

# SOCIAL RESPONSIBILITY AS A FACTOR IN INTERNATIONAL STRATEGY: THE CASE OF NATURA

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## 1 INTRODUCTION

*Despite strong international growth, highlighted by the opening of our operations in France and Mexico, and the good evolution of the operations in Argentina, Chile and in Peru, as yet, we cannot claim that we are an internationally successfully firm. In the process of internationalisation, we perceive that Brazil is beginning to be seen as not only one of the largest forested countries in the world, but also a source of inspiration and hope if we can learn to care of its biodiversity and social-diversity. Brazilian initiatives regarding the care of the planet can serve as examples to the rest of the world.*

Alessandro Carlucci, president of *Natura* (CARTA CAPITAL, 2006a)

Global action permits firms to create value by means of costs and/or differentiation. The firms that act more widely in the international markets will be able to improve their products and services, create more flexible processes, learn new techniques, technologies, and management models, discover innovations and be better informed regarding the changes in consumer tastes and preferences. As Keegan and Green (1999: 02) state “[the] firm that does not globalise in terms of perspective will risk losing out to competitors that have lower costs, more experience and better products. But what can firms do to develop factors that ensure sufficient competitive differentiation to allow them to overcome their competitors? What are the social or cultural tendencies that, for example, allow the creation of a competitive advantage?

Multinational companies are exposed not only to a wider, heterogeneous and sophisticated market and new possibilities of structuring production at an international level, but also to the changes in values and cultures of the populations where they operate. Currently, in more sophisticated consumers in more demanding markets exert pressure on firms to be socially responsible. Although social responsibility is not an explicit requirement

in any international legislation, it is assuming growing importance as one of the components for obtaining success in international activities.

In the present article, we analyse a large Brazilian multinational company - *Natura Cosméticos S.A.* – from the point of view of its attitude regarding its social-environmental responsibility and its internationalisation. For the third consecutive year *Natura* received the award “*The most admired firm in Brazil*”<sup>i</sup>, winning in five criteria: commitment with human resources, ethics, innovation, management quality and social responsibility; justifying its choice as a relevant case of internationalisation and of a strategy of social responsibility. In the present study, the mode of entry and behaviour of the firm in international markets are presented and an analysis is made as to whether they constitute a facilitating factor, or a competitive advantage, in the face of rivals in expanding international activities. To this end we use information sources and methods suited to the case study, searching among various secondary sources such as the annual reports of social responsibility of 2001 to 2005, data from the Statutes of the firm, digital documents and published scientific papers.

## 2 CONCEPTUAL REFERENCE

### 2.1. The importance of the Stakeholders

Regarding the stakeholder, the organisation is characterised by relations with several groups, individuals and organisations. There are four critical groups of stakeholders (HENRIQUES and SADORSKY, 1999): *regulatory* – include the government, commercial associations (KELLEY, 1991; KIRBY, 1988), informal networks (ALLEN, 1984; PORTER and VAN DER LINDE, 1985; SCHRADER, 1991), and competitors with the power of lobby (BARRET, 1992); *organisational* – those directly related to the organisation and that directly influence the business, such as suppliers, shareholders, clients, and workers; *communities* – environmental organisations and other potential lobbyists; and *the media* – whose influence derives from the information that it can furnish about the organisation. Despite their importance, the attention depends on the perception of the executives regarding their importance. This concept is known as stakeholder salience (MITCHEL, AGLE and WOOD, 1997). In reality, it is impossible to restrict the stakeholders to the shareholders. Although the shareholders are normally the dominant group, other groups are increasingly important for the performance of the organisation due to their power of influence.

The reputation of a firm is a set of perceptions held by people inside and outside the organisation (FOMBRUN, 1996). As organisations seek to satisfy demand from several groups of *stakeholders* (FREEMAN, 1984; DONALDSON and PRESTON, 1995; QUINN

and JONES, 1995; CARROL, 1996; SERRA, TORRES and TORRES, 2002), a good organisational reputation can be an asset and a source of competitive advantage for the creation of long-term value (BARNEY, 1991). Empirical studies show that reputation has a positive effect on the market value of organisations (SWANDA Jr, 1990; CHAUVIN and HIRSCHEY, 1994). A good reputation can result in price concessions, higher internal moral, reduced risk and better financial performance (FOMBRUN and SHANLEY, 1990; FOMBRUN, 1996). Fombrun (1996) suggests that the reputation of an organisation is a function of its credibility, reliability and responsibility in the market. It is, then, reasonable to state that superior environmental performance and socially responsibility help in the building of a reputation-based advantage for the organisation (SPICER, 1978; McGUIRE, SUNDRGREEN and SCHNEEWEIS, 1988; FOMBRUN and SCHANLEY, 1990; COHEN, FENN and NAIMON, 1995; HAMILTON, 1995; KLASSEN and McLAUGHLIN, 1996; WADDOCK and GRAVES, 1997), which positively impacts on marketing and financial performance (MILES and COVIN, 2000).

## **2.2. Strategy and Internationalisation**

Increasingly, the capacity to generate value, which is essential for the generation of a sustainable competitive advantage, is related to intangible assets such as reputation, the capacity for innovation, and the ability to attract the best collaborators. Such assets are affected by the way in which the firm deals with the social and environmental impact of its operations. Aspects such as minimising waste, production with less pollution, defending consumer safety, paying fair wages, not subcontracting firms using sweatshop labour are among the many actions that contribute towards the building of intangible assets. The report from KPMG (2005) noted that there is a growing concern among firms with their social responsibility. According to the report, in 2005 52% of the 250 largest firms in Fortune 500 published reports on Corporate Responsibility. And, 64% of the 250 largest firms in the world made, at least, explicit mention of Corporate Responsibility.

