

# ARTICLES

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## DEVELOPING DYNAMIC CAPABILITY IN SOCIAL STRATEGIES

*Desenvolvendo capacidade dinâmica em estratégias sociais*

*Desarrollo de capacidad dinámica en estrategias sociales*

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### ABSTRACT

This paper aims to understand how firms develop a dynamic capability to implement social strategies and manage pressures from local and global stakeholders. A multiple case study was conducted with four Brazilian multinationals in the pulp and paper industry. These firms develop dynamic capabilities to adapt to a changing environment by monitoring it and learning from their stakeholders, nurturing mutually beneficial relationships and partnerships with other organizations, and constantly adopting or influencing social strategies. This paper's findings extend the literature that converges social strategies and dynamic capabilities by presenting evidence that these firms are developing and deploying a dynamic capability to implement social strategies. The findings also show that firms can develop complex and dynamic capabilities to manage stakeholder demands at local and global levels. Finally, this paper contributes to the dynamic capability and social strategy literature by demonstrating that such capability is critical in managing multiple stakeholders.

**Keywords:** social strategy, dynamic capability, social and environmental activities.

### RESUMO

Este artigo tem como objetivo compreender como as empresas desenvolvem capacidade dinâmica para implementar estratégias sociais a fim de gerenciar as pressões de stakeholders locais e globais. Foi realizado um estudo de caso múltiplo com quatro multinacionais brasileiras do setor de papel e celulose. Essas empresas desenvolvem uma capacidade dinâmica que lhes permite se adaptar a um ambiente em mudança, monitorando-o e aprendendo com seus stakeholders, cultivando relacionamentos e parcerias mutuamente benéficas com outras organizações e constantemente adotando ou influenciando práticas sustentáveis. Os resultados deste artigo estendem a literatura que converge estratégias sociais e capacidades dinâmicas, apresentando evidências de que essas empresas estão desenvolvendo e implantando uma capacidade dinâmica que permite a implementação de estratégias digitais. Os resultados também mostram que essas empresas podem desenvolver capacidades complexas e dinâmicas para gerenciar as demandas dos stakeholders em níveis local e global. Este artigo contribui para as literaturas de capacidade dinâmica e estratégias sociais, demonstrando que tal capacidade é crítica no gerenciamento de múltiplos stakeholders.

**Palavras-chave:** estratégias sociais, capacidade dinâmica, atividades sociais e ambientais.

### RESUMEN

Este trabajo tiene como objetivo comprender cómo las empresas desarrollan una capacidad dinámica para implementar estrategias sociales para gestionar las presiones de los stakeholders locales y globales. Se realizó un estudio de caso múltiple con cuatro multinacionales brasileñas del sector de celulosa y papel. Estas empresas desarrollan una capacidad dinámica que les permite adaptarse a un entorno cambiante al monitorear y aprender de sus stakeholders, cultivar relaciones y asociaciones mutuamente beneficiosas con otras organizaciones, y adoptar o influir constantemente en prácticas sostenibles. Los resultados de este artículo amplían la literatura en la que convergen estrategias sociales y capacidades dinámicas al presentar evidencia de que estas empresas están desarrollando y desplegando una capacidad dinámica que permite la implementación de estrategias sociales. Los resultados también muestran que las empresas pueden desarrollar capacidades complejas y dinámicas para gestionar las demandas de los stakeholders a nivel local y mundial. Este artículo contribuye a las literaturas sobre capacidad dinámica y estrategias sociales, al demostrar que dicha capacidad es fundamental en la gestión de múltiples stakeholders.

**Palabras clave:** estrategias sociales, capacidad dinámica, actividades sociales y ambientales.

## INTRODUCTION

Drawing from the literature on dynamic capabilities (Helfat et al., 2009; Teece, 2007) and nonmarket strategies (Baron, 2001), we suggest firms develop dynamic capabilities to deploy social strategies that are part of the nonmarket environment within the political arena (Baron, 2001, 2016; Dorobantu et al., 2017; Oliver & Holzinger, 2008). The social strategy is the firm's resources and capabilities to meet social and financial performance objectives (Husted et al., 2015). These firms organize and orchestrate their resources (Kurtmollaiev, 2020) to better deal with stakeholders such as local communities, government regulators, non-governmental organizations, and activists. They develop the ability to control the social arena's processes, resources, and knowledge (Oliver & Holzinger, 2008). Oliver and Holzinger (2008) discuss the dynamic of political capabilities, and we add to this discussion that social strategy is also dynamic.

We already know that the political arena of nonmarket strategy is dynamic (Oliver & Holzinger, 2008). However, as the social and environmental arenas become more complex and gain the world's attention, the firm's adaptation and learning become essential (Brown, 2016; Mbalyohere & Lawton, 2018). Furthermore, the literature appeals to include a more holistic study that tests the dynamism of the social arena (Henisz, 2016). Thus, we aim to contribute to the dynamic capability perspective by adding empirical evidence that organizations are developing such capabilities not only because of technological change but also due to social pressures. The study focuses on the pulp and paper industry, part of the broader tree industry, which is resource-intensive and has adopted several practices related to sustainability. This industry has suffered additional pressure due to the increasing rate of fires, deforestation in the Amazon area, and the Brazilian federal government's unsatisfactory response. Hence, we propose the following research question: *How do firms develop a dynamic capability that allows them to implement social strategies in response to local and global pressure from their stakeholders?*

We choose Brazil because it is a natural laboratory that enables us to research societal management issues, such as social strategy (Aguinis et al., 2020). Furthermore, due to uncertain institutional characteristics, it is possible to follow the dynamism of business management (Aguinis et al., 2020; Gama & Bandeira-de-Mello, 2021). In addition, it is a country where it is possible to get an advantage in the natural resource-based industry (Luo & Tung, 2018; Ramamurti, 2009), such as pulp and paper, since there is enough area for tree reforestation. Also, it is still necessary to contribute to the social strategy perspective from an emerging market setting. Therefore, we apply the case study methodology to explore social strategies' dynamic characteristics.

