Pulp and Paper Canada, 2014).

Nine Dragon Paper (Holdings) Limited (ND), a worldwide leading containerboard producer, built a papermaking empire based on the visionary belief in 'no environmental protection, no papermaking'. While ND is strong in promoting environmental sustainability, it regrettably neglected the social impact of CSR. This oversight brought the corporation an unfavourable public image which generated stock speculation and employee mistrust.

On the one hand, ND was hailed for its persistent commitment and adherence to its corporate mission in environmental protection and sustainable production. Such efforts won ND many awards, e.g. Awards for China Environmentally Friendly Enterprises in 2009 and 2010 (Ifeng Finance, 2009, 2010). On the other hand, ND has been in the spot light for notorious stakeholder misconducts which have attracted governmental investigations and decreased in stock prices, etc. Such misconducts also attracted public and media attention. Some exemplary media reports were the 'Sweat Shop' report, the Incident of Employee Suicide and the 4.12 Violence with social contractors (Ifeng Finance, 2008; Sinafinance, 2012; ChinaPaper, 2013). There are countless reports on ND's public behaviour due to its leading position in the industry, but ND has given no comment or response to these reports. Regardless of whether the allegations have any veracity, aside from the legal investigations and decreased stock prices, such negative social reports weaken ND's social image and its employer brand, employee retention and development. One escalating incident was that the S&P withdrew its rating on the company in January 2011 due to increasing concerns about the company's corporate governance and lack of response from the management. The withdrawal caused ND's shares to tumble 17% in mid-January 2011 (Cookson, 2011).

According to Davis (1999: 127), "a business which vacillates or chooses not to enter the arena of social responsibility may find that it will gradually sink into customer and public disfavour." Being socially responsible can earn a firm loyalty from existing customers. It is also positive for the potential to attract new customers, because recommendations from families and friends tend to be more convincing and effective than conventional corporate marketing. It is expected that 98% of consumers will be interested in sustainable lifestyles within five years, growing from the current 2%, new survey results released in September 2013 by BSR (The Business of a Better World) and Futerra.

Stakeholders, inclusive of customers and buyers in the global marketplace, are increasingly conscious of the environmental and social impacts of the products and services they buy (Chartered Management Institute, 2012; National Resources Canada, 2013). Sources such as Together for Sustainability Initiatives (TFS) and the Dow Jones Sustainability Index facilitate the dissemination of information on sustainable global suppliers.

Irresponsible operations will find themselves shunned by suppliers and buyers which can cause instability in production and supply. Nippon Paper, a major Japanese paper company, was also involved in the whitewashing recycling scandal illustrated in section 2.2. Aside from a drop in share value, Nippon experienced reluctance from its retailers to sell its products and at the same time buyers withdrew business due to the tainted brand (The Guardian, 2008; Whipp, 2008). Conversely, good business operations can attract stable cooperation with external forces augmenting value from a stable and reliable supply chain.

At the macro level, going beyond pursuing sole shareholder interest, CSR brings value to the giver and benefits to the recipients. An example of a CSR approach to treat migrant workers better in China is illustrative of this point. Migrant workers in China are an underlying force generating tremendous but unrecognized wealth for national and industrial development. There are 260 million migrant workers as of 2012, according to the statistics from the National Bureau of Statistics of China (Xinhua Daily Telegraph, 2013). This workforce builds the solid foundation without which the society could collapse. 18.4% and increasing number work in the construction sector and 34.5% in manufacturing. Their contributions are often underestimated and their basic needs are unmet. For example, 69.2% receive no training at all and 84.5% work over 44 hours per week (People, 2013).

Many of them are migrant parents working in factories, including those in the pulp and paper sector, and on construction sites. These migrants aspire to save money for a better life for the children they leave behind in their rural areas. There are about 61 million 'Left-Behind' Children of whom 70 per cent show signs of mental health symptoms like depression. These left-behind children are a latent source for economic damage and societal unrest in China (Browne, 2014; Wan, 2014).