The demand for factors that generate sustainable competitive advantage has led to assuming innovatory postures in order to better satisfy the needs of their clients and to get ahead of the competition. Such postures can rest on resources or capacities that are valuable, rare, difficult to imitate or irreplaceable (BARNEY, 1991). According to Porter (1996), innovation can be, at least in the short term, a source of competitive advantage, but requires an organisational culture that encourages innovation. It might be possible to exploit such a culture of innovation beyond national boundaries (HILL and HEMAIS, 2003). This does not

mean that international expansion represents the culmination of such advantages, on the contrary, if, on the one hand, the firm can aim to exploit those advantages it has developed (some advantages can be used in the international markets), on the other hand, it can also seek out new sources of advantage in the international markets.

The set up and coordination of activities of a firm acting at an international level will be more challenging and complex than in its national activities. Strategic choices are complex and involve seeking out competitive advantage on a global scale of business set up and coordination, considering the firm's complete value chain (FAULKNER, 2003). Faulkner (2003), in considering several approaches to international strategy, argues that they can be classified into three categories: (a) those that determine the selected segment and involve or otherwise global competition; (b) those that affect ability of the company to offer the product at competitive prices in any part of the world (aspects of configuration); and (c) those linked to how the firm organises itself to control its international activities (aspects of coordination).

### **2.3. Strategy and Corporate Social Responsibility (CSR)**

International strategies bring firms into contact with different competitors, clients, governments, legislation and cultures. Hence, other competitive advantages, besides those successfully obtained in the national territory, are necessary in order to act in international markets. It is reasonable to suggest that one of these possible competitive advantages might be related to social responsibility (CLARKSON, 1995; QUINN and JONES, 1995).

A number of researchers have sought to verify the relationship between CSR and its correlates (ex.: environmental management systems (EMS) and the performance, mainly financial, of firms (GRIFFIN and MAHON, 1997; PRESTON and O'BANNON, 1997; RUSSOS and FOUTS, 1977; WADDOCK and GRAVES, 1997; HENRIQUES and SARDORSKI, 1999; MILES and COVIN, 2000). These studies are, in general inconclusive, but Allan and Husted (2001), in analysing cases that led to high performance and cases of failure, proposed models of CSR strategy.

Another, more detailed classification was proposed by Roome (1992), following five strategic options: on-compliance, compliance, compliance plus, commercial and environmental leadership, and leading edge. In "non-conformity", the organisation has financial restrictions and cannot react, or chooses not to react to changes in environmental standards. In "conformity" there is a reactive position produced under the pressure of legislation and which does not offer any competitive advantage. In "conformity plus" there is a wish on the part of the management team and policies to encourage change, resulting in a

pro-active position in environmental management. In “commercial and environmental leadership” and in “leading edge” the environmental management is intended to ensure that the organisation leads in its industrial sector.

Among the various organs and entities specifically focused on social responsibility, two will be especially cited in the present study, *Global Reporting Initiative* – GRI, and the *Instituto Ethos de Responsabilidade Social* – Ethos Institute of Social Responsibility. These two also form the methodological base for the corporative reports on social responsibility of the firm under study in this research.

### 3 METHODOLOGY

With regard the aims, the study presented in this paper is explanatory, in that the objective is to present the importance of social responsibility in the international activity of *Natura*. It is a case study within a firm, together with the means documental and bibliographical research, based on books, periodical publications, magazines, newspapers and electronic networks, as well as a documental investigation involving the collection of information and data from the firm (VERGARA, 1997).

According to Yin (2001), the case study is applied when seeking answers to questions such as “how” and “why”; when the researcher has little or no control over the events; and when the focus of the research involves contemporary phenomena in a real life context. In the present, exploratory case, the questions are: “How does the firm *Natura Cosméticos S.A.* use social responsibility in its internationalisation strategy?” and “What are the factors that lead *Natura* to use this strategy?”

With case studies, care in the elaboration of the research project is fundamental (SERRA, 2006) in order to guarantee its relevance and consistency (Table 1). The case of *Natura* is relevant regarding the experience of internationalisation of a Brazilian firm. The consistency is observed in the adjustment between the case and the theory, suitable preparation of the bases of the research and in the care taken in the collection and treatment of the data on the firm.

**Table 1.** Validity tests in the studies of the Case of *Natura*

Tests	Study tactic	Stage of the research
Validity of the construct	Uses multiple sources of evidence - Establishes a chain of evidence - Outline of the case reviewed by key	Data collected directly from <i>Natura</i> - Data collected in journalistic references and in official documents from the firm - Composed by the confirmation with the communication sector of <i>Natura</i>

	informants	
Internal validity	Adjustment to the standard - Construction of the explanation - Competing explanations - Use of logical models	Data analysis: Content analysis - Data analysis: assessment with the theory - Data analysis: assessment with the theory - Data analysis: assessment with the theory
External validity	Theory on unique cases	Research project: choice based on relevance and rarity
Reliability	Use of case protocol - Data bank for the study	- Data collection: assessment of the information of necessity of the interview with <i>Natura</i> - - Data collection: exhaustive collection within the communication sector of the firm and public sources for selection

Source: Adapted from Yin (2001)

The data and the analysis of the results of the fundamental documents, in particular those obtained from the Annual Reports from the years 2001 to 2005, as they are complete and faithfully reproduce the facts compared with other sources are presented below.

