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Bibliographical note

Lise-Lotte Lindfelt holds a Licentiate's degree in International Marketing at Åbo Akademi University. Her PhD thesis studies the function and role of corporate ethics codes in industrial business networks. Being a member in the research project financed by the Academy of Finland, LIIKE/ValueNet, she has published one monograph and several internationally published articles. She has been a visiting scholar at Uppsala University, Sweden and also teaches university courses in Business Ethics and supervises Bachelor's theses. More information can be found on www.abo.fi/~llindfel.

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SUSTAINABILITY AS A STRATEGY—

A LONGITUDINAL CASE OF STORA ENSO'S SUSTAINABILITY DEVELOPMENT

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Abstract

Businesses play a central role in the sustainable development of the contemporary world. When viewed from a network perspective, one can say that businesses form networks in which certain ethical values are promoted among interacting business and non-business actors. These business networks drive sustainable development on a global scale. An underlying assumption of this paper is that firms are embedded in business networks, that is, they are formed by and react to their operating environment. The following paper presents the results of a longitudinal study of the official ethical profile of Stora Enso- a leading globally integrated forestry company. In 1999, the firm took its first steps towards an official ethical profile and in the proceeding years, up until 2004, it has taken various forms and names.

Key words: sustainability, business networks, strategy, business ethics, ethics codes, longitudinal study

INTRODUCTION

The concept of *corporate sustainability* has become a business approach for creating long-term shareholder and stakeholder value. GES Investment Services has studied the 300 largest companies in Europe from a sustainability perspective and concluded that in overall terms British companies lead the way, although Nordic companies perform better on environmental issues, human rights and corporate governance than their European competitors (*Nordic Companies...*2004). Two Finnish firms were included in the study - Nokia and Stora Enso - and both secured the leading position within their respective IT and materials sectors. The aim of the present paper is to assess the sustainability approach adopted by Stora Enso from its first ethical document in 1999 up until the end of 2004. The paper addresses the following questions: *What was the sustainability development of Stora Enso in the years 1999-2004? What were the main drivers of sustainability in the Stora Enso business network during this time? How did Stora Enso perceive its role in 2004 as a sustainable actor in this network? What is the current role of ethics in the Stora Enso Sustainability Report?*

There are several significant limitations to this paper. One can adopt various perspectives when studying sustainability in a business network, but this paper merely seeks to understand the drivers and terms used for ethical profiling. A further limitation stems from the fact that

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the key informant Kaisa Tarna, a CSR Manager, holds her own perspective. Due to its longitudinal basis, the findings of this paper are limited, to a certain extent, to a comparative analysis based on previous studies of Stora Enso by the same researcher. Central concepts are sustainability, strategy, ethics codes and business networks. Sustainability is here defined according to the Brundtland Report of 1987, which states: “Meeting the needs of the present without compromising the ability of future generations to meet their own needs” (Steger 1998:12). When viewed within a business context, it implies that a company should carry a generational perspective on its operations that go well beyond the limited horizons adopted by many firms. Sustainability demands enacting the optimal conditions for the planet to survive. The United Nation’s Johannesburg Summit of 2002 adopted a declaration to be effective for ten years on sustainability in consumption and production structures (Löhman & Steinholtz 2003). Stora Enso has its own definition (*Sustainability Report 2004:59*), in which sustainability is equated with corporate responsibility in the broadest sense, which includes environmental and economic issues as well as corporate social responsibility (CSR).

A corporate ethics code is a code of conduct within a firm. Brytting (1998:196) suggests that an ethics code should be embraced both locally and centrally, express good practice and ideals and that it needs relevance in practical issues and has general applicability.

Strategy is defined as an intended pattern of activities that have an impact on the achievement of organizational goals in interaction with its environment (Lindfelt 2004b). The environment includes local and global actors, such as institutions, customers, partners and also various types of organizations. The interaction firm-environment is understood through the business network concept, as developed in the industrial network theory (INT). This offers a view of a firm through sets of connected exchange relationships between actors (Johanson & Mattsson 1997, Törnroos 1997). This research tradition focuses on investigating the concept of positioning in order to understand strategic actions (Seyed-Mohamed & Bolte 1992, Möller & Wilson 1995, Håkansson & Snehota 1990).

The theoretical background of this study is consequently based on the business network approach developed by the IMP Group (Industrial Marketing and Purchasing Group). The method is a longitudinal study of Stora Enso. The empirical data consists of interviews and document analysis. The paper contributes 1) with a qualitative understanding of how a sustainability network is formed, using the example of an industrial firm in Finland, and 2) with a discussion on the development of terminology related to sustainability in the specific case of Stora Enso.

The first part of the paper will elaborate upon the research design of this study. This will then be followed by a brief introduction to Stora Enso, which will in turn be followed by a comparative analysis, divided into five sections, each relating to previously published articles. Finally, there will be an overall discussion on how sustainability development can be assessed at Stora Enso in the period 1999-2004.

RESEARCH DESIGN

Toulmin and Stegmüller propose that theories should be used rather than simply tested and is referred to as “pragmatic realism” by Alvesson & Sköldbberg (1994:36). Toulmin regards theories as sets of rules pertaining to certain domains. A theory generation is achieved when new theories are undertaken on areas outside a certain domain in order to ascertain whether it is applicable in these new areas. If it is applicable, then a theory generation has taken place and the domain for the theory has become larger. Consequently, the question at stake is not

whether the theory is true or false, but rather when it is applicable. According to Toulmin, the empirical domain in which a theory is applicable should be dependent on the theoretical projections we make. As a result, the empirical domain is constructed by a theoretical pre-understanding. (Alvesson & Sköldberg 1994:30-35). In this paper, a theoretical pre-understanding is constructed by earlier studies (Lindfelt 2004a, 2004c, 2004d, Lindfelt 2005 and Lindfelt & Törnroos forthcoming). Empirically, this is applied by undertaking a follow-up study of Stora Enso, whereby earlier results set the agenda of discussion.

In sum, this is the sixth paper stemming from the study on Stora Enso. Data collection took place in: April 2002, July 2003 and December 2004, with fifteen months passing between each interview. The research process for the whole study was characterized by qualitative research (Holme & Solvang 1991, Bryman 1989), focussing on understanding the context and interpreting data (Kristensson Uggla 2002, Alasuutari 1995, Alvesson & Sköldberg 1994). The empirical data mainly consists of interviews at Finnish firms, but also includes documental data, such as annual reports and ethical codes. The central analysis methods utilised throughout this study have been comparative theoretical analysis, case study analysis (Yin 1989, Ragin 1992), template analysis (King 1998) and conceptual development. In addition, the five published papers form a foundational comparative basis for this last paper.

The interview of December 2004 was unique, because it referred to results from earlier interviews and published papers. Thus, the interviewee was asked to reflect upon these results in relatively direct questions. In this sense, the last interview is an application of earlier results and provides a comparative angle for and/or application of each of the five previous articles. The aim is to reflect upon the characteristics of the previous results and note whether they are relevant and useful in understanding how, over time, the situation has changed. The first two articles concentrated on Stora Enso, while the last three have a broader scope.

STORA ENSO IN 2004

In order to understand the situation at Stora Enso in 2004, the content of a number of documents has been analysed. The documents in question are: The *Stora Enso Annual Report* (2004), inclusive of three parts: *Company*, *Financials* and *Sustainability*, the *Code of Ethics* (2004) and a Stora Enso presentation including 40 overhead slides (*Responsibility and Performance* 2004).

An industrial actor in a business network

Stora Enso is an integrated paper, packaging and forest products company that emerged in December 1998 after the amalgamation of Enso Oyj and Stora Kopparbergs Aktiebolag. The company employs approximately 43, 000 people in forty countries, with a third of its workforce based in Finland and a fifth based in Sweden. A significant proportion of the workforce is also located in the United States and in Germany. Stora Enso's shares are listed on the Helsinki, Stockholm and New York Stock Exchanges. The largest single shareholder at Stora Enso is the Finnish State, which holds 24.4% of its voting power. Several foundations and insurance companies also hold significant stakes in the company and in all Stora Enso has 76,000 shareholders, with 47,000 of these coming from Sweden. (*Annual Report 2004*)

The operating market for Stora Enso is characterized by business customers, served through its own global sales and marketing network. Typical customers include publishers, printing houses and merchants along with international packaging, joinery and construction industries. Seventy percent of Stora Enso's annual turnover is derived from the European market,

although its presence in the Americas has expanded in the last few years. There are also indications that demand is increasing in China, where the economy is growing rapidly and is leading to an increased demand for fine paper and packaging boards. China also has production facilities for raw materials, such as wood, recovered paper and purchased pulp, which are supplied from Western Russia, the Baltic States and fast-growing plantations in the Southern Hemisphere. Since 2000, there has been global uncertainty in the industrial market for forestry products due to factors, such as economic stagnation, low demand and the decline of the US Dollar. (*Annual Report 2004*)

Sustainability

Stora Enso is a forerunner on sustainability related issues in its industrial field. In 2004, according to its own report, *Responsibility and Performance*, the company viewed sustainability as part of its strategy - to be achieved through operational excellence, superior performance and corporate image. A stated mission to promote well-being set the standard in responsibility-led values. In order to fulfil these objectives, it has set out a *Code of Ethics* and a specific Environmental and Social Responsibility Policy.

