

Shared value contracting: reconfiguring contractual governance under mandatory sustainability regimes

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Abstract

Purpose – This study aims to address a governance challenge emerging under mandatory sustainability and human rights due diligence regimes. As responsibility increasingly extends across interdependent value chain relationships, firms face growing pressure to integrate legally mandated sustainability obligations into the structures through which economic coordination and value creation are organized. The study examines how contractual governance can move beyond compliance and risk allocation to support both regulatory implementation and value creation. It develops the concept of shared value contracting to explain how contractual governance can integrate legally mandated responsibility and economic coordination across contemporary value chains.

Design/methodology/approach – The research adopts a conceptual theory-building approach. It examines the governance implications of mandatory sustainability and human rights due diligence regimes and synthesizes insights from legal strategy, proactive contracting, contractual governance, shared value and sustainability governance scholarship. Through this synthesis, this study develops shared value contracting as a conceptual framework for understanding how contractual governance can integrate regulatory responsibility and economic coordination across interdependent value chain relationships.

Findings – The analysis suggests that mandatory sustainability and human rights due diligence obligations create a governance challenge concerning how regulatory responsibility is integrated into interorganizational coordination across value chains. Sustainability obligations that remain external to the governance structures organizing economic activity risk becoming disconnected from incentives and operational coordination. The analysis identifies shared value contracting as a contractual governance configuration through which economic coordination and legally mandated responsibility can be jointly organized. The framework is structured around three interrelated dimensions: value-logic integration, incentive alignment and operational governance routines.

Originality/value – The study contributes to shared value theory by providing a governance-oriented explanation of how economic and societal objectives can be operationalized across interdependent value chain relationships. Building on insights from proactive, functional and responsible contracting scholarship, it positions contractual governance as part of the strategic organization of value chain coordination under mandatory sustainability regimes. The study introduces shared value contracting as a novel conceptual framework that reconceptualizes contractual governance as the organizational interface through which regulatory responsibility, economic coordination and interorganizational value creation are jointly organized.

Keywords Governance mechanism, Business strategy, Contract law, Business law, Corporate social responsibility and sustainability, b2b contracts

Paper type Conceptual paper



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Introduction

The growing emphasis on sustainability and human rights is reshaping the foundations of corporate responsibility (Buhmann, 2023). What was once largely framed as voluntary corporate social responsibility (corporate social responsibility (CSR)) is increasingly becoming embedded within mandatory regulatory regimes, particularly through developments such as the EU Corporate Sustainability Due Diligence Directive (CSDDD) (Leite *et al.*, 2025). Rather than treating CSR, sustainability and mandatory due diligence as interchangeable concepts, this article examines the governance transition from predominantly voluntary CSR-oriented approaches toward legally mandated sustainability and human rights governance under emerging due diligence regimes. This transition alters not only the legal obligations imposed on firms but also the governance conditions under which value chains operate (Serra, 2025; Wilhelm, 2024). For many firms, these developments are initially experienced as new sources of legal risk, compliance pressure, reporting complexity and organizational adjustment costs associated with implementing sustainability-related obligations (Christensen *et al.*, 2021). At the same time, however, they introduce a broader strategic challenge: firms must determine not only how to comply with expanding sustainability obligations, but how such obligations can be integrated into the structures through which interorganizational relationships, coordination and value creation are governed across global value chains.