Additionally, we focus on Multinationals Enterprises (MNEs) because they are embedded in a complex environment characterized by volatility, uncertainty, complexity, and ambiguity (VUCA), affecting them economically, politically, socially, and institutionally (Li & Fleury, 2020; Tulder et al., 2020). Emerging Multinationals (EMNEs) add new layers of complexity because the companies are headquartered in uncertain institutional contexts (Doh et al., 2015; Marano et al., 2017). These complex institutional contexts and their instabilities challenge EMNEs'

operation (Doh et al., 2015; Marquis & Raynard, 2015). Based on these challenges, we argue that these firms might develop dynamic capabilities on social strategies to deal with the social arena and mitigate the uncertain institutional context.

## THE DYNAMIC CAPABILITY PERSPECTIVE

Dynamic capability (DC) (Teece, 2007; Teece et al., 1997) is the organization's capacity to create, extend or modify its resources (Helfat et al., 2009). It is dynamic because the company is expected to have the ability to renew its competencies to achieve unity in changing business environment (Helfat & Winter, 2011). The term capability, as stressed by Teece et al. (1997), "emphasizes the key role of strategic management in appropriately adapting, integrating, and reconfiguring internal and external organizational skills, resources, and functional competencies to match the requirements of a changing environment" (p. 515). Therefore, DC has offered relevant insights into understanding how and why some companies develop competitive advantages (Fainshmidt et al., 2016; Teece, 2007).

DC can be related to organizational processes that guarantee survival conditions (Drnevich & Kriauciunas, 2011; Winter, 2000) and is developed to support organizations in solving complex problems as they deploy routines that are learned gradually (Dosi et al., 2000). This process is path-dependent as it emerges from past challenges and is bound to contextual problems (Schreyögg & Kliesch-Eberl, 2007). Scholars suggest that DC offers a reliable mechanism for resource adaptation (Salvato & Vassolo, 2018). Thus it usually requires long-term resources to sustain a particular approach to change (Winter, 2003). DC can be disaggregated into three specific capacities to support change and adaptation: sense, seize, and reconfigure. DC enables organizations to sense and shape opportunities and threats, seize opportunities, and reconfigure the organization's assets to remain competitive and adapt to changing environments (Teece, 2007). The three capabilities underpinning a dynamic capability are mutually dependable.

Following Teece (2007), organizations must explore their environment to learn, sense, filter, shape, and calibrate opportunities. Once sensed, opportunities must be addressed through new products, processes, or services, which require investments and depends on strategic choices. In addition, sensing and seizing opportunities are processes that must be integrated, and managers expect a certain level of consensus to allow investment decisions. Finally, reconfiguring assets and organizational structure is vital to companies' adaptation and competitive maintenance. Reconfiguration is needed to sustain evolutionary fitness or escape threats (Teece, 2007). It may include sharing capabilities between old and new practices or transferring capabilities from one market to another (Helfat & Peteraf, 2003). The latter is even more compelling for multinationals because they must manage several business units and demands in different contexts.

Research has suggested that resources, knowledge management, learning, alliances, entrepreneurial orientation, and environmental dynamism are critical antecedents of DC (Bitencourt et al., 2020). *Resources* are crucial for creating and maintaining a competitive

advantage (Barney, 1991; Teece et al., 1997). Similarly, companies must develop and promote new ideas to change and respond to market demands (Easterby-Smith & Prieto, 2008; Schilke et al., 2018). Thus, the organizations' ability to *manage knowledge and learning* leads the firm to implement new routines and foster employee learning (Zollo & Winter, 2002). Because companies' resources are limited (Pfeffer & Salancik, 2003) and DC relies on organizations' resources, companies need to establish *strategic alliances* to expand knowledge and guarantee more effective management (Kale & Singh, 2007). As a result, companies can gain complementary resources and capabilities (Danilovic & Winroth, 2005). DC aims to support organizations in a rapidly changing environment (Teece, 2007). Therefore *environmental dynamism* can have a critical impact on DC because it is related to the changes in the competitive environment that shape how a company will relate with other actors and respond to the customers' demands (Drnevich & Kriauciunas, 2011).

DC was developed in the context of technological change (Teece, 2007). However, research has drawn from this perspective to explain different phenomena. For instance, Bhupendra and Sangle (2021) suggest that firms' DC towards innovativeness can support them in becoming more sustainable. Furthermore, Xing et al. (2020) found that green DC can mediate the positive relationship between environmental regulation and financial performance. These studies push the DC perspective forward by focusing on the environmental aspect of sustainability. In the nonmarket literature, studies have also drawn from the dynamic capabilities perspective to explain companies' social strategies (Bowen, 2007; Husted & Allen, 2006; Husted et al., 2015). However, while the first group contributes more consistently to the micro-foundations of DC, the second focus on the nonmarket strategy aspects. Thus, our contribution lies in understanding how firms develop dynamic capabilities to support their social strategies.

## DEVELOPING DYNAMIC CAPABILITY TO IMPLEMENT SOCIAL STRATEGIES

The nonmarket consists of the political and social environment in which firms are embedded (Dorobantu et al., 2017; Frynas et al., 2017). The firm develops nonmarket strategies to coordinate actions to deal with public policy (Baron, 1995; Bonardi et al., 2006; Gama et al., 2018). For example, firms might deal with stakeholders such as local communities, government regulation agencies, non-governmental organizations, activists, and government at the local, state, and federal levels, through nonmarket strategies. Thus, the nonmarket strategy works as a tool through which firms adapt to existing institutional structures, add to such structures, or transform the institutional context (Dorobantu et al., 2017).