#### 4 THE FIRM: NATURA COSMÉTICOS S.A.

Founded in 1969, in the city of São Paulo, *Natura Cosméticos S.A.* is dedicated to the exploitation of the trade, exportation and importation of beauty, hygiene products, toiletries, cosmetic products, clothes, jewellery, bijouterie, household goods, food, nutritional compliments, software, books, publishing material, entertainment products, phonographic products, medicines, including phototherapeutics and drugs, homeopathic, pharmaceutical inputs and domestic sanitary products (SOCIAL STATUTE NATURA, 2004: 30).

*Natura Cosméticos S.A.* is a limited company present in the Brazilian market for 35 years, with operations in Argentina, Bolivia, Chile, Peru, Mexico and France. Its manufacturing operations are concentrated in the *Espaço Natura Cajamar*, in São Paulo. The firm has commercial and distribution units in Itapeperica da Serra, in São Paulo and Uberlândia and Matias Barbosa, in Minas Gerais State. *Espaço Natura*, a place where the regulations for occupying the soil are extremely rigorous, covers 650.000m<sup>2</sup>, of which only 77.000m<sup>2</sup> are occupied by buildings. This space was planned in its origin to permit the harmonisation of the activities and beliefs of *Natura* with all the stakeholders and the environment.

In 1974, *Natura* developed the idea of direct selling that would enable growth supported by a sales force and on personal relations. Through its *Natura Consultants*<sup>ii</sup> there was an expansion of its products throughout Brazil. In 2005, *Natura* already had 519 thousand consultants in more than 5,000 municipalities in Brazil, Latin America, Mexico and in France. With a production of more than 220 million units, sold in Brazil and abroad, *Natura Cosméticos S.A.* is currently a recognised brand, offering a range of more than 600

products to clients Table 2). In 2006, *Natura* won for the third time consecutively the award of the most admired firm of Brazil, in the survey from *Carta Capital/TNS Interscience*.

**Table 2.** *Natura Cosméticos S.A.* in figures.

Employees and consultants	~ 600 thousand
Net earnings	R\$ 10.1 billion
Market-share	22,5%
Share appreciation	300% in 2 years 80% in twelve months
Investment in R&D	3% of earnings
New products launched in 2005	200
Earnings from new products in 2005	70%
Social responsibility budget	R\$ 30 million in 2006 R\$ 24 million in 2005

Source: Carta Capital (2006a)

With the highest average remuneration from direct sales in Brazil and one of the highest in the world, the *Natura* Consultant receives exclusive, efficient and flexible services from the firm. She/He can count on a wealth of support material, advice, recycling and guidance through courses and the presence of Sales Promoters. The quality of the *Natura's* relationship with its consultants accounts it having the lowest level of staff turnover among direct sales firms (NATURA, 2005).

The mission and the vision of *Natura* express the attitude of the firm in the market and the positioning it seeks. *Natura's* mission is to “create and market products and services that promote Well Being/Being Well. ‘Well being’ is the harmonious, pleasant relationship of the individual with her/himself, with her/his body. ‘Being well’ is the feeling of a pleasurable successful empathetic relationship of one individual with another, with nature of which he/she is a part, with everything” (NATURA, 2005). The vision is shown in “its entrepreneurial behaviour, by the quality of the relationships it establishes and by its products and services, it will be a world wide brand, identified with a community of people that is committed to the building of a better world through better relations with themselves, with the other, with the nature of which they are a part, with everything” (NATURA, 2005).

The sought after brand image is identified with all the activities developed by it, at all levels of and places. The efforts made in the area of innovation permit *Natura* to maintain advanced scientific and technological standards in the manufacture of its products. This effort is shared by means of exchanges with Brazilian universities and centres of excellence throughout the world. An example of innovation was the creation of refills, which allow the product packaging to be maintained, reducing the cost to the consumer, less consumption of

plastic material and dumping of plastic material in the environment. Hence *Natura* seeks to reconcile the development of products, and commercial viability, as Eduardo Luppi, Vice President of Innovation at *Natura* said (CARTA CAPITAL, 2006a) “it’s not just a change of packaging. We need to think about the product that, when it arrives in the hands of somebody, causes an impression of innovation, that offers a concept to the consumer that makes them think”.

With the objective of maintaining the market informed regarding all the innovations, new products, whatever type of data necessary for the consultants, or other information of public interest, *Natura* developed *Natura.Net*. Through *Natura.Net*, the firm intends to develop a network of relationships, where the principles of social responsibility are held, as stated: “consumers, consultants, promoters, collaborators, shareholders, suppliers, partners, beauty and health professionals and the media, from Brazil and the world, everybody, we will be able to enrich and be enriched by the building of a dynamic *Natura* community” (NATURA, 2005).

With the purpose of reaching new cultures and new markets, the firm aims to achieve leadership in Latin America. Currently, *Natura* already acts internationally in segments of the Argentinean, Chilean, Peruvian and Bolivian markets. In 2005, *Natura* invested in international expansion – the opening of *Casa Natura* in Paris, and operations in Mexico.