Sustainability-related regulation therefore forces firms to make strategic choices about how responsibility is operationalized within business relationships. When approached narrowly, compliance often becomes procedural and reporting-oriented, generating inefficiencies, reputational exposure and limited strategic return while failing to realize the broader transformative potential of sustainability governance (Mujih, 2021; Berger-Walliser *et al.*, 2016). When approached strategically, however, regulatory obligations can function not merely as constraints, but as catalysts for organizational adaptation, coordination and long-term value creation (Bird, 2025). From this perspective, profitability and societal objectives are not necessarily opposing goals, but potentially interdependent outcomes. Embedding sustainability within business strategy can strengthen organizational performance, enhance trust and support long-term value creation for both firms and society (see, e.g. Bodhanwala and Bodhanwala, 2018; Alberti and Varon Garrido, 2017; Edeigha *et al.*, 2026). Yet realizing this potential requires more than the adoption of sustainability commitments at the policy level. Under mandatory sustainability and due diligence regimes, firms increasingly face a governance challenge concerning how sustainability and human rights obligations can be operationalized across interdependent value chain relationships in ways that align regulatory responsibility with the structures through which economic coordination and value creation are organized. As responsibility increasingly extends beyond the boundaries of the individual firm and becomes embedded within networks of legally autonomous yet economically interconnected actors, sustainability obligations can no longer function effectively as external compliance requirements layered onto commercial exchange. Against this background, this article asks how contractual governance can be reconceptualized as a strategic architecture through which firms integrate economic coordination and mandatory sustainability responsibilities across complex value chain relationships.

To move beyond procedural compliance, firms must embed sustainability and human rights considerations within the governance structures that organize interorganizational relationships across the value chain. Contracts are central in this respect (see Poppo and Zenger, 2002). As governance infrastructures of interfirm coordination, contracts structure obligations, allocate risks, define decision-making processes and align incentives between

legally autonomous actors (Argyres and Mayer, 2007). In doing so, they function not merely as legal safeguards, but as organizational architectures through which coordination and control are exercised across supply chains (see Cao and Lumineau, 2015; Reuer and Ariño, 2007). Drawing on the principles of proactive contracting (Haapio, 2006), contracts need not remain confined to defensive risk allocation or ex post enforcement. Instead, they can be deliberately designed as forward-looking governance mechanisms that support coordination, cooperation, adaptation and performance throughout the lifecycle of the relationship (Hurmerinta-Haanpää and Viding, 2019). When approached in this way, contractual governance extends beyond shielding firms from compliance-related exposure and increasingly shapes the conditions under which interorganizational relationships generate both economic and societal outcomes over time.

Despite this potential, contracts remain comparatively underexamined within business and management practice as strategic governance mechanisms (Lumineau and Malhotra, 2011, p. 533). They are frequently treated as technical legal formalities concluded at the end of negotiations, rather than as ongoing managerial infrastructures that shape how interorganizational relationships operate and evolve over time (Ryall and Sampson, 2009, p. 907). This narrow orientation is reinforced by compliance- and liability-centered approaches that reduce contracts primarily to mechanisms for limiting legal exposure, while underemphasizing their role in structuring coordination, incentives, monitoring and value creation across organizational boundaries (Haapio, 2006, p. 158).

Within firms, fragmented organizational ownership further entrenches this separation (see Bagley, 2008). Contracts are commonly managed by legal departments, while sustainability, operations, procurement and strategy remain institutionally divided, limiting recognition of contracting as a cross-functional governance capability that connects legal commitments with operational coordination and business objectives (Haapio, 2006, p. 159). In some contexts, earlier CSR-oriented approaches reinforced this fragmentation by positioning sustainability initiatives as discretionary, reporting-oriented or externally managed activities rather than as operational elements embedded within contractual governance (Haack *et al.*, 2012). Under mandatory due diligence regimes, however, this separation becomes increasingly difficult to sustain (Berger-Walliser *et al.*, 2016, pp. 3–4, 7–10). Contracts now function as critical governance mechanisms through which regulatory obligations and societal expectations are translated into enforceable coordination routines across value chains (Saloranta and Hurmerinta-Haanpää, 2023).

In response to these governance limitations, the literature on responsible contracting has advanced a shared-responsibility approach to contractual governance (Dadush *et al.*, 2023). Rather than relying primarily on unilateral risk transfer and compliance-based enforcement, responsible contracting conceptualizes due diligence as an ongoing governance process requiring cooperation, remediation and relational coordination across value chain relationships (Dadush *et al.*, 2023). In doing so, it demonstrates that effective sustainability governance depends not only on formal contractual obligations but also on the governance structures through which responsibility is coordinated across interdependent business relationships.