Stora Enso's Sustainability Committee has developed the scope of corporate sustainability issues. The stated task of the Sustainability Committee is to formulate and enact corporate policy and strategy on environmental and CSR matters. It also co-ordinates stakeholder relations, is active in the development of relevant management procedures and produces an annual Sustainability Report.

Key issues on the agenda in 2004 were the *Code of Ethics*, the environmental action plan, and climate change (*Annual Report 2004*). These reflect Stora Enso's global approach to sustainability matters. The Sustainability Committee consists of 13 members from various sectors of the company, including top-level and operational management. The committee also includes four teams: environmental co-ordination, customer support, CSR and forestry environment (*Responsibility & Performance 2004*, *Tarna 2004*, *Code of Ethics 2004*).

Stora Enso repeatedly states a commitment to developing its business along ecologically, socially and economically sustainable lines (*Annual Report 2004*, *Tarna 2004*, *At a glance 2004*). This is outlined in the Stora Enso Ethics Code and is reflected by the Stora Enso membership in the following indices (*Press Release 10.5.2004*, *10.4.2004*, *Corporate Sustainability 2004*, *Annual Report 2003; 2004*, *Stora Enso 2005*, *Nordic Sustainability Index II 2005:534*):

- Dow Jones Sustainability Indexes (DJSI) World and DJSI STOXX sustainability indexes, included since their establishment in 1999. In 2003, Stora Enso scored a maximum 100% for forestry product companies.
- FTSE4Good index (joint venture between the Financial Times and the London Stock Exchange), which is intended to be a measure for socially responsible investors. It bases selection criteria on globally recognised codes of conduct, such as the UN Global Compact and the Universal Declaration of Human Rights.
- GES Investment Services ranked Stora Enso as the top performer on sustainability issues in the materials sector study among Europe's three hundred largest companies. According to GES Investment Services, the most sustainable firms go beyond merely complying with core conventions and guidelines.

- Climate Leadership Index, launched by Innovest. Stora Enso is included as one of the top fifty companies in the world based on strategic approach and transparency in regard to climate change.
- The Nordic Sustainability Index, created by the Nordic analysis companies, Oxford Research and Caring Company. It includes the fifty most highly rated companies in the Nordic region based on ethical, social and environmental issues.
- The Ethical Index Euro and Global, which selects 150 European and 750 global large cap companies, according to full market value and weighted by free float adjusted market capitalization.

In their work for sustainability, Stora Enso has developed a model, which has changed somewhat, but not much, over the years (see Figure 1). *Sustainability* was previously Corporate Responsibility and *Economic* previously financial. It is interesting to note that Stora Enso sees CSR as only part (i.e. one pillar) of their work on sustainability. Sustainability reporting covers all three pillars of the model. Environmental reports have been published since the merger. The first CSR report was published in 2002 and the first Sustainability Report in 2003.

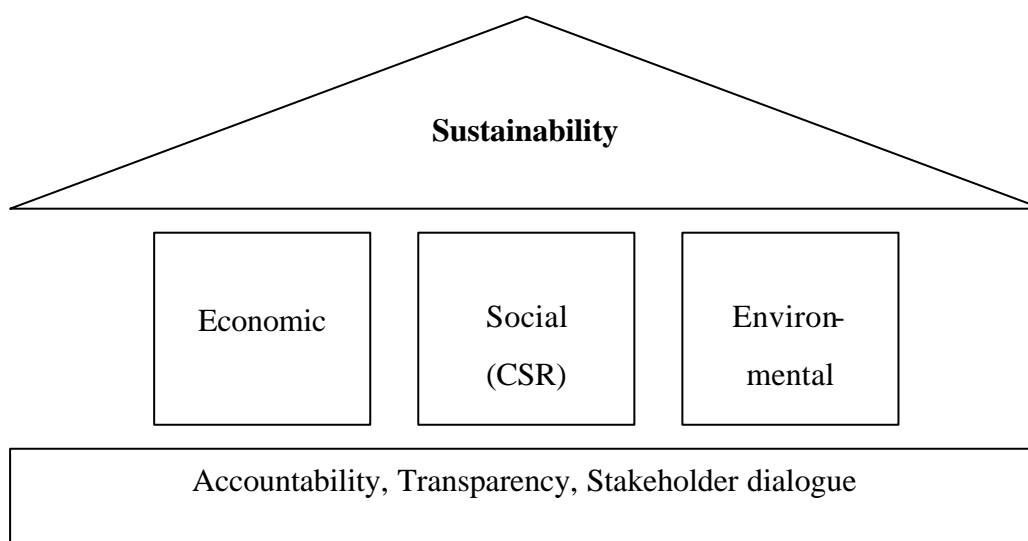


Figure 1: The sustainability framework of Stora Enso, showing three types of responsibility: economic, social and environmental. Source: *Responsibility & Performance* (2004).

The Stora Enso sustainability principles are currently being integrated into its operations, and each unit is developing its own action plan for 2006. If one takes the work on CSR as an illustrative example, one sees that the executive management team approved the CSR principles in 2001 and in 2003 the Sustainability Committee approved long-term CSR objectives. Systematic implementation of unit level CSR management systems started in 2004 at pilot sites in Finland and abroad. This included the training of CSR unit implementation coordinators. By 2004, systematic stakeholder engagement was under development and at the same time CSR was included at all levels in internal competence development programs.

Supplier monitoring and an indicator system were also under development. All reporting for the CSR was verifiable and other policies and principles were integrated into the operations of the whole company (*Annual Report 2004*, Tarna 2004, *Responsibility & Performance 2004*).

All policies and principles are formulated within the auspices of the *Code of Ethics*, which was launched in May 2004. The immediate reason for the development of a Code of Ethics document was the US Sarbanes-Oxley Act of 2002, implemented to protect investors in the wake of the Enron and WorldCom scandals (*Press Release 26.4.2004*, Tarna 2004). This requires companies listed on the New York Stock Exchange, as Stora Enso is, to have an Ethics Code. In response to this, Stora Enso formulated an inclusive ethics code containing several already existing policies and principles and added a *Financial Code of Ethics*.

“Stora Enso is committed to sustainable business practices. Sustainability is one of the company’s key success factors, and is seen as inseparable from good corporate governance. This statement sets out a code of fair and ethical conduct to be followed by the management and employees of the Stora Enso Group.” (Jukka Härmälä, *Press Release 7.5.2004*)

It is the responsibility of the management to monitor and enforce the *Code of Ethics*, which includes the following principles and practices. See Figure 2.

Stora Enso Corporate Governance: It states that the company complies with the laws of Finland, the Finnish Companies Act and the Finnish Securities Market Act, as well as with rules and recommendations of the Helsinki, Stockholm and New York Stock Exchanges. This document sets out details of duties and the composition of governing bodies (also the Sustainability Committee), financial reporting, corporate offices, auditors and corporate records.

Stora Enso Communications Policy and Principles: This is also called the company’s information policy and emphasizes the importance of transparency, credibility, responsibility, pro-activity and interaction. It states compliance with the insider guidelines of the Helsinki Exchange and provides details on the duties of Corporate Communications, such as the responsibility for handling crisis communication for Stora Enso.

Stora Enso Electronic Communications Media Policy: It postulates correct and appropriate use of the electronic communications media (ECM). It gives examples of what should be done (such as the careful use of language and abiding by copyright laws) and what you should not do (download music, view pornographic images or install software without authorization, etc.)

Stora Enso Financial Code of Ethics: It details the company’s public reports and other communications. It states, for instance, that employees are obliged to provide full, fair, accurate, timely and understandable information in reports. It also outlines that the financial statements of the company are to be prepared in accordance with International Financial Reporting Standards (IFRS).

Stora Enso Anti-Fraud Policy: It defines fraud as “making false statements or representations of material facts in order to obtain some benefit or payment for which no entitlement would otherwise exist.” This policy gives examples of prohibited actions, such as theft of materials, intentional omissions of amounts, using the company’s equipment for inappropriate personal use. All operations that hinder the promotion of an ethical work environment and responsibility in business are fraudulent and strictly prohibited.