In analysing the last five reports on corporative responsibility published by *Natura* to date, it can be seen that they use the methodology of the Ethos Institute<sup>iii</sup> of Social Responsibility and of the *Global Reporting Initiative* – GRI<sup>iv</sup>, an international entity that develops standards for the publishing of reports on corporative responsibility.

## **5 ANALYSIS OF THE RESULTS**

We now analyse the theoretical data contained in the study in relation to the activities developed by *Natura* in its reports on corporative responsibility. The analysis integrates the theory with the business practice.

### **5.1 Relationship with the stakeholders and the notoriety of the brand**

The mode in which *Natura* acts in a *pleiad* of activities permits it to build competencies that lend it leverage in international markets. These are relational competencies, competencies in the minimisation of its impact on the natural environment, and competencies in the development of more efficient manufacturing and sales processes. They are also competencies reflected in the guidance for an extended group of stakeholders and not only the



shareholders. Considering the critical groups of stakeholders (HENRIQUES and SADORSKI, 1999), Natura, despite working very well with all the groups (FREEMAN, 1984; DONALDSON and PRESTON, 1995; QUINN and JONES, 1995; CARROL, 1996; SERRA et al., 2002), makes it clear that it gives priority to organisational stakeholders ( see Table 4). With regard the internal public, the firm has decentralised management decisions and developed a career and salary plan, invested in training and skills development, and in Quality of Life programmes. These initiatives have certainly contributed to its inclusion of in the Guia Exame/Você SA list of the “Best firms for which to work”, since 2002. The effects were the reduction in the staff turnover, increased internal satisfaction and the creation of hundreds of jobs in domestic and foreign markets.

With regard the consumers and, above all the consultants, their main sales channel, several actions have been developed, from the improvement of the performance of the attendance service, problem solving, and collecting suggestions from consultants, as well as the development of communication through television, the Internet and press, and the positive influence among the young. As a result the firm has seen a significant increase in the quality of the consultants within and beyond Brazil. There has also been an increase in the average **ticket** per consultant, a reduction in turnover among the consultants and an improvement in the delivery time of the products. The presence of Natura and of its products grew significantly in the media, as well the records and requests for information via Internet.

In its relations with Suppliers, Natura encourages stable partnerships: This stability is important in generating trust and a better quality offer, greater incorporated value for the client and more adapted to the spaces where it works. Likewise, in its relationships with suppliers, *Natura* maintains remains relatively coherent to aspects of social responsibility, whether it is in relation to contractual clauses that impede the use of child and slave labour and the demand that suppliers have all the documentation required under the environmental legislation. Additionally, it develops suppliers in underprivileged communities (those with special needs and physical needs, prison inmates and underprivileged communities), stimulating the use of responsible practices among its suppliers and of B2B practices in order to improve the quality and logistics of its products. These actions resulted in a significant increase in the satisfaction of the suppliers (rising from 15% in 2003, reaching 93% of satisfaction in 2005), the framing of the suppliers within the environmental legislation (an increase of 60% in the number of certified suppliers in comparison with 2004), which was essential for the introduction of the ISO 14001 certification.

Natura has a good reputation both with the people within the organisation, and the outside agents. With the internal public, the results of the “Best firms for which to work” and the levels of satisfaction of the suppliers, are *prima facie* evidence of the care taken with workers and suppliers. With regard the external public, the result of the award “The most admired firms of Brazil 2006” (CARTA CAPITAL, 2006, 2006b) represents recognition of the firm from society. The increase in the net earnings and the share value, add weight to the findings that place reputation as a source of competitive advantage (FOMBRUN, 1996), which sustains positive effects on the market value (SWANDA Jr, 1990; CHAUVIN and HIRSCHEY, 1994) and enhanced financial performance (FOMBRUN and SHANLEY, 1990).

