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Foreword

It is claimed that the world is becoming increasingly turbulent affected by events that (often) arise abruptly in unpredictable ways and potentially with extreme outcomes. As a testament to this, we are suddenly and unexpectedly embroiled in a global pandemic with severe consequences for economic activity, business performance, and life as we normally live it, only a decade after the adversities from a global financial crisis have subsided. These circumstances test the resilience and response capacity of organizations, and the individuals in them, dealing with the challenges imposed by these changing environmental conditions. While both public and private organizations are exposed to a variety of risks that affect their position in dynamic competitive contexts, some events have systemic proportions that influence everyone at the same time across industries, economies, and societies. Just think about the impending effects of climate change that eventually will require our urgent attention. These developments accentuate the need for adaptive capabilities that allow organizations to remain viable as conditions change but also adapt in ways that align with the need for collective solutions that can form a sustainable socio-economic fabric in the future.

This collection of articles provides relevant and timely thoughts to the challenges of dealing with uncertain, and in many cases unknown, future conditions that nonetheless require foresight, preparation, and (not least) capacity for flexible and resilient responses to deal with things as they evolve. The forthcoming chapters consider and analyze the influence of social capital and ethical corporate behavior on social progress confirming that social capital and corporate ethics have direct as well as indirect positive effects on the ability to advance social progression for collective solutions. It is observed how organizations move away from reactive compliance-based organizational processes moving toward more proactive strategic approaches that adopt green practices in business operations and supply chain structures. This is influenced by external (political and market) pressures but is also driven by strategic considerations aiming to preserve resources and retain competitiveness. An empirical study of certified manufacturing firms shows how the adoption of green strategies mediates the relationship between internal adaptive moves and external pressures to induce green supply chain practices.

Effective strategic response capabilities reflect the ability to sense environmental changes, learn from emergent responses, and realign organizational activities so they provide a better fit with environmental conditions over time. Organizations are more or less effective in their ability to respond and adapt, and this

heterogeneity across firms can explain the negatively skewed performance distributions observed empirically that are associated with inverse risk-return relationships. That is, a few highly responsive firms outperform and generate higher performance at lower risk where many firms underperform. The positive responsiveness features can be enhanced through interactive strategy-making that combines experiential insights from decentralized responses with central forward-looking analytics. Open strategy is a (relatively new) conceptualization of interactive strategies inspired by ideas about “open innovation” where openness sharing ideas can generate better adaptive solutions. A systematic review of this concept identifies a need for definitional focus and empirical research to identify and test effective (and ineffective) approaches. This can support a fruitful research agenda investigating how open strategy may advance our understanding of interactive strategy-making as a basis for effective adaptive responses.

Recent studies suggest that the need for decentralized responses to emergent changes in many cases must come from autonomous rule-breaking entrepreneurial “mavericks” that defy the formal organizational rules. Many firms operating in turbulent, hostile, and highly competitive industries adopt central control practices to gain immediate efficiencies but at the same time reduce organizational slack and inhibit responsive initiatives. It derives from an information gap between employees in the periphery that gain the daily business experiences and top management at the center that decide on major strategic actions. In this setting, the mavericks resent the ignorance of the corporate center and deliberately break the rules to engage in responses that can renew the business. They do this to advance the organization and constitute an important, but often overlooked, source of strategic renewal. But, the non-conforming rule-breaking anarchistic nature of mavericks does not provide a complete picture of these individuals. A comprehensive qualitative study of mavericks shows that while they certainly challenge the organizational norms, they do so to benefit the organization and its key stakeholders. They are not merely wild non-conformists as they actually conform to higher level societal hyper-norms in a kind of “bounded non-conformity.” Understanding this bounded non-conformity is essential to utilize the positive effects of maverick behavior to instigate ideas and plans for more innovative and radical changes needed to adapt the organization. Hence, conscious leadership can benefit from the unique contributions from mavericks at work including responsive initiatives based on unorthodox and out-of-the-box thinking to create important adaptive moves.