Stora Enso Environmental and Social Responsibility Policy: It declares that the company strives for a product life cycle concept and expects its partners and suppliers to do the same, so that the impact on the environment will be minimized. The policy states that this “attitude shall be characterized by respect for the cultures, customs and values of individuals and groups in countries where we operate”. Stora Enso even claims it wants to exceed the requirements of national legislation.

Stora Enso Corporate Social Responsibility Principles: These clearly state issues of global and local responsibility. This includes matters pertaining to business practice, communication, community involvement, reduction in workforce, working conditions, diversity, freedom of association, free choice of employment, child labour, remuneration and working hours. These CSR principles are expected from the company’s stakeholders -

defined as customers, employees, investors, partners and society (both civil and governmental bodies and administrators).

Stora Enso Occupational Health and Safety Policy: This is designed to comply with quality management principles and is based on the human resource strategies and legislation in countries where Stora Enso operates and on agreements between the company and different stakeholders. The policy covers all personnel and the management is committed to seeking the continual improvement of the working environment and conditions. The main targets are to ensure employee welfare with good working ability and that workplaces are accident free zones and devoid of so-called work related diseases

Stora Enso Competition Law Compliance Program: This means that the company views free and fair competition as a cornerstone of the market economy and fully supports competition laws designed to protect such competition. Stora Enso declares it will not utilize practices, such as price fixing, market and production control, market sharing, customer allocation and discrimination.

Figure 2: Key contents of the *Code of Ethics*. Based on: Stora Enso *Code of Ethics* (2004).

COMPARATIVE ANALYSIS AND DISCUSSION

Each of the five sections below includes a) a summary each previously published paper in this study, b) a follow-up study based on the interview carried out in December 2004 and, c) a discussion of the result of this comparative analysis. Stora Enso provides the main focus of the first two papers, while the last three are broader in scope and offer a set of theoretical propositions.

1. An ethics code as a competitive advantage

a) Stora Enso: Using an ethics code to create a competitive advantage

In 2002, a pilot study of Stora Enso was undertaken to investigate the area of ethics codes, the process of value creation and how a global firm views its own ethics code. It was published as *Stora Enso: Using an Ethics Code to Create a Competitive Advantage* (Lindfelt 2004d). It showed a growing awareness in the industrial use of ethics codes. Even in 1999, the pressure of globalisation meant that Stora Enso had already developed a *Mission-Vision-Values* programme outlining their core values and principles. By publishing their principles in a global forum, Stora Enso was perceived to be communicating with its global stakeholders. This first so-called ethics code was a result of a senior management initiative. It was proposed that ethical awareness and consciousness among managers increased when ethical values were written down in official documents. From this pilot study, it was clear that Stora Enso had invested considerable effort in bringing ethical issues to the forefront of its industry. In 2002, however, the implementation process of the code was only at an early stage. The pilot study tried to reach a *verstehen* vis-à-vis the firm's ethical profile. Data collection took place in co-operation with the Director of Corporate Social Responsibility. This was *the* key manager at Stora Enso as regards the formulation of its first corporate ethics code. The pilot study later served as a guide for the further choice of a set of relevant study cases and helped in the modification process of later case studies.

Mission We promote communication and well-being of people by turning renewable fibre into paper, packaging and processed wood products.

Vision We will be the leading forest products company in the world
We take the lead in developing the industry
Customers choose us for the value we create for them

	We attract investors for the value we create
	Our employees are proud to work with us
	We are an attractive partner for our suppliers
Values	Customer focus – We are the customers’ first choice
	Performance – We deliver results
	Responsibility – We comply with principles of sustainable development
	Emphasis on people – Motivated people create success
	Focus on future – We take the first step

Table 1: Stora Enso’s *Mission-Vision-Values* – the first step towards ethical profiling.

b) Later perspectives and the application of results

How has the ethics code developed as a competitive advantage? Can it still be seen as such in 2004? The initiative of senior management has increased remarkably since 1999, when the first steps towards ethical profiling were undertaken. It is interesting to note, however, that the *Mission-Vision-Values* programme of 1999 (Table 1) still plays a central role in Stora Enso’s sustainability approach. This program was initially intended for providing environmental and economical sustainability but in 2001, the first *Principles for Corporate Social Responsibility* was officially embraced in order to incorporate factors of social responsibility into the company’s ethical profile. This set of principles was seen to bring added value to the company and are interpreted as a source of competitive advantage (Lindfelt 2004d).

The CSR Manager, Kaisa Tarna, believes that “the governance structure in the sustainability area is stronger now than it was when the CSR principles were published” (Tarna 2004). One reason for this is that when the CSR principles were first published in 1999, the CSR steering group governed them. In its formation, the Sustainability Committee was a combination of the CSR steering group and the Environmental Committee. Furthermore, Tarna states that in 2004 the concept of sustainability has a very strong governance structure at Stora Enso. Environmental issues have been high on the company agenda for some time, but Tarna sees that the sustainability perspective has now grown broader, with the inclusion of other issues, such as the social responsibility.

Tarna claims that the *Code of Ethics*, launched in 2004, is a tool for sustainable operations and acts as the company’s “licence to operate”. Indeed, Stora Enso has customers who would not purchase products from the company if it did not strictly monitor and act upon its *Code of Ethics*. According to Tarna, when the *Code of Ethics* functions effectively, it can provide a competitive advantage for Stora Enso in the marketplace. Examples of this are capital investments, which require tight environmental and social conditions. Stora Enso is also aware that it must replace a large part of its workforce in the coming ten years, when many will reach retirement age. Accordingly, attracting employees with high moral standards is valuable and will be especially relevant for prolonging the good reputation of the company. In sum, the ethics code gives a potential competitive advantage in employment, investment and buyer relationships. Additionally, the ethics code is a good complement to technical quality, delivery quality and similar issues.

c) Discussion

The work carried out by Stora Enso in regard to sustainability has changed form many times in the period 1999-2004. The initial forms (*Mission-Vision-Values, Principles for CSR*) still exists but has been merged with several other policies to form the *Code of Ethics*. One can say that the development of sustainability issues has taken a great leap forward in the space of only five years. The workforce needed for this endeavour has grown and its base has moved from Stockholm to Helsinki. While globalisation initially seemed to be the key driver of the work on sustainability, this has been accompanied by Human Resource Management (HRM), policy partner relationships and the investment climate. In business relationships, the *Code of Ethics* is seen as a potential competitive advantage. Stora Enso invested a lot of effort into bringing ethical issues to the forefront of the industry's agenda, which becomes even more apparent in the later interview. Thus, the pilot study served to explore Stora Enso's sustainability issues in more depth and revealed its first steps towards becoming a larger part of the company's resource investment.

2. The corporate ethics code in the business network

a) Ethical networks or networking ethics: a qualitative case study

In recent years there has been a discernible increase in the use of principles centered on corporate social responsibility and/or ethics in the business market. At the same time, however, there exists some confusion regarding why this is carried out and the actual value of proclaiming the sustainability of a company. In *Ethical Networks or Networking Ethics: a Qualitative Case Study* (Lindfelt 2004a), it is postulated that firms strategically position themselves in the marketplace, and among their stakeholders, by officially writing down and marketing a code of ethical principles. The aim of this paper is to investigate the use of ethics codes within a Finnish industrial business network. The research question of the paper is as follows: How do actors in the Stora Enso business network use ethics codes strategically for network positioning? The study is descriptive and explorative. The concept of positioning in industrial networks is examined in order to understand strategic actions taken by firms in the market. Johanson and Mattsson (1992) propose a conceptual framework, in which a case study is used, in order to understand how actors in the business network use ethics codes in a strategic manner for network positioning. The network comprises five organizations. (See Figure 3 below). Interviews and document analysis form the empirical material. In analysing the data, each business relationship (A1, A2, A3, and A4 – according to Figure 3) is studied using the above-mentioned conceptual framework with four theoretical constructs.

Key results show that an ethics code is a strategic action in the business network. This is evident in two of the four business relationships. Ethical embeddedness - a concept developed in more detail later in this study - is shown to be evident in varying degrees. The results are schematized in Figure 3 and are defended at length in Lindfelt (2004a). The main contributions of the paper are as follows:

1. The study shows that it is possible to apply an innovative theory the business network theory as an innovative approach to an ethical context.
2. The key concepts of the theoretical framework prove to be useful tools for researching business networks from a sustainability perspective as well as from an ethical standpoint.
3. The analytical framework of the study provides a new empirical tool for the study of ethics as a tool for business strategy.