An essential component of the nonmarket strategy is the firm's ability to deal with different stakeholders and manage the political and social arenas to achieve beneficial outcomes (Bonardi et al., 2006; Henisz, 2016). In other words, the firm's ability to be dynamic is not a static process. Thus, we posit that the nonmarket strategy has two drivers: The first is nature, which is not

homogeneous among firms. It means many forms of nonmarket strategy, depending on the firm's focus (Baron, 2016; Bonardi et al., 2006; Hillman & Hitt, 1999). For example, the firm might focus on social, political strategy, or both and use different mechanisms to achieve its goals. For example, a firm might use nonprofit organizations' partnerships (Gatignon & Capron, 2020) or lobbying (Marzouk, 2017) to achieve their goal.

The second driver is the institutional environment. Firms operating in emerging countries are subjected to an environment characterized by VUCA (Li & Fleury, 2020; Tulder et al., 2020). Such an environment is complex and less stable, mostly due to the low-quality institutions (Brown, 2016; Henisz, 2016). Companies in these conditions might develop strategies to respond to global and local pressures (Husted & Allen, 2006). Hence, nonmarket strategies might be deployed to face the challenges of domestic and global contexts. Some of the mechanisms to tackle such pressures are stakeholder engagement (Gupta et al., 2020), alliances with nonprofit organizations (Gatignon & Capron, 2020), and agreements with local communities (Odziemkowska & McDonnell, 2019).

Thus, the role of social strategy is to perceive the impact on social and competitive advantage (Husted & Allen, 2006). So, there must be a strategic intent to invest in social strategies so the firm can support them to achieve competitive advantage (Husted & Allen, 2006; Husted et al., 2015). For example, firms might have a social strategy when investing in social actions, develop a plan to implement social actions, commit with the employees, perceive the impact of social actions, and try to measure the outcome of the actions (Husted & Allen, 2006). In that sense, the social strategy is related to the firm's commitment and intent with the social arena, the evidence of the substantive engagement with the social subjects (Nardi, 2022).

The social strategy comprises a portfolio of social actions that creates value for the firm. And the social actions show how much the firm is engaged in the nonmarket arena and how it uses dynamic capabilities to generate competitive advantage (Husted & Allen, 2006; Husted et al., 2015).

Among the studies exploring the relationship between DC and social strategy is the research by Husted and Allen (2006), who show the relationship between multinationals, resources, capabilities, and value creation when a firm uses social strategy. Similarly, Husted et al. (2015) discuss the use of resources and capabilities to create value through social strategy among Spanish companies. Finally, Bowen (2007) shows the relationship between social strategy and the resource-based theory and behavior theory.

There is already evidence of the dynamic process of political actions (Oliver & Holzinger, 2008). However, there is an appeal to include a more holistic study that tests the DC of social strategies (Henisz, 2016; Husted et al., 2015). So, we aim to contribute to studies on DC and add evidence to the dynamism of the social arena. Thus, adding to previous studies that converge on nonmarket strategies and DC (Brown, 2016; Henisz, 2016; Oliver & Holzinger, 2008), we argue that the firm might create, change or modify the resources (Helfat et al., 2009) to develop and deploy a social strategy. Such dynamic capability enables organizations to adapt and shape their business environment (Teece, 2007). Since public policies and the environment are constantly changing, the firm continually adapts its social strategies and changes them when necessary

(Mbalyohere & Lawton, 2018). Furthermore, as the social environment increases in complexity, the firm's adaptation and learning to renew its process becomes fundamental (Brown, 2016), so it might develop a social dynamic capability that can support better corporate and financial results (Fernández et al., 2015).

## METHODOLOGY

This study aims to analyze how firms in the pulp and paper industry develop a dynamic capability (DC) that allows them to implement social strategies. The research adopted a qualitative methodology, and three rules were followed during the data collection to guarantee validity and reliability: (i) use of several sources of evidence on the DC of social strategies to guarantee data triangulation (Eisenhardt, 1989; Yin, 2009); (ii) adherence to a historical sequence of facts, precisely describing the events; and (iii) creation of a database describing each evidence.

### Case selection

We conducted an in-depth multiple-case study with 4 Brazilian multinationals. Brazil is a large emergent economy with a complex institutional environment that challenges any company's relationship with institutional actors and is a compelling case for strategy development. In addition, pressures from nonprofits and civil society have become a global trend, forcing governments to strengthen environmental regulations and jeopardizing the development of emerging economies. The current moment offers particular elements that create additional pressure on this industry in Brazil due to the increasing rate of fires, deforestation in the Amazon area, and the federal government's unsatisfactory response. Such context suits the aims of this paper because it offers the characteristics that companies need to develop capabilities to respond to pressures over their business environment.

The companies we selected are significant national and global players. Moreover, they own vast territories of land in Brazil, which poses tremendous social and environmental challenges to their operations. In response, they have been adopting several practices related to sustainability (e.g., ESG, SDGs, and Global Compact), which represent a perfect context in which capabilities can be identified. Our case selection follows the theoretical sampling as we chose companies where the phenomenon of interest is most likely to happen (Eisenhardt, 1989, 2021). Therefore, we sent invitations to the industry's five biggest and most representative companies, and four accepted to participate in this research.

After initial data collection, two of the companies merged. However, we decided to analyze the data from each company separately, exploring the data as it was collected. This decision did not present a methodological issue, and we could rigorously answer the research question while guaranteeing validity and reliability, as described in the subsequent sections.