**Table 3.** Aspects related to the internal public, consumer relations, consultants, innovation and suppliers of Natura

Year	Methodology	Internal Public	Relations with consumers and Consultants	Suppliers
2001	Ethos Institute for Social Responsibility and Global Reporting Initiative - GRI	Decentralisation of responsibility of the evolution of career and salaries to middle managers. Investment of R\$4.9 million in training and skills development Introduction of the Quality of Life Programme	Restructuring of the Customer Service, aiming to reach consumers and consultants.	Development of small suppliers and agreements with several institutions aimed at developing and generating income for them through the supply of raw material. Ex: Gráfica Laramara (visually impaired); packaging from the Carandiru prison and others.
2002	Ethos Institute for Social Responsibility and Global Reporting Initiative - GRI	Inclusion of Natura in the Guide "100 best for you to work for" in the magazine <i>Exam</i> ; a fall of 7.73% in the rate of staff turnover, an increase of 12% in the level of internal satisfaction.	Increase of 7.2% in the number of consultants; publication of <i>Vitrine Natura</i> with the printing of 730.000 copies.	Certification in "Responsible Social-environmental Practices" for suppliers; negotiations and introduction of international firms in Brazil, with the purpose of generating social development aiming at the exclusive supply of raw material to Natura.
2003	Ethos Institute for Social Responsibility and Global Reporting Initiative - GRI	Development of the Quality of Life Programme for collaborators aimed at improving physical and mental health social, familial and environmental integration of work, culture and leisure; Investments of R\$6.7 million in training for collaborators and dependents.	Introduction of the weekly programme "Rede Natura", presented by the Bandeirantes television network, aimed at the consultants; development and increase in the number of registers in the Natura.Net.	An increase of 15% in the level of satisfaction among the suppliers; observance required on the part of the suppliers of the social-environmental legislation; direct participation of the suppliers in almost all the finalisation of obtaining the ISO 14001 certificate.
2004	Ethos Institute for Social Responsibility and Global Reporting Initiative - GRI	A reduction in the rate of internal favourability in 3%; opening of 536 places nationally and 135 internationally; Launch of the Project Building the Future aimed at quality of life, career extension and financial planning.	An increase of 14.6% in the number of national consultants and of 30% in the number of international consultants. An increase of 42% in the presence of Natura in the media, occupying 21.5% of the editorial space for the cosmetics market, against 9.5% for the firm in second place.	Introduction of the concept of <i>Qlicar</i> , aimed at aspects of quality, logistics, innovation, contracts, attendance and traceability.
2005	Ethos Institute for Social Responsibility and Global Reporting Initiative - GRI Guidelines of the <i>Comissão de Valores Mobiliários - CVM</i> (Securities Commission), and Associação Brasileira das Companhias	573 new hirings, resulting in an increase of 16% in the total number of collaborators. An increase of 25.5% in the number of executives. Increase in the number of hours in training with an average of 101 hours per collaborator, including interns.	Increase of 86,000 new consultants (10,000 in international operations. Productivity of R\$12,300 per consultant (increase of 6.6% compared with 2004). Reduction in the turnover of consultants. Monitoring of consultant satisfaction with regard aspects like lack of products at the time of order. Irregularity in the delivery and as a result the adoption of a new stock policy, with more exact demand surveys. Launch of Natura Mov. to	60% of suppliers certified in relation to 2004, according to the concepts of quality, logistics, innovation, contract, attendance and traceability. Greater proximity to the suppliers of active ingredients from the Brazilian biodiversity.

	Abertas, Abrasca		create ideologies, culture and the construction of a better world with the young.	
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Source: Elaborated by the authors based on the Annual Reports 2001 to 2005

The factors influencing the success of *Natura* are linked to Innovation and social Responsibility, with a strong performance in the environmental area. These factors are recognised by the executives in the sector, as shown by the results of the survey in *Carta Capital/TNS InterScience* (CARTA CAPITAL, 2006a) according to which *Natura* is the firm most admired by the executives in the Hygiene, Perfumery and Cosmetics sector. This recognition is supported by its Ethical posture and Respect for the Consumer and by Notoriety and Innovation. It appears evident, then, that good social-environmental-economic performance can provide the advantage of reputation (SPICER, 1978; McGUIRE, SUNDGREEN and SCHNEEWEIS, 1988; FOMBRUN and SCHANLEY, 1990; HAMILTON, 1995; KLASSEN and McLAUGHLIN, 1996; WADDOCK and GRAVES, 1997; MILES and COVIN, 2000). It is important to highlight that according to Paulo Secches, director of *TNS InterScience* (CARTA CAPITAL, 2006b), two factors stood out in the award of most admired Brazilian firm in 2006, the capacity to compete globally and ethics. Actually, in the survey, 83% of the 1224 businessmen interviewed considered ethics the key factor to be admired in a firm.

## 5.2 Strategy and internationalisation through social-environmental responsibility with innovation

*Natura* has given special attention to human resources, without ignoring the fundamental aspects of financial sustainability. In the strategy planning, the tool most used when elaborating strategy (SERRA, TORRES and TORRES, 2002), development of internal resources (BARNEY, 1991) was, in essence, considered before positioning in relation to the market (PORTER, 1980). However, external aspects were also assessed by the use of tools such as PEST (SERRA, TORRES and TORRES, 2002)<sup>v</sup> analysis and Forces from Porter<sup>vi</sup> (1980). That is, the strategy is developed in an integrated manner (BARON, 1997), encompassing the business itself and the relations that are not directly concerned with the activities of the firm, but that have some influence.

*Natura* developed its activities around two critical success factors: social responsibility and innovation. In order to support the action and activities, *Natura* made use of the strategic resources VRIN<sup>vii</sup> (Barney, 1991) acting based on the principal stakeholders of the organisation. The analysis of the internal aspects using the criteria suggested in PNQ<sup>viii</sup>

helped in the identification of the critical actions and in the exploitation and development of resources.

Given the above and the critical success factors considered in its strategy, Natura appears to follow a model similar to that consisting of business strategy and social strategy, proposed by Allen and Husted (2001) for the formulation of strategy (Table 5).

**The business model.** As Natura is present in almost 5,000 Brazilian municipalities, it has a profound knowledge of its domestic market. The business model, based on the marketing by consultants who are well integrated into the community makes it possible to closely follow the marketing work and be sufficiently sensitive to adapt to the market. The consultants are more likely to efficiently recognise the wishes of their clients. Hence, the range of Brazilian cultural diversity does not affect Natura in its contact with the final consumer. In addition, by using consultants and not fixed points of sale, the contact between the firm and its clients is more intimate.

A similar situation occurs with the foreign operations. The activities in the Latin-American countries are also based on consultant-based sales. The cultural differences between the foreign countries are resolved by direct selling, in which the international consultants hold the intrinsic knowledge of the tastes and needs of their countries of origin. For this reason, the factors cited by Robinson (1967) that generate complexity for international activity, such as different governments, economies, values, technology, population, and area and the great distances, are attenuated by the use of this type of sale and of local people.