4. It brings an understanding of various effects of ethics code usage.

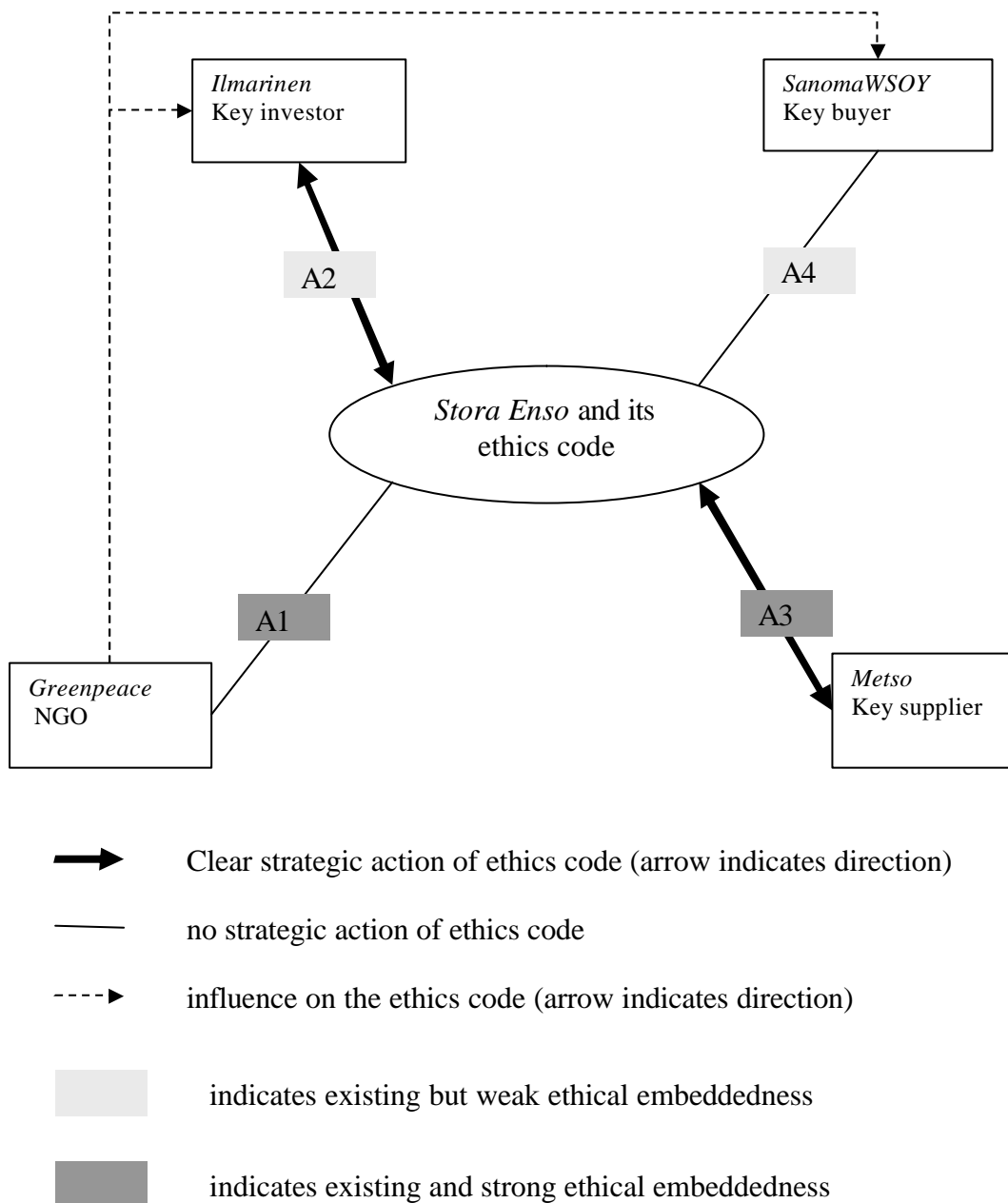


Figure 3: Model of the ethics code as strategic action and ethical embeddedness in the Stora Enso business network. Source: Lindfelt (2004a).

b) Later perspective and application of results

In the interview conducted with Stora Enso (Tarna 2004), the findings of the above study were discussed. The respondent, CSR Manager Kaisa Tarna, interpreted the business relationships A1-A4 as follows:

A1 – In relating to institutional actors and non-governmental organizations (NGOs), the ethics code often makes the company appear more trustworthy. However, this does not apply in the

relationship with Greenpeace, which is regarded as one of the most radical NGOs. Tarna felt that Greenpeace takes more notice of actual actions rather than ethics codes. Thus, Tarna partially endorses the results of Lindfelt (2004a), in that an ethics code does play a role in relation to NGOs. Interestingly, however, Greenpeace is in this respect not a representative NGO. Figure 3 categorizes the Greenpeace – Stora Enso relationship as bearing no strategic effect on the company's ethics code. This result is in line with the account given by Tarna.

A2 –Stora Enso aims to be a preferred investment target. This necessitates filling certain sustainability criteria and to be listed, for example, for on the DJSI. According to Tarna, this index is a good benchmark, containing an extensive quantity of sustainability criteria. Stora Enso receives certain sets of sustainability requirements from Ilmarinen. In her interview, Tarna confirmed that ethical embeddedness exists in the investor relationship between Ilmarinen and Stora Enso and may have increased over time. The strategic effect of their ethics code is clear from Stora Enso's perspective. "We want to be part of those portfolios as well, so we need to make sure that we fill certain criteria in this area". (Tarna 2004)

A3 - In general, suppliers often pose the biggest risk for Stora Enso, as Tarna explains: "one important element is of course the supply chain management in this area; so that we need to kind of guarantee that our suppliers have certain level of compliance with our principles". In Stora Enso's approach to sustainability, 'reputational risks' form part of the supply chain perspective and therefore, the greatest risk can actually derive from the operations of the supplier. This has led Stora Enso to develop and maintain monitoring and enforcement systems in areas, such as the wood supply chain. In its specific business relationship to Metso, Stora Enso has signed contracts with specific sustainability requirements. Metso is a significant and stable supplier to Stora Enso and in this business relationship sustainability issues "do really play a role" (Tarna 2004). Tarna also emphasizes the responsibility Stora Enso has towards its suppliers. The results of Figure 3, confirms Tarna's opinions regarding Stora Enso's strong ethical embeddedness and the clear strategic action of its ethics code, although the arrow does not necessarily point in both directions.

A4 – The issue of competitive advantage in regard to Stora Enso's relationship with buyers/customers is immediately evident in the interview with Tarna (2004):

"(An ethics code) is part of our license to sell to them, so we kind of have to fulfill certain criteria towards them on the one hand, we can of course also maybe gain some competitive advantage if we are very good, that they prefer us as a supplier, because they know that they can trust that we deal with these issues as well."

Stora Enso views sustainability issues as part of its customer support function and it has a coordinator for such issues in every sales office. Up until 2005, an emphasis at Stora Enso was placed on environmental communication, but henceforth customer support persons will also be trained in social issues. Thus, social issues are gaining importance in customer communication, reflecting the expansion of the number of persons throughout the corporation trained in sustainability issues. In comparison with UK or German competitors, however, Finnish SanomaWSOY does not put emphasis on an ethics code. Foreign customers often demand more in both spoken communication and in written and audited documents. According to Tarna, this is due to the fact that Sano maWSOY has developed a high level of trust in its business transactions: "the trust is so big already in the relationships, so they already trust that we deal with the issues" (Tarna 2004). This is also the case with other Finnish customers, which Tarna sees as a result of a common cultural background, shared values and familiarity in business relationships. Thus, in her last interview, Tarna confirmed

that the trust issue is foundational and implicit (and need not be questioned) at Sanoma WSOY and therefore ethical embeddedness exists – it may even be in a strong form.

c) Discussion

In sum, the results *Ethical Networks or Networking Ethics: a Qualitative Case Study* (Lindfelt 2004a) can be corroborated, although small amendments could be made. According to A1, Greenpeace's radical agenda ensures that is not a good representative for NGOs or institutional actors. In A2, the ethical embeddedness between Ilmarinen and Stora Enso may have increased and become stronger. In A3, the analysis is confirmed from Stora Enso's perspective. In A4, the analysis is confirmed and ethical embeddedness may have grown stronger. In conclusion, one can say that ethical embeddedness appears to gain strength and overall importance in this business network. In both interviews (2003, 2004) Stora Enso spoke of ethics in a more general, network perspective, rather than exclusively focusing on the dyad in question. One important limitation worthy of note is that in all four relationships, confirmation was only received from Stora Enso's perspective and lacks the views of its partners in the business network.