## Data collection

Our primary data comprises ten interviews (Table 1), including the organizations and the most relevant stakeholders. Within the firms, we interviewed sustainability managers, and based on their information and secondary data, we selected other relevant stakeholders to participate. The interviews were conducted between November 2018 and December 2020. Additionally, we consulted several secondary data sources. To guarantee the validity and reliability of our analysis, we based it on constant triangulation (Ghauri, 2004; Marschan-Piekkari & Welch, 2011). Our secondary data includes websites, companies, consultancies' reports, and news reports, comprising approximately 334 documents described in Table 2. The period observed was from 2015 to 2020; the first year was selected since it was the year the United Nations launched the SDGs, an essential mark for sustainability. The interviews followed a semi-structured script to elicit perceptions and opinions from the participants (Creswell, 2009). The interviews were conducted in person and online. Their average length was 60 minutes, and all of them were transcribed and codified. Companies and interviewees were given pseudonyms for confidentiality purposes.

**Table 1.** List of interviewees

Organization's name	Interviewee Position	Number of interviews/years	Online	Time (min)
Alfa, company	Sustainability Manager and Strategy Director	1/ 2018	No	84
Beta, company	Sustainability Manager	1/2019, 1/2020	Yes Yes	83 53
Delta, company	Sustainability Manager	1/2020	Yes	44
Gama, company	Sustainability Manager	1/2020	Yes	67
Quilombolas	Community Leader	1/2019	Yes	56
WorldWide Fund for Nature (WWF)	Conservation Analyst	1/2019	Yes	46
Forest Stewardship Council (FSC)	Technical Coordinator	1/2019	Yes	81
Foundation Strategy Group (FSG)	Manager	1/2019	Yes	54
Carbon Disclosure Project (CDP)	Manager	1/2019	Yes	35

Note: Firms Alfa and Beta merged during 2019. The interview in 2019 was previous to the final merge.

Source: Elaborated by the authors.

**Table 2.** Secondary data sources

Company	Annual Report	Sustainability Reports	News, website pages, and third part reports
Alfa	5	17	61
Beta	16	7	141
Delta	27	7	44
Gama	5	4	112

Source: Elaborated by the authors.

## Data analysis

Following Miles and Huberman (1994), different tools were employed to organize the data, including “memoing,” code notes, quotation notes, and networks, all facilitated by the data analysis software Atlas.ti. The data analysis was performed concomitantly with data collection (Creswell, 2009; Ghauri, 2004). We follow a two-step coding process considering the first and second coding cycles (Miles et al., 2014; Saldaña, 2013). Aligned with our research question and the deductive approach to answering it, we performed theoretical coding (Charmaz, 2006; Saldaña, 2013) during the first and second coding cycles. In the first cycle, we analyzed each company and the industry to describe how they relate their capabilities to social strategies using primary and secondary data. We constantly triangulated the data analysis between various sources (Eisenhardt, 1989; Langley & Abdallah, 2011). During this first cycle, 80 codes emerged. Then, we merged them as we identified overlapping, reducing the final number to 17 codes encompassing nonmarket activities and dynamic capabilities. We use the software Atlas.ti to assist in this process.

In the second cycle, we went through all quotations seeking alignment among the categories and our research question. In this phase, we performed a cross-case analysis so the emerging structure could inform the similarities and differences among the cases (Eisenhardt, 1989). Our 17 codes were reduced to the 15 first-order categories from this process. Then, we fit those first-order categories into a structure aligned with six second-order categories aggregated in three dimensions found in the literature: sensing, seizing, and reconfiguring. The final model comprises 15 first-order categories and six second-order categories explaining the development of social strategy’s dynamic capability. Those categories describe how the pulp and paper industry deploys a set of mechanisms to sense its environment, seizing opportunities through social strategies to reconfigure its assets.

## RESULTS

### Industry overview

According to the Industria Brasileira de Arvores (Iba), the pulp and paper sector generated BRL 97.4 billion (US\$ 19.48 billion) in revenue and employed around 3.75 million people direct, indirect and through income effect. Brazil has long been regarded as one of the key nations in the global pulp and paper market. The nation continues to be the world's second-largest pulp producer and is the leader in producing short fiber. Market concentration is a prevalent tendency in this business worldwide. Brazil is no exception, with the five largest companies in the industry accounting for more than 69% of the market share (EMIS, 2018). In recent years, a few mergers and acquisitions shaped the industry to its current condition.

Although there have been improvements in the management of forests, most notably those spearheaded by bigger multinational corporations, pulp and paper manufacturing continues to be one of the most ecologically damaging industries. That is because it uses an immense amount of water and chemical compounds, which results in pollution and a shortage of freshwater. It also occupies extensive territories. Regulations to enhance forestry practices and the preservation of virgin reserves were created due to the possible effect of these dangers (Sheth, 2017). NGOs like the World Wildlife Fund (WWF) and the Rainforest Alliance have also escalated their pressure on governments to comply. The destruction of forests, human rights violations, social unrest, and careless plantation growth have all been hallmarks of unsustainable pulp and paper operations for decades (Pulp and Paper, WWF, 2017).

The paper and pulp industry is an extractive industry, thus relying on an extensive exploration of natural resources to create value for its shareholders. Our data suggest that the main objective of this industry has not changed, and profit and value for shareholders remain a significant goal. However, we have noticed that new practices have been adopted to lessen the negative externalities caused by the industry's activities. One critical characteristic of this industry is its high dependence on the international market. Being part of a demanding global value chain has pressured those companies to transform their business to social and environmental international standards. In the words of a manager from Alpha: "We are connected to a value chain that has the challenge to be more sustainable, and we are like this [sustainable] not by chance. Our clients need us to be [sustainable] [due to] NGOs' pressures, consumer's pressure, and so on."

The organizations have integrated their business goals with social and environmental principles to respond to such demands: "Sustainability and competitiveness are the guidelines. Delta's business model seeks to balance high-quality pulp production, communities' development, and responsible use of natural resources" (Delta -REP2013). Thus, they are deploying a series of nonmarket mechanisms that allow them to understand the environment, as reported by Beta: "we have consulted our chain of stakeholders to build a sustainability strategic collectively." Similarly, those organizations nurture relationships with multiple

stakeholders: “We have a dedicated department to handle the relationship with communities” (Gama). Such connection can reduce risks and create opportunities: “regarding the social movement for land in Espírito Santo, we developed a dialogue environment to talk with the communities” (Beta).