At the same time, mandatory sustainability and due diligence regimes increasingly expand the governance challenge beyond the coordination of responsibility within contractual relationships alone. As sustainability obligations become embedded within broader systems of sourcing, operational coordination, incentives and distributed value creation across interdependent value chains, the central issue increasingly concerns how regulatory responsibility becomes integrated into the organizational logic through which economic activity itself is governed and coordinated.

This challenge becomes particularly significant when viewed through the lens of shared value theory (Porter and Kramer, 2011). While shared value theory explains how economic and societal objectives may become mutually reinforcing, it offers comparatively limited guidance regarding the governance mechanisms through which such alignment is operationalized across complex interorganizational relationships (see Crane *et al.*, 2014). Under mandatory sustainability regimes, contractual governance therefore assumes a broader strategic significance. Contracts no longer function merely as mechanisms for allocating legal responsibility or enforcing compliance obligations, but increasingly operate as governance architectures through which economic coordination, regulatory responsibility and distributed value creation are jointly organized across value chain systems.

This article develops shared value contracting as a conceptual framework for understanding the evolving strategic role of contractual governance under mandatory sustainability and human rights due diligence regimes. Specifically, it examines how contracting can support the integration of economic coordination and legally mandated sustainability responsibilities across interorganizational relationships within contemporary value chains. The article has three interconnected objectives. First, it develops shared value contracting as a framework for explaining how mandatory sustainability and human rights obligations can be embedded within contractual governance across value chains. Second, it reconceptualizes contractual governance not merely as a mechanism for legal enforcement or compliance management, but as a strategic governance architecture through which firms coordinate interorganizational relationships under conditions of increasing sustainability regulation. Third, it explains how contractual governance can function as the operational governance architecture through which economic objectives and mandatory sustainability responsibilities become integrated within contemporary value chain coordination.

The article's central contribution is the development of shared value contracting as a contractual governance framework for understanding how economic coordination and legally mandated sustainability responsibilities can be jointly operationalized across interdependent value chain relationships under mandatory sustainability regimes. Rather than treating sustainability obligations as external compliance layers attached to commercial exchange, the framework conceptualizes contractual governance as part of the organizational architecture through which firms coordinate economic activity, structure interorganizational relationships, allocate responsibility and organize long-term value creation across complex value chain systems.

Methodologically, the article adopts a conceptual theory-building approach that integrates insights from legal strategy, proactive contracting, contractual governance, shared value and sustainability governance scholarship. The analysis proceeds in four stages. First, it examines the transition from voluntary CSR toward mandatory sustainability and human rights due diligence and identifies the resulting implications for value chain coordination. Second, it develops the theoretical foundations of the article by examining the relationship between law, strategy, contractual governance and interorganizational value creation under mandatory sustainability regimes. Third, drawing on these foundations, the article develops the framework of shared value contracting and explains how contractual governance can support the integration of economic coordination and mandatory sustainability responsibilities across interdependent value chain relationships. Finally, the article discusses the governance, managerial and research implications of shared value contracting under conditions of increasing regulatory integration.

From voluntary corporate social responsibility to mandatory due diligence: Why governance needs a new locus?

In recent years, sustainability and human rights considerations have moved from peripheral concerns to central governance pressures shaping firm decision-making, driven increasingly by regulatory authorities, investors and societal stakeholders (Saloranta and Hurmerinta-Haanpää, 2023, p. 222). What was previously framed largely as voluntary corporate social responsibility is increasingly taking the form of binding legal obligations, marking a significant transformation in the governance of global value chains (Wilhelm, 2024, p. 459). This shift alters not only the substantive expectations imposed on firms but also the organizational conditions under which responsibility must be coordinated, monitored and operationalized across interorganizational relationships.

Mandatory due diligence legislation reflects a broader movement away from transparency-oriented and reporting-based approaches toward enforceable standards of conduct and care (Wilhelm, 2024; Gustafsson *et al.*, 2023). Drawing on frameworks such as the OECD Guidelines, firms are increasingly required to integrate responsible business conduct into management systems, identify and mitigate adverse impacts and monitor and disclose due diligence efforts throughout the value chain (OECD, 2018). The CSDDD represents one of the most significant developments in this transition (Directive [EU] 2024 / 1760, 2024). At the same time, the open-ended nature of these obligations has generated concerns that implementation may gravitate toward procedural compliance centered on policies, metrics and reporting systems rather than substantive responsibility for operational outcomes (Leite *et al.*, 2025).