3. The Finnish business market

a) Ethics codes in Finnish business

The aim of *Ethics Codes in Finnish Business* (Lindfelt 2004c) is to evaluate the extent to which Finnish firms use ethics codes. Three research questions are set: a) How are business ethics understood and discussed in literature? b) Which existing recommendations and conventions are relevant to Finnish business? c) What is the extent and appearance of ethics codes in Finnish business? The research approach is descriptive, explorative and empirical and includes a theoretical overview of the field based predominantly on Western literature. Empirical material consists of two parts: 1) existing global ethical initiatives, and 2) a random sample of fifty annual reports of Finnish companies. The empirical data is analyzed in a template reflecting the structure of the UN Global Compact (2000). Accordingly, there is a focus on human rights, labor rights and environmental concerns. The analytical method uses different codes (templates).

The key results of the study can be summarized as follows:

1. Pleasing customers/buyers is important from an ethical perspective.
2. Environmental responsibility continues to be a principle ethical responsibility for Finnish companies.
3. Social responsibility is *not* primarily an ethical responsibility, although most companies use a form of the term CSR in naming their ethics code.
4. Financial responsibility towards owners is an important part of ethical principles, even if these are often subsumed under 'corporate *social* responsibility' principles.
5. Not many Finnish companies use ethics codes.
6. There is great confusion regarding the terms value, corporate responsibility, social responsibility, ethics and principles.
7. It is evident that there is a new trend for ethics codes among Finnish companies.

Ethics Codes in Finnish Business (Lindfelt 2004c) makes a contribution to the question of ethics codes in Finland by focussing on their development in the Finnish business market during the first years of the twenty-first century. It brings clarification and categorization to

the phenomenon and enables individual, society and a business manager to more fully comprehend this new trend.

b) Applying the results

Ethics Codes in Finnish Business (Lindfelt 2004c) highlights the fact that Finnish companies continue to be confused by sustainability related terminology. Stora Enso has used various terms in its sustainability work: *Mission-Vision-Values*, CR (corporate responsibility), CSR (corporate social responsibility), *Code of Ethics* and Sustainability. Over the last five years, the application of terms has changed since the initial *Mission-Vision-Values* program in 1999. (Table 1). It is remarkable that this program is still in use and still serves as a way to look upon the whole sustainability approach. Tarna (2004) explains:

“When we say that ‘our products promote well-being’, it has kind of a connection to responsibility. ‘We take the lead’ it means that we also want to be the best in this area. And one of our values is responsibility, so all of this Code of Ethics, Environmental Social Responsibility Policy, Corporate Social Responsibility Principles and different environmental principles, they kind of specify, they create substance for the value responsibility, so what does it mean for us, if we say one of our values is responsibility, so how do we implement that value”.

While the *Mission-Vision-Values* was emphasized in the years immediately after 1999, in more recent years there has been more of an emphasis on the principles and policies comprised in the *Code of Ethics*, which is the framework for the sustainability area. In the sustainability model (Figure 1), the *Code of Ethics* is shown as the roof of a house. Sustainability is a relatively new term for describing the act of balancing economic, social and environmental responsibility. In 2003, this ‘roof level’ was referred to as Corporate Responsibility.

The term ‘CSR’ is an Anglo-American way of referring to what Stora Enso calls Sustainability or a Code of Ethics. Stora Enso has adopted a more Central European, or Nordic¹, approach in its terminology. Thus, CSR carries a more direct *social* aspect, which does not include financial or economic responsibilities. According to Stora Enso, CSR implies issues of business practice, communication, community involvement, labour rights and other social issues. Stora Enso views CSR, therefore, as a term that can be accommodated under the broader concept of sustainability.

Tarna has been employed by Stora Enso for nearly two years, which limits her knowledge of the company’s procedures. She is confident, however, customer requirements are increasingly tough and that in the last two or three years social issues have begun to play a more prominent role. This is in addition to environmental issues, which have been of importance for a longer period of time. The first environmental issues related to mills in Finland date back to the 1970s, and centred on passing legislation to control emissions. In the 1990s, issues began to centre on questions of biodiversity, forest certification and the environment of forests. It is Tarna’s opinion that this change has not been as significant as development in the social area. As regards the third pillar in the sustainability framework - financial responsibility - she contends that this has always been important and is a baseline for any company.

¹ There is a difference in terminology between Finland and Sweden. Finns use the term ‘CSR’ or *yhteiskuntavastuu*, whereas Swedes prefer to use the words sustainability and ethics. Stora Enso seems to be influenced by the Swedish way of understanding these concepts, with sustainability defined in broader terms.

Ethics Codes in Finnish Business (Lindfelt 2004c) suggested that some firms are uncomfortable imposing ethical issues onto business relationships. Furthermore, Tarna is of the opinion that employees exposed to demanding customers and the management of the supply chain encounter ethical issues. These people also see it as significant to promote sustainable business practices. Other employees may not share the same positive attitudes when discussing the *Code of Ethics* and sustainable practices.

c) Discussion

Ethics Codes in Finnish Business (Lindfelt 2004c) found certain characteristics in the Finnish market in regard to the use of ethics codes. Stora Enso, however, differs from the general norm of the Finnish business market in several ways. Thus, Stora Enso regards social responsibility as equally important as environmental responsibility. Stora Enso limits the scope of CSR to social responsibility and separates it from 'environmental responsibility' and financial responsibility. Environmental and social issues are viewed as bearing a financial responsibility in the eyes of more demanding customers traditionally found in Germany, The Netherlands and The United Kingdom. As Stora Enso claims it has customers at the forefront of sustainability issues, who put pressure on the supply chain, it is clear that environmental and social responsibility have an impact on financial responsibility.

It is the general trend in Finland to use the term CSR, or *yhteiskuntavastuu* in Finnish, when addressing a company's approach to sustainability. In 2004, however, Stora Enso published its *Code of Ethics* - a new concept in the Finnish business arena. As mentioned above, Stora Enso has used a number of different terms in recent years to explain their approach to sustainability. Currently, the praxis seems stable and the terms all have specific meanings. The source of misconceptions, therefore, should be sought in the synonymous use of Corporate Responsibility (the old term) and Sustainability (the new term), which can be both included in a Code of Ethics framework. One also needs to consider the possibility that regional variations in the use of the term CSR may pose difficulties.

What conclusions can be drawn from the fact that the Stora Enso policy on sustainability differs from the key results of *Ethics Codes in Finnish Business* (Lindfelt 2004c)? One possibility is that discrepancies arose because of the one-year time span between the annual report review (Lindfelt 2004c) and the interview (Tarna 2004). Such an interpretation, however, would imply that changes are taking place very rapidly in the market. Another possibility is that this discrepancy reflects the fact that Stora Enso is a forerunner in sustainable policy in the Finnish market whereas in 2000 the company was more in line with findings of the annual report review. This alternative interpretation consequently produces a scenario in which it is possible to predict, from a sustainability perspective, the general development of the Finnish business market.

4. Globalization

a) Impact of globalisation on ethics code usage

Impact of Globalisation on Ethics Code Usage (Lindfelt 2005) aims at understanding how the impact of globalization is reflected in the use of ethics codes. Three research questions are asked: a) How is the use of ethics codes related to globalization? b) What is the impact of globalization on ethics code usage? c) In what way can the impact of globalization be seen in the use of ethics codes in Finnish organizations? By adopting a qualitative approach, it explores and describes linkages between globalisation and ethics code use. The theoretical

background of the present study relies on the stakeholder approach and the business network approach. Empirical data was collected in qualitative interviews with eleven organizations, connected in a network of buyers, suppliers, NGOs and a national association. The pivotal firm in this network is Stora Enso. This study adopts an abductive method (Lindfelt 2004b), whereby an initial relationship pattern between ethics code usage and globalization is subsequently affirmed by new observations.

The key findings of *Impact of Globalisation on Ethics Code Usage* (Lindfelt 2005) illustrates six factors impacting on ethics code usage as a result of globalisation. The propositions read in italics and the explanation follows in normal font.

1. Value pluralism: Values form the core of ethical understanding and are culturally defined. As a result, globalization brings cultural conflicts. Value pluralism is also apparent between culturally distant stakeholders or business partners. It has been found that firms must balance different values emanating from: a) local indigenous culture, b) internal company culture, and c) trans-company culture.

2. Socially constructed multiple realities: Globalization intensifies differing perceptions of the world, that is, the existence of socially constructed multiple realities. This is possibly a challenge for those interpreting ethical values and codes across global business operations and markets.

3. Codes as tools of empowerment in large firms: Globalization has tended to encourage the expansion of firms. The ethics code of a large global firm easily turns into a useful tool for control management and for exerting power over the employees. .