Finally, this process showed that the industry in Brazil is reaching a reconfiguration stage as they adapt to higher standards that will guide their operations and strategies: “We have developed our sustainability policies based on the SDGs and the FSC’s principles” (Delta). Additionally, there is a crescent movement in the industry that create opportunities for those companies to be more sustainable as it can also be a source of value: “we had the lowest debt index; thus, this starts to prove the value of ESG strategies and the value of sustainability” (Beta).

## The mechanisms

### Sensing the environment

The sense is a capability through which the firms access and identify opportunities in their ecosystem. Our data suggest that firms sense opportunities and threats by *monitoring the environment and learning from stakeholders*. The first mechanism is monitoring, based on various communication tools the firms use to receive stakeholder demands. It is also based on the collection of systematized data and systemic mapping. Those firms frequently conduct studies to produce structured reports to guide their decision-making. Given those organizations’ nature, they must cope with a complex environment because they operate in large areas, affecting different communities and biomes. Such characteristics request them to map their environment systematically.

The second mechanism through which firms sense their environment is *learning from stakeholders*. Firms engage with various actors to learn from them and with them. Data suggest that such engagement occurs through their participation in sustainability platforms, such as Global Compact, summits, and coalitions. Companies also learn through constant dialogue with stakeholders impacted by their operations in spaces fostered and supported by a network of actors. Additional to the knowledge acquired from the stakeholders, a more structured knowledge acquisition process comes through industry associations and robust and multidisciplinary tools that support understanding the environment broadly and comprehensively. By monitoring and learning, firms can increase their understanding of how to anticipate demands and be aware of possible threats; it is also a space to identify opportunities in the environment. Table 3 summarizes the shreds of evidence that support those results.

**Table 3.** Sensing

Quotes/Evidence	First-order categories	Second-order categories
<ul style="list-style-type: none"> <li>- There are several communication channels through which we communicate with stakeholders and receive their demands (Delta – Sustainability manager).</li> <li>- We have a complaint channel [to communicate with stakeholders] (Beta – Sustainability manager)</li> </ul>	Establish a communication channel to receive information/demands	Monitoring the environment
<p>The company has employees to monitor and collect data to identify each region's demands and needs. (Delta – Annual Report2013)</p> <ul style="list-style-type: none"> <li>- We have periodic meetings with the community, and we have a network of odor perception nearby our plants. (Beta – Sustainability manager)</li> </ul>	Collect and systematize data through structured reports (Materiality Matrix)	
<ul style="list-style-type: none"> <li>- We have mapped 16 communities within our direct influencing area. (Delta – Annual Report2020)</li> <li>- It is essential that we need to acquire local knowledge. Those impacts are often local and regional. (Beta – Sustainability manager)</li> </ul>	Systemic mapping of the environment	
<ul style="list-style-type: none"> <li>- We participate in Forest Dialogue. (Delta – Sustainability manager)</li> <li>- We participate in a discussion group with the WWF. (Gama – Sustainability manager)</li> </ul>	Participate on a variety of platforms related to sustainability	Learning from the stakeholders
<ul style="list-style-type: none"> <li>- Along 2019, we have consulted our entire chain of stakeholders and reflected with them on the development of a new sustainability strategy. (Beta – Sustainability manager)</li> <li>- We also participate in discussion groups with the [industry association] Industria Brasileira de Árvores. (Delta – Sustainability manager)</li> </ul>	Constant dialogue with stakeholders	
<p>In the prioritizing phase, a multistakeholder consultation was conducted through interviews with executives and community leaders. We consulted with employees, forest partners, suppliers, clients, and government agencies. (Delta – Annual report 2019)</p> <ul style="list-style-type: none"> <li>- We have a human rights specialist, a climate change specialist (...) in total, nine external representatives bring a broad and strategic perspective. (Alfa – Sustainability manager)</li> </ul>	Knowledge acquisition	

Note: More evidence can be provided upon request.

Source: Elaborated by the authors.

## Seizing the opportunities

*Seizing* is a managerial activity related to mobilizing resources to capture value from the opportunities that emerge from *sensing*. Our data suggest that the pulp and paper industry

uses a mechanism to seize opportunities, which we call *nurturing relationships and fostering partnerships*. It means the firms mobilize resources to create relationships with stakeholders. First, they support the community through economic and social programs. For example, the firms have departments dedicated to managing the relationship with the community, opening space to establish dialogues and minimize possible conflicts, and offering education and economic development opportunities. Second, they develop good relationships with nonprofit organizations. These firms work with local and international nonprofit organizations through partnerships to promote sustainability and develop environmental education and awareness programs.

Finally, they mobilize resources with national, state, and local-level governments to create a healthy business environment. For example, the companies foster partnerships with the local health office to promote health access to the community. They keep direct contact with the three government levels through meetings and reports and demonstrate to government agencies that the industry proactively seeks to solve social and environmental issues. On the other hand, the local government supports the industry when there are conflicts with communities and helps them comply with regulatory issues. These strategies strengthen the ties between the firms and their stakeholders, enabling them to capture value. Table 4 summarizes the evidence supporting those results.