A responsible and ethical approach to treating migrant workers in China would ensure these humble and hardworking people's ready commitment to the foundation for the country and industry. Long term commitment and retention of this force would bring undeniable production sustainability. China is the world's second largest paper and paperboard producer second to none but the United States (He & Barr, 2004). Europe among many countries and regions considers China as a particular competitor in the pulp and paper industry owing to China's capacity to produce low-cost and high-quality paper products (European Commission, 2013). However, according to Zhuang, Ding and Li (n.d.), China's pulp and paper industry has not fully explored the advantage of its low-labour cost. Presently, Das and Diaye (2013) find that China is losing its edge as a low-labour-cost production base due to a shrinking labour force, resulting partially from its unsustainable labour management practices.

A virtuous cycle can be achieved from proactive CSR efforts. Training given to migrant workers can alleviate skills shortages, and care and education given to their children could free them from family worries. This in turn contributes to social stability and industrial productivity. One possibility is for China's industries to take CSR initiatives in upgrading the skills of the vast migrant workforce and develop a new skilled-labour-intensive CSA (country-specific advantage).

The discrepancy between real CSR and social expectations is ever increasing (Buchholtz & Carroll, 2010). Levitt's (2010) argument is that it is government's responsibility, not business's. However, to

narrow this gap, it requires synergistic efforts from all social actors. As part of a society, corporations need and must take responsibility for their activities.

3. Conclusion

The literature considered in our theoretical analysis of CSR and the pulp and paper industry has shown that corporate economic performance and environmental and societal responsibilities are inseparable. There is no demarcation between the three bottom lines. Pulp and paper companies involved in proactive CSR strategies reap profits through increased innovation, enhanced reputation and sustained customer loyalty, etc. in the long term.

A corporation taking a strategic CSR approach may not necessarily be guaranteed survival in marketplace but those that do not operate a systematic CSR agenda would be more vulnerable. Business models that pursue solely the economic 'bottom-line' for its exclusive shareholders could restrict their level of sustainable development. The manifold value created from CSR is illustrated from the triple-bottom-line perspective. Economically, proactive CSR brings sustainable competitive advantage from efficiency and innovation seeking. Environmentally, responsible and sustainable management of natural resources gains support and economic rewards from the public and governments. Socially, one step at a time, CSR brings benefits to businesses and society. The latter, in turn, rewards such efforts with committed employees, loyal customers and a peaceful environment to operate in. Most importantly, it is only through synchronous implementation of the three bottom lines that business can harness the vast benefits of CSR.

As the fourth largest energy user and CO₂ emitter, the pulp and paper industry is subject to the vicissitudes of the global society and environment. Pulp and paper operations have caused irrevocable damage to the world's ecology and social communities. A sustainably managed pulp and paper industry can bring numerous benefits to the industry per se, e.g. sustainable raw material and industrial reputation, as well as economic gains and social recognition to individual business. Pursuing the economic bottom line should go hand in hand with responsibilities to the society and environment. The problem is not whether but how to better embed CSR into business operations and create leverage over competitors. In the pulp and paper industry, is the level of CSR commitment the same from every country? Are pulp and paper products from countries promoting CSR more competitive in terms of prices and brand image? Does the pulp and paper industry pay equal attention to its environmental and social stakeholders? Questions like these need be further investigated.

Of further interest, the world's most populous country, China, sees the largest rural migration for employment. The nation faces a plethora of problems about the massive migrant force like the working conditions, social equity and 'left-behind' children. The International Labour Organization (ILO) established the ILO Decent Work Country Programme for China focusing on reducing inequalities and improving employability for Chinese rural migrants. To obtain such grand goals, commitment and measures from both social institutes and business sectors are necessary to explore how to achieve preventive and proactive CSR. One possibility is to establish sound mechanisms for sustainable CSR composed of mandate regulations, institutional infrastructure for implementation, supervision, and evaluation as well as motivation and reward systems.

Presently, CSR is largely a discretionary option, thus more governmental enforcement and supervision from NGOs are needed. Most importantly, corporate initiatives are urgently needed to work toward a sustainable world. Taking a transparent and proactive CSR approach can bring strategic advantages *vis-à-vis* competitors that are vital to the survival of the corporation. CSR must be more than just a plaque on the wall, if its values are to be realized by business.

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