4. Enormous/extensive business networks: Globalization fosters extensive business networks, in which trust between partners is likely to become codified into some form of ethical statement.

5. Contractualism and NGOs: Globalization in post-industrial society has brought about contractualism, in which institutionally set norms and ethics are seen as important features of market competition. This leads firms to aim at adopting an official ethically sustainable stand – often through ethics codes.

6. Competitive advantage: With increased global competition, firms strive to find ways to create competitive advantage. One such way is to adopt a corporate ethics code.

The contribution of *Impact of Globalisation on Ethics Code Usage* (Lindfelt 2005) includes these six developed propositions. On an empirically level, it contributes by studying ethics code usage within the context of a business network. This network displays the effects of globalization and ethics codes. Against a background of confusion, this perspective provides managerial insights.

b) Applying the results

The six propositions of *Impact of Globalisation on Ethics Code Usage* (Lindfelt 2005) were applied to Stora Enso's situation. The applied propositions formed six statements that were discussed with CSR Manager Tarna. Below follow the applied statements/propositions in italics, and in normal font the analysed evaluation brought through the interview.

Cultural differences at Stora Enso's global sites make it necessary for them to have an ethics code. Stora Enso needs to have a set of ethical principles at the corporate level, because ethical issues are impossible to decentralize. They are faced with a dilemma regarding the need to harmonize local and global perspectives. Local implementation of ethical principles exists at a minimum standard, but vary according to geographical location. "...why should our mills in Finland for instance focus on child labour when it is not an issue at all, but they should find their own priorities from our principles, which can be different than they are in China, in Brazil or In Russia - like they are" (Tarna 2004) .

Workers, middle management and top management understand the core values of Stora Enso core values in different ways. To overcome such differences an ethics code is essential. As regards sustainability Stora Enso realizes people will interpret values in different ways. Stora Enso is orientated towards European cultural values in its emphasis on the ability of individuals to distinguish between right and wrong, whereas in the United States "everything that isn't written down is allowed" (Tarna 2004).

The ethics code is an important tool for streamlining different operations throughout Stora Enso's global locations. This statement is correct and even reads a starting point the work on sustainability. The streamlining works in a process, where each unit, on the basis of the *Code of Ethics* separately identifies the most important CSR issues and stakeholder expectations. This leads to a unit-specific substance definition, an action plan, implementation and management of the *Code of Ethics*. Varkaus Mill in Finland provides a good example of this process, whereby regional welfare generation is viewed as a top priority. Wood Supply Finland, on the other hand, prioritises employee well-being and stakeholder engagement. Business practice environment is one issue singled out in Suzhou, China, while in Germany and Great Britain a company's relationship to the local community is the top priority. Tarna explains that this is the only way for Stora Enso to absorb and share the priorities of its stakeholders.

The global business network of Stora Enso makes it difficult to build personal trust with all its business partners. In light of this, an ethics code is a valuable tool for developing trust between Stora Enso and its global business partners. The success of an ethics code in building trust depends to a large extent on the business partner. An ethics code is especially important in cross-cultural business relationships and more advanced customer relationships: "they want more proof, more demonstration of how we operate in this area" (Tarna 2004).

Market forces ensure that successful firms have the "right type of values". Initiatives regarding sustainability are expected to impact positively on business. In spite of this, a sustainable company does not necessarily indicate that it is a well managed. It is clear that investors and customers pressure companies like Stora Enso on sustainability issues, but whether sustainability equates to success is still "the million dollar question" (Tarna 2004)!

Different global initiatives on common ethical principles (UN, ILO, OECD, etc...) prevent ethics codes from providing a competitive advantage for firms. Tarna firmly believes that the Stora Enso *Code of Ethics* is merely a stated documentation, which in itself provides no competitive advantage. A competitive advantage only occurs if sustainability can be actively demonstrated. Achieving this is an enormous task and necessitates management systems with commitments and objectives, quality assurance with internal and third party monitoring systems, a strong governance model with defined responsibilities and stakeholder engagement. In short, it requires a systematic method in order to manage the transparency of operations. This perspective is rooted in the need for a common base, shared global ideas of

sustainability and corporate responsibility. Common initiatives on sustainability (ethical) formulation, therefore, make it easier for companies and stakeholders to evaluate business practices.

c) Discussion

A global company needs centralized ethical values in order to manage and streamline its organizational culture, although local and decentralized solutions must also exist to some of the central values at a corporate level. At the same time, it seems that the reason for corporate values occurs because of locally adapted formulations. Different interpretations of the same value are possible and welcome, as long as it is within the streamlining framework of the whole corporation. The *Code of Ethics* is especially valuable in business relationships that operate in different cultural settings. A valid question for any company seeking to adopt a sustainable approach is to ask whether it plays a part in commercial success. As a forerunner in this field, Stora Enso still prefers to adopt a common understanding regarding sustainability in the market. This is the single largest deviation by Stora Enso from the six propositions. One way of interpreting this deviation is that being first in development implies both chances of proliferation but also hard work to break in new ideas in the network. Is it more of a risk or an opportunity? The next phase of analysis would be to test the hypothesis: “A sustainable firm gains good investors and creates valuable customer relationships – therefore these firms are successful.”

5. Value creation and ethics

a) *Ethics and value creation in business research – comparing two approaches*

The first objective of *Ethics and Value Creation in Business Research – Comparing Two Approaches* (Lindfelt & Törnroos forthcoming) is to compare ethics and value creation concepts in two research traditions: the traditional stakeholder approach and the business network approach. The second objective is to develop a conceptual framework for studies on ethics and value in an industrial context. Questions to be addressed are: How can one understand, in conceptual terms, the complexity of ethical issues in business settings? How can ethical issues be researched in business networks? This paper is predominantly theoretical, but contains a case study on the development of the forestry industry in Finland between 1992-2003. Both research approaches can be applied when studying ethics and value creation. The stakeholder approach, however, is primarily used for studies in business ethics, whilst the business network approach is utilised for assessing value creation in industrial networks. Key differences can be found on issues of network structure, business partners and relationship characteristics. This article argues that the business network approach lacks the theoretical tools required to analyze ethics as a relational value creation. In light of this, two contributions are developed:

1. A model of ethical embeddedness, in which value is created between actors in a business network. (An applied version of this model can be seen in Figure 4.)
2. A conceptual framework with five elements: *Ethical embeddedness* integrates a firm's a) ethical value dispositions and b) economic value dispositions in relation to the co-creation of value. *Ethical network identity*, in turn, is determined by the ethical embeddedness of the firm. Each actor has an *ethical role*. A proactive ethical role shapes the ethical embeddedness of the network. Reactive roles instill embedded ethical value into a company. An actor's *ethical position* is in relation to its ethical identity and ethical role. A

strong ethical position can influence the whole ethical embeddedness of the network. The *ethical atmosphere* between business actors reflects the purpose and moral standing of the network and determines the way in which business is conducted in the network.