As Richter and Passador (2022) observe, the directive largely establishes obligations of means rather than obligations of results. Firms are required to implement governance systems and due diligence processes, yet receive comparatively limited guidance regarding how these obligations should be translated into concrete coordination mechanisms, operational routines and performance structures across complex value chain relationships. The challenge that emerges is therefore not purely legal in nature. It is fundamentally a governance challenge concerning how responsibility is organized, coordinated, monitored and sustained across interdependent networks of legally autonomous actors under conditions of strategic and operational uncertainty (McCorquodale *et al.*, 2017).

For many firms, conventional governance mechanisms such as supplier codes of conduct and audit-based monitoring have shown limited effectiveness in addressing sustainability and human rights risks in practice (Locke *et al.*, 2009). In response, lead firms frequently rely on forms of cascading compliance in which contractual obligations and monitoring responsibilities are pushed downstream through the value chain without corresponding transfers of resources, capabilities or decision-making flexibility (Wilhelm, 2024, p. 459; Van Assche and Narula, 2023). While such approaches may reduce legal and reputational exposure for focal firms, they often fail to address the operational conditions under which adverse impacts arise. Suppliers may lack both the economic incentives and organizational capacity necessary to satisfy imposed standards, particularly where commercial pressures simultaneously reward cost compression, speed and flexibility (see Anner, 2020).

Attempts to improve this model, such as Van Assche and Narula's (2023) concept of "cascading compliance plus," introduce greater emphasis on collaboration, trust-building and supplier engagement. Yet these approaches continue to face important structural limitations. Expanding monitoring and coordination obligations across multiple tiers increases governance complexity and transaction costs, while potentially discouraging meaningful participation and information disclosure by suppliers. As Forsgren and Holm (2022) and Narula (2019) observe, multitier governance arrangements are particularly

vulnerable to double agency problems that complicate accountability, coordination and control across distributed networks of actors (see also [Wilhelm et al., 2016](#); [Soundararajan and Brammer, 2018](#)).

As a result, top-down compliance-oriented governance frequently addresses the visible symptoms of sustainability and human rights risks without sufficiently engaging the underlying organizational and commercial dynamics through which such risks are reproduced within value chain relationships ([LeBaron and Lister, 2022](#), p. 672). The governance challenge therefore extends beyond monitoring compliance or allocating responsibility. This regulatory transformation shifts due diligence from a predominantly technical and compliance-oriented obligation toward a broader governance and strategic coordination challenge. Under mandatory due diligence regimes, responsibility extends beyond internal policy adoption and increasingly influences how firms organize sourcing relationships, structure incentives, allocate responsibility and coordinate performance across distributed networks of actors. As [Wilhelm \(2024\)](#) observes, understanding these developments requires engagement beyond business scholarship alone, since the implications of mandatory due diligence extend beyond legal compliance and increasingly affect the governance structures through which value chains are organized and managed.

Despite this transformation, recent reviews indicate that much of the emerging scholarship on the CSDDD remains concentrated on legal interpretation, regulatory scope and social impact assessment, while the operational and managerial implications of due diligence obligations remain comparatively underdeveloped ([Trindade et al., 2025](#)). Existing debates address important issues such as proportionality, harmonization, accountability, contractual liability, competitiveness and technological enforcement tools, yet provide comparatively limited guidance regarding how firms can translate open-ended legal obligations into coherent governance arrangements capable of aligning regulatory responsibility with operational coordination and competitive performance ([Andersen et al., 2022](#); [Bright and Smit, 2022](#); [Boni, 2023](#); [Dadush et al., 2025](#); [Richter and Passador, 2022](#); [Zedel and Eppler, 2024](#)). As [Trindade et al. \(2025\)](#) emphasize, the practical implementation of due diligence remains a neglected dimension within the emerging literature. Building on this observation, the argument developed here is that this gap is not merely operational but strategic. Under mandatory sustainability regimes, regulatory obligations increasingly shape competitive dynamics and organizational coordination across value chains rather than functioning solely as sources of legal exposure.