As international firms try to deal with the multitude of risks that expose them in the global economy, some are able to adjust and thrive against the odds, while most succumb or even fail. Only a few firms are able to repeatedly outperform, where a great many struggle and underperform. Hence, we observe leptokurtic distributions of negatively skewed returns with extreme negative tails of poor performers. Analyzing a large sample of European firms over 1995–2019 finds a consistent pattern of underperforming firms across industry classifications and time-periods and (very) few outperformers. This documents a regular, but often ignored, phenomenon that has implications for our understanding of adaptive responsiveness in organizations. The possession of strategic response capabilities

is a prominent explanation for effective adaptation but is rarely tested empirically. A study based on a large sample of US manufacturing firms over 2010–2019 investigates the effects of strategic response capabilities and innovation as adaptive mechanisms. The analysis finds that strategic responsiveness is associated with opportunity exploitation and risk avoidance reflected in positive performance and risk outcomes, whereas the precise role of innovation as an important dynamic factor requires further scrutiny and analysis.

These are the dishes on the table. It is hoped they look (appear) appetizing and are filling (possibly inspiring) after the digestive process.

Torben Juul Andersen
Frederiksberg, January 10, 2021

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Chapter 1

Social Capital, Corporate Ethics and Social Progress

*Daniel Alonso-Martínez, Nuria González-Álvarez
and Mariano Nieto**

Abstract

The main goal of this study is to analyze the influence of social capital and corporate ethics on social progress. A theoretical model is proposed, and the hypotheses were tested on a sample of 32 Organisation for Economic Cooperation and Development (OECD) and non-OECD countries between 2011 and 2018 that includes data from the Social Progress Imperative non-profit organization as well as from the World Economic Forum database (Global Competitiveness Reports). The results indicate that, although both social capital and corporate ethics have a direct influence on social progress, social capital also influences corporate ethics so that the latter acts as a mediating variable between social capital and social progress.

Keywords: Social progress; social capital; corporate ethics; collective good; economic growth; transparency

Introduction

Social progress is

the capacity of a society to meet the basic human needs of its citizens, establish the building blocks that allow citizens and communities to enhance and sustain the quality of their lives, and create the conditions for all individuals to reach their full potential. (Social Progress Imperative, 2019, p. 3)

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It has become an increasingly critical agenda for leaders in government, business and civil society. Citizens' demands for better lives have become evident in uprisings since the Arab Spring and in the emergence of new political movements in even the most prosperous countries ([Social Progress Imperative, 2019](#)).

Social progress is a priority in public policies. Many initiatives aim to foster social progress, although some are more efficient than others ([Alonso-Martínez, 2018](#)). [Stiglitz, Sen, and Fitoussi \(2009\)](#), and the Organisation for Economic Cooperation and Development ([OECD, 2015](#)), focus on the design of public policies to promote social progress and inclusive growth. A question that has arisen recently is whether social issues are to be addressed by macroeconomic policies only or also by business behavior ([Grifell-Tatjé, Lovell, & Turon, 2018](#)). The latter authors agree that social issues are appropriately addressed by macroeconomic policies but are created by business, and management can adopt strategies that enhance the beneficial social consequences of productivity growth and mitigate its adverse consequences before they become macroeconomic policy issues. Moreover, since the financial crisis of 2008, there has also been a growing expectation that business must play its role in delivering improvements in the lives of customers and employees, and protecting the environment for us all ([Porter, Stern, & Green, 2016](#)). This chapter adopts this view in order to explain social development using social capital and corporate ethics.

In the collective-good view of social capital, [Putnam, Leonardi, and Nanetti \(1993\)](#) describe social capital as the set of norms and networks that facilitate cooperation and coordinated actions. There is a growing literature suggesting that social capital is positively associated with economic development at the regional/country level ([Fukuyama, 1995](#); [Knack & Keefer, 1997](#); [La Porta, Lopez-de-Silanes, Shleifer, & Vishny, 1997](#); [Thompson, 2018](#); [Zak & Knack, 2001](#), among others). We have also found previous research that supports the relationship between social capital and various issues of social progress such as education and health ([Putnam, 2000](#)), poverty ([Rupasingha & Goetz, 2007](#)), crime ([Buonanno, Montolio, & Vanin, 2009](#); [Putnam, 2000](#)), environmental benefits ([Atshan, Bixler, Rai, & Springer, 2020](#); [Kim, Kang, & Lee, 2020](#); [Ostrom & Ahn, 2009](#); [Videras, 2013](#)), climate change ([Adger, 2003](#)), ownership enforcement of common property ([Katz, 2000](#)) and crowdfunding ([Cai, Friedemann, & Stam, 2020](#)). As previous literature argues, social capital plays a relevant role in social progress, because trust-based networks in a country encourage firms to be more generous with their knowledge and collaborate more with other agents in order to improve their societies ([Thompson, 2018](#), for a review).