b) Applying the results

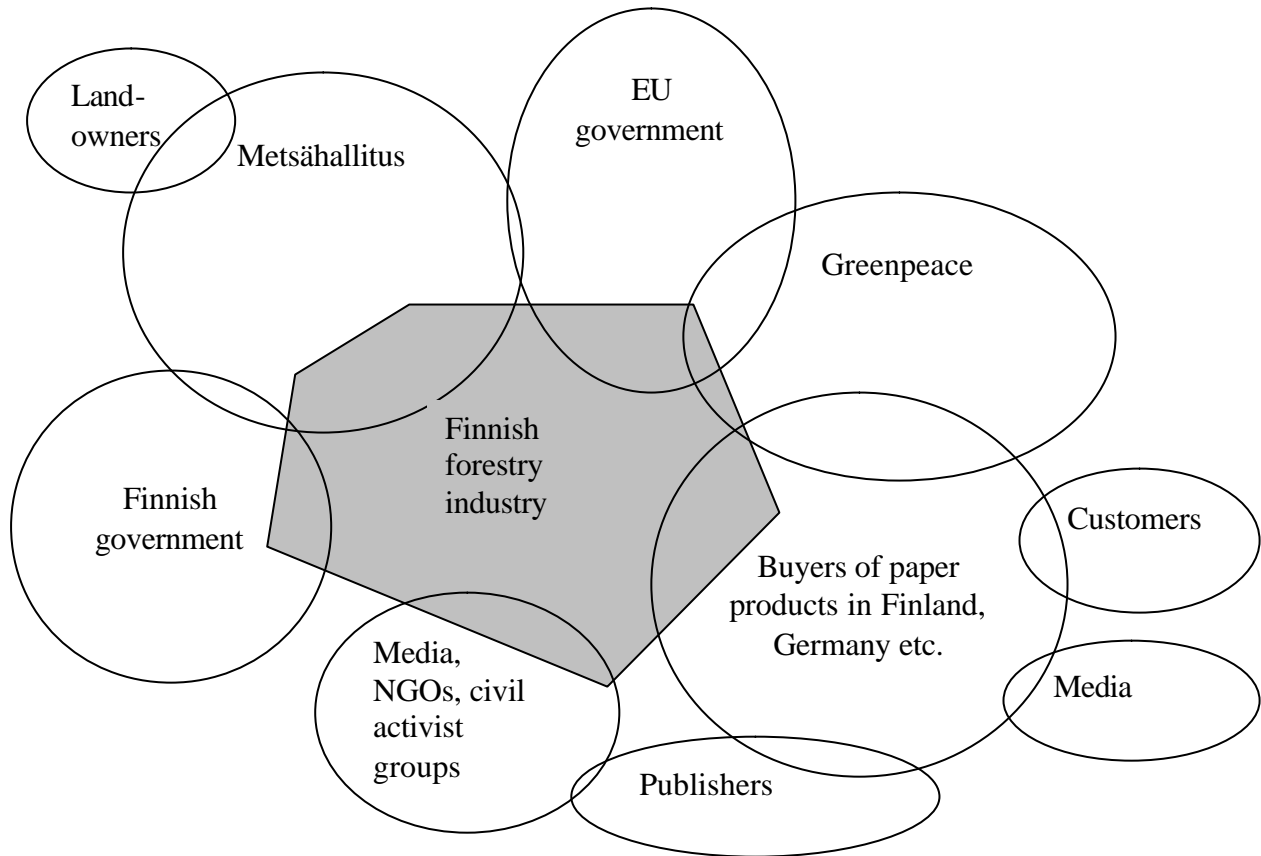


Figure 4: The business network in 2003 in the Greenpeace-forestry industry case.
Source: Lindfelt & Törnroos (forthcoming)

The key factors in the above article were applied to the situation at Stora Enso and were discussed in the interview that took place on December 20th 2004. The applied model in Figure 4 served as the basis for discussion. Initially, it was interesting to note that Tarna consistently used stakeholder terminology, such as *stakeholder engagement*, *key stakeholders and stakeholder dialogue*, when discussing actors in the model. When examining the mutual value co-creation processes in this business network, a number of issues became evident. Stora Enso partly shares values, for example, with its key business partners/key stakeholders. Furthermore, actors in the business network interrelate and consequently both directly and indirectly influence the values of Stora Enso. Ethical embeddedness, therefore, extends beyond the immediate partners of a focal firm (which was also seen in Lindfelt 2004a). Ethical embeddedness is largely implicit and it can be difficult to gauge “what our stakeholders actually think” and “how do we discuss and how do we have a dialogue” (Tarna 2004). The Sustainability Committee works on identifying gaps in the flow of information in order to achieve a holistic, systematic picture of internal and external stakeholder relationships. By undertaking to do this, the committee can make decisions on sustainability issues. The challenge, however, involves reaching the necessary information. In this sense, the business network of Stora Enso reflects the current instability in this situation. Tarna describes ethical embeddedness as “a very much changing area”. Business partners share a

very similar value base, as is reflected by many actors in the Finnish network. Stora Enso has expanded globally, whilst simultaneously remaining focussed on the European arena whilst its role in Finnish society is changing. In sum, Tarna sees that new relationships are evolving all the time, although what is lacking at the present moment is a holistic and systematic understanding of the entire stakeholder engagement. Tarna is of the opinion that various actors in the business network have different roles and even claims that Stora Enso would benefit from critical stakeholders, such as Greenpeace. However, she also emphasizes the role of co-operative NGOs willing to share their knowledge and understanding in order to help Stora Enso improve its sustainability. Tarna states that Stora Enso continues to have a good relationship with the Finnish government and has been a significant industry for Finland over a long period. Stora Enso has faced difficulties in its business relationship with Metsähallitus, a long-term supplier, as the latter company has been in conflict over its forestry practices with central NGO's. Consequently, Stora Enso has encouraged Metsähallitus to begin negotiations with the NGOs in question. Tarna (2004) acknowledges the EU government as part of the network, but downplays its significance for Stora Enso. (Tarna 2004)

c) Discussion

The terminology used at Stora Enso demonstrates the predominance of the stakeholder approach, whilst the business network approach has been used less because it has lacked a set of tools for relating to ethics issues. The Sustainability Committee works on amassing information about the ethical embeddedness of Stora Enso. However, ethics are not easy to grasp and finding the right information about value existence is in practice a huge challenge. . It is not easy to manage ethical embeddedness and at present this is made worse by the turbulent economic environment. The management at Stora Enso responsible for sustainability issues now accepts the existence of ethical embeddedness. However, the characteristics of ethical embeddedness are almost constantly changing, which makes Stora Enso's ethical network identity unclear. Thus, Stora Enso aims at discovering the characteristics of this ethical embeddedness, in order for sustainability issues to be managed. If one adopts the terminology proposed by Lindfelt & Törnroos (forthcoming), one can say that the ethical role of Stora Enso is unclear until an ethical network identity is established. Stora Enso can only manage its sustainability issues and strategically align itself with an ethical position when it fully understands its ethical role. This ethical position is directly linked to the ability of the Sustainability Committee to understand the value, ethical demand and value co-creation processes. Stora Enso could base a strong ethical position on a strong understanding of the stakeholders, which would give it the possibility to form a pro-active ethical role. Only when the ethical atmosphere and embeddedness surrounding a company is understood in more detail, can mutual value creation processes be developed. The tools for analysing this case proved useful, but as the interviewee used vocabulary from an other terminological tradition, it posed some problems to regarding how to use our new conceptual framework in an interview situation. In analytical terms, the framework can play a significant role for analysing ethics. A deeper significance could have been achieved, however, in the field of value (co-) creation.

OVERALL DISCUSSION OF RESEARCH QUESTIONS

After this analysis it is essential to return to the research questions and ask what has been learned?

Understanding the sustainability development 1999-2004

Firstly, how did Stora Enso develop its sustainability policy 1999-2004? Table 2 (below) shows an overview of the sustainable development 1999-2004 and is inclusive of historical (1998) and future perspectives (2005, 2006). A sample of incidents and events from the study are included. The overview reveals the remarkable initiative implemented by the senior management at Stora Enso regarding ethical processes within the corporation. Taking the CSR principles as an example once again, it is evident that since their launch in 2001, mill specific and systematic implementation has continued up to 2005. As the development of sustainability is seemingly increasing every year, it is intriguing to speculate what will occur in 2005, 2006 and 2007. The space for 2000 is empty in the table, possibly because this was a year of strategic planning on of how much to invest and how to proceed with official ethical action.

Year	Sustainability developments 1999-2004. <i>(History and future in italics)</i>
1998	<i>Stora Enso merger</i>
1999	Launch of DJSI, Stora Enso included for the first time. Launch of <i>Mission-Vision-Values</i> program.
2000	
2001	Launch of Principles for Corporate Social Responsibility. CSR steering group established 2001-2003 improvement of working conditions (accident rates and absenteeism)
2002	First CSR report First corporate focus areas chosen: diversity, business practice, reduction in workforce, health & safety Sarbanes-Oxley Act, leading to the <i>Code of Ethics</i> in 2004.
2003	Sustainability Committee established as an operating body within the company. First Sustainability report Gender and nationality set as priority for diversity aims in the CSR principles First corporate level long term objectives for CSR approved by the Sustainability Committee. Annual targets approved each year. First pilot mills for CSR implementation: Oulu and Varkaus
2004	Launch of the Ethics Code Commencement of CSR facilitator training programme - NB: be consistent with use of program/programme In value chain management, the first pilot supplier CSR audits. Corporate guidelines on workforce reduction Sustainability due diligence guidelines Concepts for CSR audit discussed Systematic implementation of unit level CSR management systems in line with Stora Enso's TQM approach. Continuation of CSR implementation on pilot mills: Kabel Mill (Germany), Wood Supply Finland, Suzhou Mill (China). CSR included in internal competence development programs at all levels

CSR supplier monitoring under development**Partnership with UNICEF on basic education.**

2005 *Excellence 2005 inclusive of sustainability as a one-element concept.*

Continuation of CSR implementation pilot mills: Stevens Port (USA), Wood Supply Russia, wood Supply Baltic

Preparation of systematic action plan for pro-active stakeholder engagement

2006 *All units should have action plans in place.*

Table 2: Stora Enso – a longitudinal study of its sustainability developments.**Main drivers of sustainability in the Stora Enso business network**