The actions developed provide quality, respected and innovative products and an exclusive distribution channel that help Natura overcome the type of difficulties associated with internationalisation referred to by Grigs and Rhoden (2005), in both less developed or emerging countries like Brazil, and in developed countries. In France, for example, with the concept store, Natura presents the company philosophy and the quality of its products, such as the Ekos line (CARTA CAPITAL, 2006).

**International expansion.** The competencies developed by Natura in the domestic market levered its international expansion, which corresponds to the theory that firms begin by developing a strong domestic base before adventuring into foreign markets (PORTE, 1996). The leadership in Brazil is shown by the simple indicators such as greater presence in the channels of communication with the consumer than its competitors, that is, 21.5% against the second with 9.5%.

Considering the internationalisation model proposed by Vernon (1996), the firm is located in the first stage of internal production and export, in transition, as there is already some international outsourcing.

In its international performance, Natura is still firmly based on the export of its products where the consultants sell them. Natura already has some international experience, as it has been acting in foreign markets since 1982, the year it entered Chile. In the accomplishing its international strategy, in 1994, it entered into the markets of Argentina, Peru and Bolivia. Between 2003 and 2005, Natura saw sales growth of 107% in the foreign markets, in particular in Latin-America, but also in other regions (mainly where it penetrated the duty-free shops at international airports). The degree of structural complexity led to the creation of a corporative structure for the control of these activities – in 2004, Natura created a subsidiary in Buenos Aires. Internally, organisational restructuring created a Vice presidency of internationalisation, showing that Natura was concerned with the form of international behaviour, with the aim of ensuring a suitable organisation and coordination (FAULKNER, 2003). Despite the strong growth of the firm in Latin-American countries it was only in this last report that the internationalisation was shown, with the entry into the Mexican market. In Mexico, the activities were developed through consultants, as in the Brazilian operations and in the other countries of Latin-America.

With the inauguration of the *Casa Natura* in Paris, in 2005, the firm is penetrating the European market. *Natura* entered in a procedural manner into France with the launch of *Casa Natura*. In this market, differentiated from those previously encountered, Natura visualised a new way of becoming known to its target public. The opening of *Casa Natura* and the mode chosen to explore the European market explain the importance given to social responsibility by the penetration into Europe. The strategy for the European market differs totally from that used for the internationalisation in the Latin and Central-American countries, as it aims to introduce the firm and its concepts, many of which are intrinsic to social responsibility, when introducing the Natura Ekos line.

**Competencies in R&D.** The internal competencies of innovation created a culture of innovation that enabled a consistent international attitude (PORTER, 1996). Innovation with social-environmental responsibility is in itself an innovation. High investments in R&D, agreements with research centres and national and foreign investigators, the launching of 213 new products in 2005 and the fact that 70% of earnings come from new products, demonstrate the organisational culture of innovation and appears to indicate that Natura is apt to act globally (HILL and HEMAIS, 2003). Hence, the firm shows more than its name is linked to

Nature; it seeks to be alert to how it passes on its beliefs and values to new consumers in other cultures.

**Environmental sustainability** Within the frame of its organisational restructuring, Natura created a Vice-presidency of Innovation and a Directorate of Sustainability. Social responsibility is one of the possible sources of competitive advantage for a firm (CLARKSEN, 1995; JONES, 1995) and, this is well expressed in the case of Natura. Due to the importance of social-environmental-economic responsibility in all the activities at Natura, and in order to maintain coherence with its name and with brand trade marks of its products, Natura can be classified within Roome's (1992) typology according to a strategy of “commercial and environmental leadership” or “advanced leadership”.

A significant example can be seen in the acquisition by Natura, in 2003, of the firm *Flora Medicinal J. Monteiro da Silva*. With this acquisition, it was discovered that a part of the inputs extracted from the Atlantic Coastal Forest for the production of some products did not have a proven sustainable origin. With a reduction of 20% of the earnings of the acquired firm, Natura suspended 14 of the 31 products offered. In another example, Natura found that the plastic bags supplied to the consultants had a damaging effect on the environment, so they were replaced by bags made from recycled paper.

**Table 5**  
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**Strategic, environmental, social and international aspects of Natura**  
 Source: Elaborated by the authors based on the Annual Reports 2001 to 20