**Table 4.** Seizing

Quotes/Evidence	First-order categories	Second-order categories
<ul style="list-style-type: none"> <li>- We have a department exclusively dedicated to the relationship with the community. (Gama – Sustainability manager).</li> <li>- [Due to the land dispute with communities], we have created a dialogue environment to communicate with communities. Thus, we can listen to them, and along with partners and academic institutions, we have worked to reduce this kind of conflict. (Beta – Sustainability manager).</li> </ul>	Support community through economic and social programs	Nurturing relationship and Fostering Partnership
<ul style="list-style-type: none"> <li>- We have a partnership with the Health Department in which they provide a dentist to teach buccal hygiene, and we provide the kits with floss, toothbrush, and toothpaste for the kids. (Delta – Sustainability manager).</li> <li>- For all these agents [government], we have an agenda to nurture a positive relationship. Thus, we conduct a tour of our plants; we send out annual reports e reports of our forest management plan. (Delta – Sustainability manager)</li> <li>- We are partners with several government agencies, especially with the state government (Gama – Sustainability manager)</li> </ul>	Collaborate with the government to create a healthy business environment	
<ul style="list-style-type: none"> <li>- The project positively impacts teachers and students. They participate in activities [we sponsor] in partnership with the NGO Itapoty. (Beta – Annual report 2017)</li> <li>- We are open to working closely with the NGOs. We have been working mainly with the WWF. (Delta – Sustainability manager)</li> </ul>	Collaborate with nonprofit organizations	

Note: More evidence can be provided upon request.

Source: Elaborated by the authors.

## Reconfiguring the business

In a summative process, these firms understand their environment and develop the structure and process to reconfigure and recombine their abilities and assets. First, they adopt environmental rules by following market demands and complying with the Environment, Social, and Governance (ESG) index and the Sustainable Development Goals (SDGs). Also, they adopt accreditations related to forest protection, such as the Forest Stewardship Council (FSC), essential to compete in the global market. Second, they influence the regulatory process. For instance, they have been pushing the carbon credit agenda within the government and nonprofit organizations to regulate the practice, and the criteria are influenced according to the industry interest. Third, their size and economic relevance also generate a co-dependent relationship with the government, especially at the local and regional levels. Such a relationship can support the expansion of operations that hinge on the public agencies' sanctions.

Interestingly, we found these organizations have a high level of compliance with environmental and climate standards, evidenced mainly by their prizes, certifications, and the international standards they follow. Such an aspect, aligned with the current Brazilian federal environmental policies, has positioned those companies in situations where they pressure the government for forest preservation and better regulation. Therefore, their reputation is not tainted by the country's international image. Table 5 summarizes the shreds of evidence that support those results.

**Table 5.** Reconfiguring

Quotes/Evidence	First-order categories	Second-order categories
- The ESG relevance has increased a lot. Hedge funds are demanding the ESG prioritization; we have been aligned with the ESG for a while already. (Gama – Sustainability manager)	Adoption of environmental criteria	Adoption of environmental rules
- There is a strong tendency of scenario change in Asia. A few years ago, they did not require FSC certification [to export]; they did not question the regulations, but it has changed a lot. (Alfa – Sustainability manager) - We are certified by the FSC, which is globally recognized (Delta – Sustainability manager)	Adoption of environmental certification	
- Climate change is one of our [causes]. It is impossible for us not to talk about it and not push this agenda. (Beta – Sustainability manager)	Push agendas (carbon)	Influence the regulatory process
- The three projects should generate approximately 900 jobs, and they will be made feasible through tax incentives. (...)the company seeks to strengthen its ties with the state and amplify its contributions to the region's development. (Beta – Sustainability manager) - The company have made the most significant private investment in the state in 2020 – it was 9BRL billion. (Gama – Sustainability manager)	Develop an interdependent relationship with regulators	

Continua

**Table 5.** Reconfiguring

Conclusão

Quotes/Evidence	First-order categories	Second-order categories
<p><i>The Brazilian paper company Beta sold 10-years bonds in dollars with a similar penalty if emission targets are not achieved.</i> (Beta – DOC296)</p> <p><i>Gama has issued two green bounds of US\$ 500 million each in the international market. In addition, the company has been investing in ten sustainable projects.</i> (Gama – DOC434).</p>	Adoption to green bonds	Generate shareholder value
<p><i>- We have the lowest debt index in history. That shows the value of the ESG strategies, the value of Sustainability.</i> (Beta – Sustainability manager)</p> <p><i>- If Brazil fights deforestation, it can open a world of opportunities.</i> (Beta – DOC323).</p>	Sustainability as a source of value	

Note: More evidence can be provided upon request.

Source: Elaborated by the authors.

## Dynamic capability deployment to support social strategies

Our results, summarized in Tables 3, 4, and 5, suggest that these firms are changing and adapting their processes, operations, and products as new demands emerge in both social and environmental aspects. New regulations, climate summits, and treaties such as Sustainable Development Goals (SDGs) and Environment, Social, and Governance (ESG) have pushed these firms to adapt and reinvent their business to survive. The emergence of the SDGs brought many aspects companies worldwide should be concerned about. Consequently, by analyzing the companies' data, we noticed that they internalized their environmental demands and created the structure needed to seize the opportunities. For instance, all four companies started to report their sustainable results following international guidelines, such as the Global Report Initiative, the SDGs, and the ESG.

Changes are noticeable in how they report their results and conduct their business. With the crescent concern about climate change, these organizations understood the financial opportunity of being environmentally and socially responsible. For example, the companies within the paper and pulp industry have consistently included in their discourse the shift to what they call now the “Tree Industry.” That aligns with their goal to communicate their actual value in the forest rather than the final product. One of the interviewees informed: “What we have is an industry of forest production, sustainable forest production. The planted forest is the core of our business. (...) sustainability is at the center of this business value.”

Such testimonials are corroborated by the data confirming that these firms are not only generating value through paper and pulp but also exploiting the opportunities of being sustainable to generate value. For instance, they are increasingly issuing green bonds tied to sustainable actions, such as optimizing natural resources usage, mitigating the greenhouse effect, protecting

biodiversity, and increasing eco-efficiency. Although all that is just the right thing to do, it is also an excellent opportunity to obtain cheaper funding while meeting social and environmental goals and avoiding paying a premium to investors. Similarly, Beta's manager highlights that they have reached the lowest debt index in history due to their alignment with the ESG.