Secondly, what were the main drivers of sustainability in the Stora Enso business network 1999-2004? On a general level, there are several key drivers for the industry, (*Responsibility & Performance* 2004). These include lack of trust towards companies, the large size of firms and anti-globalization movements. In short, the legitimacy of global firms is being questioned. Other industry drivers include the operation of business in the natural resource sector, which necessitates complex ethical questions on who owns nature and who can profit from it. Working conditions are also difficult in some natural environments. Legislative pressures within the EU are also drivers of sustainability in the industry and a so-called 'knowledge society' demands transparency and an 'on-line life.' Image is an important issue for a company and is exemplified by the use of risk-management terminology when addressing questions of sustainability. Thus, from the perspective of a firm, the vulnerability of one of its brands can be a driver in itself. It should be noted, however, that certain aspects are particular to the case of Stora Enso. The present study has shown that the main driver for Stora Enso in the period 1999-2004 was globalisation. Additionally, in the most recent years, HRM policy, partner relationships and investment climate have become important drivers for Stora Enso. Manager of CSR Kaisa Tarna explained that sustainability was important in the network because it promoted the company's license to operate and can even bring a competitive advantage. Furthermore, Tarna stated that a sustainable approach definitely enhances Stora Enso's access to capital and attracts a higher calibre of employee. It can also be argued that sustainability is value driven in a philosophical- as opposed to economic rationale- and is therefore morally right. One can therefore say that there are drivers on three levels:

1. The moral level (values)
2. The pure economic level (competitive advantage, risk management)
3. The social level (enhancing relationships on different levels)

Stora Enso's role as an embedded actor in the sustainability network

Thirdly, how did Stora Enso perceive its role in 2004 as a sustainable actor in the business network? The overall analysis demonstrated that Stora Enso is a forerunner in the industry. The ethical role of the firm is to co-create sustainability norms with other actors in the network, which is achieved in relation to the ethical network position of the firm. Yet, because times are turbulent, it was also seen that ethical network identity is constantly in a state of change. Stora Enso aims at understanding its ethical environment, that is, ethical embeddedness and this gives Stora Enso a pro-active role in its network. The vision of the company was expressed in a letter to shareholders in the *Annual Report* (2003:7) "to be the world's leading forest products company, sustainable creating optimum value for all our stakeholders" (Chairman Claes Dahlbäck & CEO Jukka Härmälä). The company carries out

annual value and attitude surveys, as well as customer satisfaction surveys, in which the sustainability performance is evaluated. Key sustainability indexes are relied upon greatly by investors and are also used as tools for external evaluation. It seems that the reputation of Stora Enso in business and investor relationships is relatively good, but is problematic in regard to some NGO relationships. In trying to position Stora Enso and her own work, Tarna envisages the company as being in the middle ground: “I think we are doing a good progress, we are better than average, we are more committed than average, but still of course there are companies who have already much more matured systems than we have, more mature ways of working”. (Tarna 2004)

Before an ethics code can be used by a firm for external purposes, such as a tool in network relationships, it has to first function internally, as is the case with Stora Enso, where the *Code of Ethics* is one key tool in the internal management. Having this in mind, one can identify three areas in which the *Code of Ethics* is externally used. Firstly, it is applied within the sales organization and the concrete customer relationship and is often a basis for customer questions. Secondly, it is used externally in investor communications and sustainability indexes. Lastly, the code is used in Stora Enso’s relationship with its suppliers. The *Code of Ethics* is also increasingly included in the contract phase of business partnerships. Corporate Purchasing is currently working on establishing a way to manage this process more systematically, in which follow-up systems, criteria and contracts are developed. (Tarna 2004)

In summary, one could envisage the business network of Stora Enso as having several different dimensions, according to:

1. The value chain
2. The stakeholder management
3. Key competitors and partners

All of the players in the network affect Stora Enso in its approach to sustainability and as this is a rapidly evolving field, the influences vary over time and by actors and content. The environmental and the financial perspectives, however, are relatively stable (see Figure 1), although new issues are still continuously evolving. At present, the social pillar is taking its form, but it is too early to see whether or not there will be a fourth pillar. On this matter Tarna asks: “the big question is are we taking this in the right direction, are we doing enough? Does this work really make the world a more sustainable place?” These issues provide good guidelines for further research.

Ethics in the Sustainability Reporting

Fourthly, what is the current role of ethics in Stora Enso sustainability reporting? The role, management and development of the company’s *Code of Ethics* were elaborated upon in the early phase of this paper. It was seen that the code serves as a framework for the whole approach to sustainability. The study also showed that Stora Enso differs from the Finnish market in that it includes more social reporting in its ethical approach. The content of the *Code of Ethics* is mainly centred on environmental and social responsibility, with a small section on financial responsibility. The Deputy CEO, Björn Hägglund, begins the report by stating “one important achievement during 2004 was the establishment of the Stora Enso *Code of Ethics*” (*Annual Report 2004:4*). The entire role of the sustainability report seems to be to show the stakeholders and the business network, that Stora Enso *is moving* towards ethical targets. Hägglund continues:

“With sustainability issues in the global economy becoming more and more complex, it is absolutely vital to review the situation regularly, to see whether our good intentions have borne fruit or not. Sweeping sustainability claims could easily lead us onto thin ice. We need to base our reporting accurately on the facts – we have to say what we do: and do what we say”. (*Annual Report 2004:5*)

The main function of Stora Enso’s *Code of Ethics* is to demonstrate sustainability throughout its whole value chain. Key sustainability aspects are identified one area at a time and are followed by statements outlining the tools needed to achieve them. This is carried on across markets, society, investors, product units and employees. The *Code of Ethics* is thus applied in the whole value chain. It concludes that stakeholder engagement is vital for business operations, risk management and in order to identify opportunities for value creation.

SUSTAINABILITY AND VALUE CREATION – FINAL REFLECTIONS

Finally, it is now worth assessing Tarna’s ‘million dollar question’ (Tarna 2004). Does sustainability create value? The present study showed that Stora Enso does not want a chaotic market, in which any firm can state its own opinions on what sustainability is and how it should be achieved. Stora Enso would prefer some basic common understanding and through this would implement excellence. The implementation – and not the marketing – would be the outcome of value creation. In their official documents (*Annual Report 2003, At a Glance 2004*), Stora Enso makes use of the headline “Creating Value”. In the brief text following this, sustainability is elaborated upon, partly by referring to the *Mission-Vision-Value* program and partly by referring to the successful ranking of the company in the sustainability indexes. Stora Enso claims it creates value through its global reach. Thus, according to its *Annual Report*, the company has mills on three continents and a worldwide sales network, plus it provides a local and international customer service. Stora Enso benefits from lower manufacturing costs in Asia and South America, together with higher sales prices in other countries. This is reflected in economic value creation. Where, however, does the issue of sustainability come to the fore? Stora Enso claims diversity creates better business (*Responsibility & Performance 2004*). This is because diversity maximises the talent pool, strengthens the recruit base, and fosters flexibility and innovations that are particularly needed in the rapidly changing global market. Stora Enso puts a different emphasis on ethical responsibilities, however, than most other Finnish firms. This was interpreted as signifying that Stora Enso sees social and environmental responsibility as having a clear impact on financial responsibility. Yet another example is how Stora Enso sees developing “a more systematic approach in stakeholder engagement” as part of its communications target (*Responsibility & Performance 2004*). The company also offers several pieces of information for the stakeholder interested in sustainability issues, through the publication of *Sustainability News* and separate booklets on sustainability issues. Involving stakeholders in sustainability issues means that Stora Enso sees the issue as bringing legitimacy and a licence to operate. Without such a licence, it is difficult to create value. With this in mind, sustainability seems to be a side product of traditional value creating processes and actually becomes, one of their basic conditions. Sustainability across relationships in the business network forms essential prerequisites in the new economy. Understanding the ethical embeddedness of a firm fosters a new strategic way of creating value.

All in all, this study contributes by providing a deeper analysis of the sustainability development of a focal firm, Stora Enso. The study contributes theoretically by strengthening a number of propositions developed earlier by Lindfelt. The study also shows the theoretical

possibility of applying previous conceptual developments and empirical conclusions. On a managerial level, a contribution is made by carrying out a longitudinal study of a forerunner in ethical initiatives and sustainability development. It is to be anticipated that other firms will follow in the path of Stora Enso. The complex linguistic and symbolic problems stemming from the terminology of sustainability, and the turbulence centring around this new trend in the market creates even more research questions than this study can answer. I hope, therefore, that this study will encourage more investigation into this phenomenon – whatever its name, whether it be business ethics, CSR or simply sustainability.

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