Year	Methodology	Strategic	Environmental	Social performance	Internationalisation	Innovation
2001	Ethos Institute for Social Responsibility and Global Reporting Initiative - GRI	Review of Strategic Planning incorporating the Internal Assessment (criteria stipulated by the <i>Fundação Prêmio Nacional de Qualidade</i> - National Prize Foundation for Quality) and External (analysis of macro tendencies).	Beginning of the Biodiversity; Beginning of application for the ISO 14001; Introduction of the <i>Projeto Coleta Certa</i> -Right Collection Project – for the recycling of materials used by the firm	<i>Projeto Crer para Ver</i> – Project Seeing is Believing (sale of products offered by suppliers for investment in public schools); <i>Programa Natura Educação</i> (study grants for employees and their dependents).	Beginning of operations in Chile, in 1982, and in Peru, Argentina and Bolivia in 1994.	Introduction of the EKOS line (biodiversity); creation of <i>Programa de Incentivo à Criatividade e Inovação</i> -Innovation and Creativity Incentive Programme.
2002	Ethos Institute for Social Responsibility and Global Reporting Initiative - GRI	Use of Corporate Governance; Institutionalisation of: <i>Comitê de Auditoria e Gestão de Riscos</i> – Audit and Risk Management Committee (approves the financial statements, management processes and internal audits); <i>Comitê de Recursos Humanos</i> – Human Resources Committee (Values HR, disseminates and preserves knowledge); and Sustainability Committee.	Development of the Biodiversity Project and creation of Sustainability Committee; process of ISO 14001 certification; Construction of water treatment stations in Cajamar and Itapeçerica da Serra; Energy Grid Project – reduction of expenditure on electrical energy.	Citizens in Movement Project – creation of child and adolescent rights councils; maintenance and development of the Project Seeing is Believing (R\$1.7 million raised)	Great market gains and the financial result in the international countries, mainly Argentina and Peru, training new consultants and consolidating the brand. Increase of 4.8% in international sales with respect to 2001.	Patent of the ingredient <i>Elastinol</i> in agreement with the Paris University VI; Introduction of the Project of Assessment of Performance and Safety of Products. Jointly with UFJR; launch of 91 new products.
2003	Ethos Institute for Social Responsibility and Global Reporting Initiative - GRI	Extension of the actuation of the Audit and Risk Management Committee, Human Resources Committee, and Sustainability Committee	Reduction of 12% in waste originating from product manufacture; Substitution of plastic by recycled paper in packaging of products sent to consultants.	Member of Brazilian Committee of Global Compact. Distinction by the magazine <i>Exame</i> in the Good Corporate Citizenship Guide. Maintenance of the Programmes: Seeing is Believing; Voluntary Programmes and Education <i>Natura</i> .	Growth in the Latin-American operations, mainly in Argentina (growth of 77% in local currency).	Development of the Natura Ekos line (certification of sustainability); Acquisition of the firm <i>Flora Medicinal J. Monteiro da Silva</i> .
2004	Ethos Institute for Social Responsibility and Global Reporting Initiative - GRI	Opening of Capital, shares offered on Bovespa. Acceptance of Market Arbitration Chamber for the resolution of conflicts; Subsidiary opened in Buenos Aires.	ISO 14001 Certification obtained; Certification of three Brazilian assets in Amapá by the Forest Stewardship Council – FSC.	Evolution of the Project Seeing is Believing (EJA –Adult and Youth Education); confirmation and renovation of Global Pact between large corporations and UNO.	Growth of operations in Latin-America (sales up 107% in last three years); Increase in number of international consultants, reaching 26,000 and 378 collaborators abroad; Creation of a subsidiary in Buenos Aires to expand activities in Latin-America; Entry into duty-free shops at international airports.	Launch of 182 new products (average of one new product every two days)
2005	Ethos Institute for Social Responsibility and Global Reporting Initiative - GRI Guidelines of the <i>Comissão de Valores Mobiliários – CVM</i> (Securities Commission), and <i>Associação Brasileira das Companhias Abertas, Abrasca</i> – Brazilian Association of Public Limited Companies.	Restructuring of the executive body for international expansion and sustaining long term business.	Authorisation obtained from the Environment Ministry to accede to the genetic patrimony of the biodiversity.	Strengthening of the performance together with the communities around the Itapeçerica da Serra and Cajamar units. Efforts centred on the Official Programme for Education on Pension and Insurance in cooperation with the Brazilian Direct Sales Firms Association ABEVD.	Entry into Europe with the opening of <i>Casa Natura</i> in Paris, France, aimed at exposing products and concepts of Brazilian biodiversity; Initiation of activities in Mexico through consultants; Consolidation of Latin-American market with an increase of 45.5% in relation to 2004; Creation of new structures and strengthening of current ones in foreign countries.	Increase of 41.5% in investments in R&D; Launch of 213 new products; Production of soaps based on palm oil instead of animal fat (“vegetalisation” of the line); Elimination of animal testing in the product R&D.

The social-environmental responsibility is further demonstrated in its concern with sustainability of inputs and in guaranteeing a reasonable income in the extractive communities that supply the input. In 2004, with Natura Ekos, the firm obtained certification of three assets produced by the extractive community in Amapá State.

**Distinguishing the reputation.** The link to the *Instituto Ethos*, to the Global Reporting Initiative, the first Brazilian firm to take part in Organizational Stakeholder, the participation in and confirmation of the Global Leaders Compact between large corporations and the United Nations and ISO 14001 certification are examples of the practices that show the culture and concern of *Natura* with the present and future generations. The links between *Natura* and various non-governmental organisations aimed to fulfil the Agenda 21 Project for the promotion of community leaders and councils in social responsibility. The association to the *Abrinq* Foundation demonstrates the support the firm offers the third sector. Even with the knowledge that responsibility has its costs and resistance to change, the costs maintains a culture of social-environmental-economic concern.

*Natura* defends the contemporary perspective regarding social responsibility. It fits within Davis's (1975) five propositions in opposition to the classic view. *Natura* perceives that society should demand social responsibility from firms, it is transparent with opening all its data to whoever is interested via its portal, assuming the possible costs and losses involved in being responsible.