Moreover, several previous papers consider the relevance of corporate ethics and analyze its implications for society ([Blau, 2018](#); [Evans, 1991](#); [Ng, Ibrahim, & Mirakhor, 2015](#)). Corporate ethics can thus be understood as the applicability of ethical dimensions to productive organizations and commercial activities ([Moriarty, 2016](#)). Corporate ethics environments have important implications for other firms in the country, for consumers and for all the society in general. Ethical rules are an ever-ready social lubricant that permits voluntary participation in production and exchange ([Arrow, 1974](#)). Specially, ethical managerial

behavior encourages other managers in the same country to be more generous, to collaborate and transfer knowledge, and allows other firms and agents to progress socially (Crowther & Aras, 2008; De Roeck & Farooq, 2018).

The main goal of this study is to analyze the influence of social capital and corporate ethics on social progress, highlighting the mediating role of corporate ethics on the relationship between the other two concepts. Specifically, our contributions to the research are the following. First, although previous literature highlights the importance of promoting social progress (OECD, 2015; Stiglitz et al., 2009) and of measuring it empirically (Alonso-Martínez, 2018; Mayer, Haas, & Wiedenhofer, 2017; Thore & Tarverdyan, 2016), there has been little previous research in general on this topic from both theoretical and empirical perspectives. Second, in line with the [Social Progress Imperative \(2019\)](#), in our analyses we use a direct measure of social progress rather than economic proxies or outcomes. By excluding economic indicators, we can isolate the effect of social capital and corporate ethics on social progress. Progress on social issues does not automatically accompany economic development. For example, too many people – regardless of income – live without full rights and experience discrimination or even violence based on gender, religion, ethnicity or sexual orientation. Finally, we find that corporate ethics plays a mediating role in the social capital and social progress relationship. Although previous literature highlights the direct effects of social capital and corporate ethics on social progress, the potential mediating effect of corporate ethics in the social capital-social progress relationship has not been considered until now. We consider that corporate ethics captures a part of the trustiness relationships between citizens and enhances environments so that citizens can progress socially.

To provide a more fine-grained view of social progress in line with the [Social Progress Imperative \(2019\)](#), the Social Progress Index (SPI) is broken down into three dimensions: Basic Human Needs (BHN), Foundations of Wellbeing (FD) and Opportunity (OPP). Each dimension has four components ([Table 1.1](#)), encompassing as many valid aspects of the component as possible. The first dimension, BHN, assesses whether a society is able and willing to provide what its citizens require to survive. It encompasses nutrition and basic medical care; water and sanitation; shelter; and personal safety. The second dimension, FD, captures whether a society offers building blocks for its citizens to improve their lives. Are people able to get a basic education and obtain access to information and communications to achieve their full potential? Do they benefit from a modern healthcare system and live in a healthy environment that will ensure a long life? The third dimension, OPP, provides information about citizens' freedom and opportunities to make their own choices. Personal rights, personal freedom and choice, an environment of tolerance and inclusion and access to advanced education all contribute to the level of opportunity in a given society.

This chapter is organized as follows. First, it provides the theoretical background to the relationships between social progress, social capital and corporate ethics. Then, the sample and methodology used in this research is reported.

Table 1.1. Social Progress Index.

| | |
|-----------------------|---|
| Social Progress Index | Basic Human Needs <ul style="list-style-type: none"> • Undernourishment • Depth of food deficit • Maternal mortality rate • Child mortality rate • Deaths from infectious diseases Water and Sanitation <ul style="list-style-type: none"> • Access to piped water • Rural access to improved water source • Access to improved sanitation facilities Shelter <ul style="list-style-type: none"> • Availability of affordable housing • Access to electricity • Quality of electricity supply • Household air pollution attributable deaths Personal safety <ul style="list-style-type: none"> • Homicide rate • Level of violent crime • Perceived criminality • Political terror • Traffic deaths Foundations of Wellbeing <ul style="list-style-type: none"> • Access to basic knowledge • Adult literacy rate • Primary school enrollment • Lower secondary school enrollment • Upper secondary school enrollment • Gender parity in secondary enrollment Access to information and Communications <ul style="list-style-type: none"> • Mobile telephone subscriptions • Internet users • Press freedom index Health and Wellness <ul style="list-style-type: none"> • Life expectancy at 60 • Premature deaths from non-communicable disease |
|-----------------------|---|