These firms can quickly respond to new demands and environmental shifts. As a result, during the outbreak of COVID-19, they presented positive social, environmental, and financial results. For instance, Gama has achieved its best results in ESG. Similarly, during COP26, Beta renewed its commitment to remove 40 million tons of carbon from the atmosphere until 2025 instead of 2030. In addition, Delta continued with its production and concluded the construction of a clean energy station that uses eucalyptus stumps and roots.

Such change requires the firms a reconfiguration of their resources and assets. From implementing sustainability committees to training their employees, these firms changed their business structure to accommodate the demands of their business environment. The deployment of these capabilities is continuous, interconnected, and simultaneous. At the same time, companies are seizing opportunities, reconfiguring resources, and sensing their environment. Once companies reconfigured their business, they likely improved their sense of threats and opportunities.

These events demonstrate the dynamism of these companies' environments. Correspondingly, this chain of action and reaction requires those companies to deploy a set of mechanisms that enable them to sense the threats and opportunities in their business environment, make the most appropriate decision on how to act, and reconfigure their resources and assets when needed. Following, we present the shreds of evidence supporting such mechanisms' deployment.

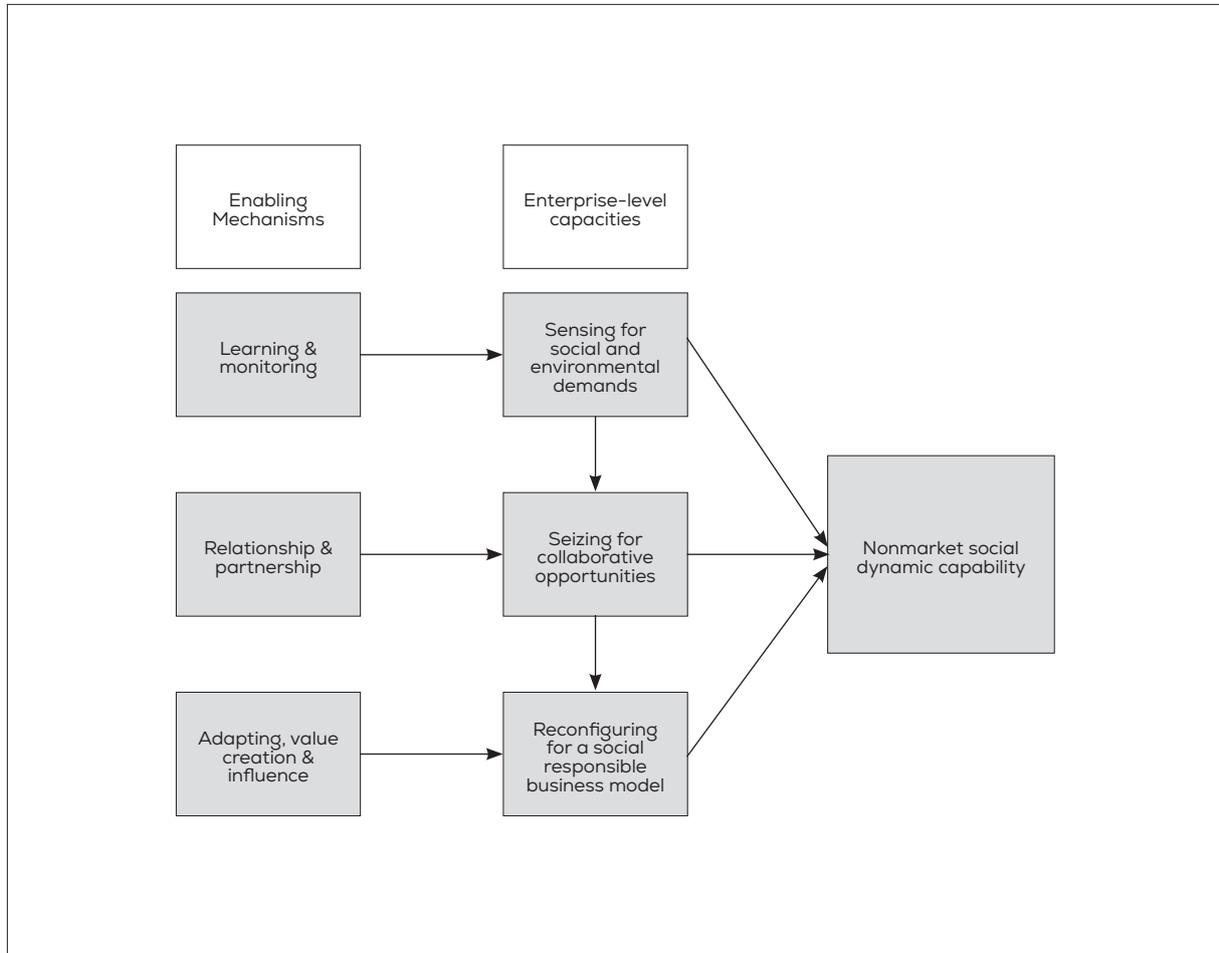
## DISCUSSION

The nurturing relationship and fostering partnership mechanism is a social strategy that can improve the firm's competitive advantage (Gatignon & Capron, 2020). The firm might enhance its partnerships through nonprofit organizations' alliances and community collaboration (Odziemkowska & McDonnell, 2019), especially in markets with a weak institutional environment. Case in point, Brazil's recent political and social instability due to the dismantling of environmental policies has affected those organizations' relationships with several stakeholders (InfoMoney, 2020). In this context, the companies could rely on partnerships to overcome institutional problems and seize unique opportunities (Ballesteros & Gatignon, 2019). For instance, by partnering with nonprofits and industry associations, the firms can sense the environment and develop strategies that reduce risk and create opportunities (Hemingway & Gunawan, 2018). Additionally, the partnership with nonprofit organizations can support those firms in training the communities, creating closer linkage with them and providing legitimacy (Appe & Barragán, 2017; Austin & Seitanidi, 2012; Stadler, 2018). That can increase the pool of qualified candidates to work in the company and develop a trusting relationship between the community and the firms.