## 6 FINAL REMARKS

The first aspect related to be considered here concerns the research questions: How does *Natura* use social responsibility for internationalisation and what are the factors that have led to this? In relation to the success of factors, social responsibility and innovation were identified. The leadership of the Brazilian market together with world tendencies has encouraged the search for new markets. In the words of the Director of Sustainability, Marcos Egydio Martins, *Natura* has invested in tendencies that are related to the human challenges to build a new millennium: "This translates into business and is transformed into competitive advantage"

The firms can develop a competitive advantage in relation to the competitors through a socially and environmentally responsible attitude. The analysis of the reports on corporate responsibility of *Natura*, as well as the other gathered data, show *Natura*, above all, as a reputed brand that sells concepts, disseminates and exalts at a national and international level the natural and cultural beauty of Brazil. The value of the brand, seen through its reputation,



leads consumers to acquire products and with them the ideas, wishes and the expectation of a better life. An environmentally conscientious attitude is part of the identity of the brand and is evident in the products from *Natura*, as in the Ekos line. Hence, social-environmental responsibility is part of the strategy of *Natura*, as part of the institution, of the management decisions, intrinsic to the organisation, and guides almost all its actions.

The international trajectory of *Natura* was built gradually with expansion into the neighbouring territories of South America and only after to geographically more distant locations. This geographical expansion, as in Brazil, has, for the most part been built with the assistance of consultants. The exception to this mode only occurred in France where *Natura* followed the patterns of the procedural current, with an institutional campaign mainly emphasising the Ekos line, illustrating the Brazilian biodiversity and the process of social and environmental sustainability. The greater sense of environmental awareness of the Europeans offers *Natura* a competitive advantage not to be shunned.

The ISO 14001 certification, the application of the norms of GRI, the participation in the Global Pact together with other large corporations and the United Nations Organisations demonstrate the interest of *Natura* in respecting the national need for social-environmental responsibility, and in helping to mould the world standard on this issue. The orientation of *Natura* towards an attitude of social-environmental responsibility is incorporated in the strategic planning of the firm and guides its actions in general, from the acquisition of raw materials and other inputs to post-sales service. Concern with social-environmental activities is a part of the essence of the *Natura* brand. Thus, and in accordance with the line of questioning proposed in this study, we can state that a socially responsible attitude can be an important component in the strategy of the firm and imbibed in the organisational culture.

The competencies developed over its existence facilitate access to new markets and diversification (HAMEL and PRAHALAD, 1990; PRAHALAD and HAMEL, 1994). Social responsibility, allied to innovation in products, services and access to the market have generated competitive advantage for the firm as they have been supported by imperfect developed and expanding resources (BARNEY, 1991; PETERAF, 1993). These resources are difficult to imitate (LIPPMAN and RUMELT, 1982), for example the nature of the relationship with the consultants and with the suppliers, or the organisational culture formed over many years and its dependence on the vision of the founders (BARNEY, 1986). The very construction of a brand with a high reputation such as that of *Natura*, is dependent on the path followed and is socially complex (BARNEY, 1991).

Although few firms include social responsibility in their strategic planning, the tendency is that an increasing number of firms will develop a responsible mentality in relation to the surrounding environment and society. The international expansion to Europe and the United States, exposes firms to the demands of sophisticated populations that are aware of the importance of contributing towards progress in society. The evolution of the social mentality in relation to social-environmental-economic issues anticipates the need for the application of concepts of culture and social responsibility, and may become a decisive factor in the success and acceptance of the firm in international markets.

*We are a firm that holds the view that it is possible to build a more sustainable and just world. This enhances our competitiveness as everybody is mobilised to build not only a business, but also a better world. I believe that, by touching the soul of people, we increase the strength of our undertakings. By demanding an ethical posture from firms, society also benefits, as private initiative can also add value to the life of society. In this way, we believe that society values the actions of socially responsible firms. If everybody thought this way, firms and society, the world would have chances of improving.*

Alessandro Carlucci, president of Natura (CARTA CAPITAL, 2006a)

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<sup>i</sup> The award “The Most Admired Firms in Brazil” is an initiative of the magazine Carta Capital and of TNS InterScience, a firm specialized in market research. It is similar to the “Most Admired Companies” in Fortune magazine from the Hay Group. In the Brazilian survey 1224 business people were asked to indicate the firm that they most admire in 11 dimensions (key factors): respect for the consumer; ethics; social responsibility; quality of products and services; innovation; management quality; commitment to HR; financial solidity; notoriety; commitment to the country; competing globally.

<sup>ii</sup> The *Natura* Consultants are people that are trained and act as a commissioned sales channel. In a similar way to Avon, Herbalife and Amway.

<sup>iii</sup> The *Instituto Ethos de Empresas e Responsabilidade Social* was founded to help firms understand and incorporate the concept of social responsibility into their everyday management. The methodology of Ethos is a self-diagnosis instrument whose purpose is to help firms to manage the environmental and social impacts resulting from their activities, according to the following main themes: values, internal public, environment, transparency and governance, suppliers, consumers and client, government and society.

<sup>iv</sup> GRI is a large network of multi-*stakeholders* with thousands of experts. The view of GRI is that reporting of the principles of economic, environmental and social performance by firms should be as routine as that of financial reporting.

<sup>v</sup> The acronym PEST summarises the environmental dimensions to be examined: Political-legal, Economic, Social-cultural and Technological.

<sup>vi</sup> Competitive Forces: competitors, suppliers, clients, substitutes and new entrants.

<sup>vii</sup> The acronym VRIN refers to the characteristics of the resources of the firm that can offer sustainable competitive advantage (BARNEY, 1991). For which the resources need to be Valuable, Rare, Inimitable and Non-substitutable.

<sup>viii</sup> Criteria of Excellence of the *PNQ –Prêmio Nacional da Qualidade 2005* –National Quality Awards: Leadership, Strategies and Plans, Clients, Society, Information and Knowledge, People, Processes and Results.