- Obesity rate

- Suicide rate

Environmental quality

- Outdoor air pollution attributable deaths

- Wastewater treatment

- Biodiversity and habitat

- Greenhouse gas emissions

Opportunity Personal Rights

- Freedom of speech

- Freedom of assembly

- Freedom of movement

- Private property rights

Personal freedom and choice

- Freedom over life choices

- Freedom of religion

- Early marriage

- Satisfied demand for contraception

- Corruption

Tolerance and inclusion

- Tolerance for immigrants

- Tolerance for homosexuals

- Discrimination and violence against minorities

- Religious tolerance

- Community safety net

Access to advanced education

- Years of tertiary schooling

- Women's average years in school

- Inequality in the attainment of education

- Number of globally ranked universities

- Percent of tertiary student enrolled in globally rank

That section also covers the measurement of the variables and the research methods used. Later, this chapter presents the main results obtained including some additional analyses. Finally, discussion and conclusions as well as some limitations and promising avenues for future research are offered.

Theoretical Background and Hypotheses

Social Capital and Social Progress

In recent years and from different perspectives, attention has been drawn to the influence that certain activities of a social nature exert on economic activities (Barro, 1996; Baumol, 2002; Fukuyama, 1995; Guiso, Sapienza, & Zingales, 2004; North, 2006; Putnam, 2000). Social activities, springing from stable relationships maintained by individuals, groups and organizations in society are usually identified with the concept of social capital (Bourdieu & Richardson, 1986; Coleman, 1988; Putnam, 2000; Putnam et al., 1993). The use of the term social capital has become widespread (Casson & Della Giusta, 2007) and is used to describe in a unified way all assets that facilitate social relationships and economic exchanges (Grootaert & Van Bastelaer, 2001; Thompson, 2018).

There is a growing literature suggesting that social capital is positively associated with investment and growth at the regional/country level. For example, Fukuyama (1995) finds a positive correlation between economic growth and trust levels, across countries. Knack and Keefer (1997) show that an increase of one standard deviation in country level of trust predicts an increase in economic growth of more than one-half of a standard deviation for a sample of 29 countries. Using a bigger sample of 41 countries and controlling for other influences, Zak and Knack (2001) show that national growth rises by nearly 1% for each 15 percentage point increase in trust. La Porta et al. (1997) also find that, holding per capita Gross National Product (GNP) constant, an increase in trust raises large firms' share of the economy for a sample of 40 countries. Dinda (2008) identifies several more studies documenting a positive relation between trust and growth (Alesina & La Ferrara, 2002; Bertrand, Luttmer, & Mullainathan, 2000; Bjørnskov, 2006; Glaeser, Laibson, Scheinkman, & Soutter, 2000; Heller, 1996; Miguel, 2003; Ostrom, 2000; Rose, 2000; Rupasingha & Goetz, 2007; Sobel, 2002; Tau, 2003). Finally, Thompson (2018) proposes an endogenous growth model that frames analytically the argument that social capital influences innovation activities and, hence, the economic growth rate of an innovation economy.

Since the economic benefits of social capital are well established (Lehtonen, 2004), it seems reasonable to expect it to also have some influence on social progress activities. For example, Putnam (2000) observes strong correlations between social capital and education, child welfare, lower crime, neighborhood vitality, health, happiness and democratic government. Buonanno et al. (2009) and Rupasingha and Goetz (2007) find that social capital lowers poverty rates and property crime rates in the community, respectively. The Commonwealth of Australia presents a discussion on how social capital may enlarge our understanding of society and social wellbeing (Australian Bureau of Statistics, 2002). Social capital has also been linked to environmentally beneficial outcomes when it prompts collective action (Atshan et al., 2020; Kim et al., 2020; Ostrom & Ahn, 2009; Videras, 2013). Similarly, previous research finds that social capital and collective action are necessary for dealing with climate change (Adger, 2003) and ownership enforcement of common property (Katz, 2000). Finally, Cai et al. (2020) apply

a dynamic view to develop a conceptual model that explains how external and internal social capital affect crowdfunding.

Based on above arguments, we can state that social capital plays a relevant role in social progress because larger networks and trustiness in a country encourage firms to be more generous with their knowledge and collaborate more with other agents in order to improve their societies. Therefore, we propose the following hypothesis:

H1. Increasing social capital in a territory contributes to improve social progress.