Finally, following the evidence in our data, the adoption of environmental rules, the influence of the regulatory process, and the generation of shareholder value are the mechanisms encompassing the reconfiguring process. Such a process mainly focuses on how the firm's adaptation generates shareholder value, leading to the convergence between nonmarket and market interaction (Baron, 1995; Funk & Hirschman, 2017; Parnell et al., 2019; Rudy & Johnson, 2016). For example, the pulp and paper industry adopts a series of ESG measures and criteria to answer the international regulation on climate change. However, they work with the government and nonprofit organizations to develop a public policy on carbon emissions to accomplish the regulations. Hence, they can generate value for their business environment and shareholders by deploying social strategies. Firms might adapt their strategies to manage social actors and their environment; the industry might develop various dynamic social strategies that promote process fluidity and manufacturing adaptation. Figure 1 illustrates the relatedness among mechanisms and the sensing, seizing, and reconfiguring processes. The development and deployment of dynamic capability are often related to resource orchestration and strategic decision-making (Teece, 2007). Thus, organizations must have top management support (Helfat & Martin, 2015; Henisz, 2016) and an organizational structure that facilitates the activities underlying the sensing, seizing, and reconfiguring processes (Teece, 2007).

Firms have developed an organizational structure that supports social strategies' dynamic capabilities. It aligns with a series of managerial competencies for sustainable management (see Galleli & Junior, 2019). For instance, they create a structure that enables internal and external communication allowing continuous sensing and seizing of its environment (Zahoor et al., 2022). Those companies have also *created multidisciplinary groups* to build continuous relationships with stakeholders and deal with social and environmental issues transversally. This means they recognize that these issues must be handled across the organization instead of being limited to a specific department. Much of how those firms deal with stakeholders seems to be guided by *a systemic view* (e.g., Wang et al., 2015), considering that their decisions have a systemic impact and affect the other actors and the environment. This view guides the organization's action a) inside the company once tools are developed to increase coordination and integration across departments; and b) outside the organization as strategies are aligned with the demands of the organization's stakeholders.

The mechanisms mentioned above are reinforced by an *organizational structure that supports the decision-making process* by placing the social strategies in the higher ranks of the organizations. It is common among those firms to have executive committees, governance protocols, and direct communication channels between managers and executive boards that uphold the organizations' purpose aligned with social and environmental goals. They have a central message that guides business objectives, places sustainability at the core of the business, and is supported by its leadership across the entire organization. Such a purpose seems to guide how those firms manage multiple stakeholders' relationships and develop their social strategies (Eide et al., 2020). That can also be reinforced by the industry's inclination to nurture a relational capability (Zatta et al., 2019).

**Figure 1.** The orchestration of dynamic capabilities for social strategy in the Pulp and Paper industry

Source: Elaborated by the authors.

## CONCLUSION

This research offers three theoretical and practical contributions to dynamic capabilities (DC) in the social arena. First, the study adds to the DC literature by corroborating previous findings that companies develop DC driven by motives other than technological advancement (Bhupendra & Sangle, 2021; Xing et al., 2020). This characteristic seems more relevant for EMNEs, which operate in a volatile institutional context where sense, seizing, and reconfiguring are critical to managing crescent and complex demands from stakeholders at different levels. Thus, firms might change the institutional environment as they develop and deploy dynamic capabilities (Teece, 2007). Based on our results, we argue that companies can do so in the social arena through social DC. So, our contribution is to include the perspective of the social arena in the DC perspective,

arguing that social capability is also dynamic. This argument is consistent with previous studies that converge nonmarket strategies and DC (Brown, 2016; Henisz, 2016; Oliver & Holzinger, 2008).

Second, we add empirical evidence that organizations use a series of mechanisms to develop DC in the social arena, such as sensing demands from different stakeholders at the local and global levels. They can also seize opportunities by aligning the responses to those demands to the organization's business objectives. Although they are industry leaders, they might lack specific capabilities to respond to their stakeholders' demands. Such a gap is filled as they partner with other actors that can complement their existing capabilities. The more firms can engage in fruitful relationships with actors in their business environment, the better they can sense and seize the opportunities. Finally, those firms adapt, influence, and reframe their value proposition to reconfigure their business. Those findings contribute to the notion of dynamic capabilities in the social arena as a tool to change the environment as firms operate in a volatile institutional context. Therefore, we offer evidence of the DC in the social arena, which has become critical for an organization's legitimacy and reputation.

Third, our findings offer managers insights into the mechanisms that can support the development of DC in the social arena and how firms create an organizational structure that makes it possible. Moreover, we present a clear connection between those mechanisms and how they promote dynamic capabilities, which can help managers develop their practices to sense and seize opportunities and reconfigure their organization.

Our research does not go without limitations. First, we interviewed only one person from most organizations participating in the study, which may increase respondent bias. To circumvent it, we relied on secondary data. Second, although case studies allow theoretical generalization, our data is limited to a specific industry in the Brazilian context. On that note, future studies can extend our findings by analyzing multiple cases from different industries and contexts. Additionally, future studies can further investigate the relationship between the DC of social strategies and organizations' performance.

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## CONFLICT OF INTEREST

The authors have no conflicts of interest to declare.

## AUTHORS' CONTRIBUTIONS

Pablo Leão: Conceptualization, Data curation, Formal Analysis, Investigation; Methodology; Project administration; Resources; Software; Supervision; Validation; Visualization; Writing – original draft; Writing – review & editing.

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