The Mediator Role of Corporate Ethics

The field of ethics is complex and multidimensional, but the most relevant concept considered in this chapter is corporate ethics. Corporate ethics refers to philosophical theories related to right and wrong decisions (Murphy, 1995). It can be evaluated from both a normative and descriptive perspective. Corporate ethics from a normative perspective relates to principles, values and norms for organizational decisions (Brenner, 1992). From a descriptive perspective, corporate ethics in an organization refers to codes, standards or conduct and compliance systems, and is typically related to decisions that can be judged right or wrong by customers (Laufer & Robertson, 1997). In short, we understand corporate ethics as the applicability of ethical dimensions to all aspects of business conduct (Moriarty, 2016).

In this chapter, corporate ethics plays a mediator role. On the one hand, we affirm that a community's social capital, as captured by the strength of civic norms and the density of social networks, facilitates ethical activities. The ethical issues around social capital are multiple and varied, and depend on the perspective taken of both the social capital concept and ethics (Ayios, Jeurissen, Manning, & Spence, 2014). Social capital encapsulates "features of social life – networks, norms, and trust – that enable participants to act together more effectively to pursue shared interests" (Putnam, 1995, pp. 664–665). Social capital facilitates civic-minded, socially cooperative actions and constrains behaviors that are inconsistent with the prescribed values associated with civic norms. It seems plausible that social capital should decrease corporate practices that are also perceived by people in the society as incongruent with such prescribed values. These practices might include aggressive financial reporting practices, aggressive tax avoidance or excessive CEO compensation (Hoi, Wu, & Zhang, 2018). Most of them will be non-ethical practices.

On the other hand, many authors have demonstrated the effect of corporate ethics on increased social and economic wealth of the environment (Kramer & Porter, 2011; Singh & Agarwal, 2013). Traditionally, previous literature analyzed firms' contribution to social progress in terms of gross domestic product and other economic measures at the country level such as private employment or tax revenue. In modern societies, economic wealth is recognized as only one

dimension of wellbeing. The available literature shows that, as a country reaches higher levels of income, it cares more about other life satisfaction dimensions (leisure, environmental status, health, etc.) (Giovannini, Ayhan, & Statistics Directorate, 2006). More recently, the World Commission on Economic Development introduced the concept of sustainable development as a measure of firms' social actions. OECD (2015) and Stiglitz et al. (2009) sustain that social progress should be the goal of firms' efforts.

All firms, but especially corporate and sustainable firms, help increase social progress in several ways. Sustainable firms usually have greater legitimacy and better connections with local interests and users which facilitate their capacity to improve society conditions (Mirvis, Baltazar Herrera, Googins, & Albareda, 2016), for which the traditional mechanisms are donations and volunteering. However, although the effectiveness of these traditional actions for the society has been demonstrated, sometimes they are too basic (Mirvis et al., 2016).

Several studies have shown that companies have to integrate sustainability in all levels and in all departments of the company, meaning that corporate architectures and culture must change as well. (Kiesnere & Baumgartner, 2019, p. 2)

By means of such changes, firms can contribute better to achieving a triple bottom value (social, economic and environmental) for the society but first they will have to modify their structures, personnel, processes and assessment, in order to be more tolerant with people in terms of race, sexual orientation, gender, disabilities, etc. Moreover, corporate ethics generates more free knowledge, reduces ecological damage and improves basic and complex services. Countries are aware of the innumerable benefits that the implantation of ethical companies has for the territories in which they are located, not only because of their economic contribution through taxes, but also because of the above-mentioned effects on society.

Although social progress has been addressed by governments for many years, we must recognize the increasing role of firms. They have to prioritize their ethical behavior to meet their social objectives. The fact that corporate ethics is one of the main mechanisms for firms to achieve social objectives leads us to explore the mediating effects exerted by this variable. The combination of social capital with firms' ethical behavior allows employees and other internal and external stakeholders to improve social progress rates. Based on these arguments, we propose the following hypothesis:

H2. Corporate ethics exerts a mediation effect on the relationship between social capital and social progress in a territory.

Sample, Variables and Methodology

Sample

The database used in this study contains data from 32 OECD and non-OECD countries between 2011 and 2018. Data from the Social Progress Imperative