Shared value theory and the governance challenge of operationalization

Debates surrounding corporate responsibility have long reflected competing conceptions of the firm's purpose and its relationship to society. Shareholder-centered approaches, most prominently associated with [Friedman \(1962, 1970\)](#), positioned profit maximization as the primary obligation of management and treated broader social responsibilities as peripheral to the economic function of the firm ([Awa et al., 2024](#), p. 4). Reinforced by corporate governance models emphasizing shareholder primacy and managerial accountability to investors ([Hansmann and Kraakman, 2001](#); [Pollman, 2021](#)), this perspective framed societal and environmental concerns largely as external constraints rather than integral dimensions of business organization and value creation.

Over time, this narrow understanding of corporate purpose has been increasingly challenged by stakeholder-oriented and integrative approaches emphasizing that firms operate within broader systems of social and economic interdependence ([Freeman and Dmytreyev, 2017](#); [Awa et al., 2024](#)). From this perspective, corporate responsibility is not necessarily opposed to economic performance but may contribute to long-term

organizational resilience, legitimacy and competitiveness. Contemporary CSR, sustainability and environmental, social and governance (ESG) frameworks increasingly reflect this shift by encouraging firms to incorporate environmental, social and governance considerations into strategic decision-making and operational management (Harper Ho, 2016; Gadinis and Miazad, 2019).

At the same time, the growing institutionalization of CSR and ESG has exposed an important limitation. As Pollman (2021) observes, responsibility risks becoming proceduralized through disclosure obligations, reporting systems and compliance metrics rather than functioning as a substantive mechanism shaping organizational behavior and value chain governance. Under mandatory sustainability and due diligence regimes, this limitation becomes particularly significant. Firms are no longer confronted solely with reputational expectations or voluntary commitments, but with legally enforceable obligations that increasingly influence how value chain relationships are structured, coordinated and evaluated (Bright *et al.*, 2020).

Shared value theory (Porter and Kramer, 2011) reframes the relationship between business success and societal progress by arguing that social and environmental challenges can function as sources of innovation, productivity and competitive advantage rather than merely as external constraints or compliance burdens (Wójcik, 2016). Shared value is created when firms align economic performance with societal improvement, particularly through the reconfiguration of value chain activities, productivity structures and organizational practices (Porter and Kramer, 2011, p. 6). Rather than treating sustainability obligations as peripheral responsibilities managed separately from core business operations, the framework positions societal objectives within the logic of value creation itself. Under this approach, environmental and social performance increasingly become intertwined with competitiveness, organizational resilience and long-term value creation.

For firms operating across complex and interdependent value chains, however, realizing this strategic ambition presents important governance challenges. If societal objectives are to shape productivity and competitiveness in practice, they must become embedded within the structures that organize interorganizational coordination, including sourcing arrangements, performance expectations, information flows, monitoring systems, incentive structures and collaboration routines across the value chain (see Adner, 2017). Shared value theory therefore identifies an important strategic logic through which economic and societal objectives may become mutually reinforcing (Porter and Kramer, 2011), but offers comparatively limited guidance regarding the governance arrangements through which such alignment is translated into durable coordination structures and operational practices across distributed value chain relationships (Crane *et al.*, 2014; Beschoner and Hajduk, 2017). Operationalizing integrated value outcomes across interdependent organizational networks remains difficult because firms must coordinate sustainability objectives across legally autonomous actors operating under differing incentives, capabilities, commercial pressures and institutional conditions (Hahn *et al.*, 2015; Menghwar and Daood, 2021).

At the same time, Menghwar and Daood (2021) emphasize that creating shared value should not be understood as a one-time initiative, but as an ongoing strategic process in which societal objectives are closely connected to the firm's value chain and organizational activities (pp. 472–473). Under mandatory sustainability and due diligence regimes, this process-oriented understanding highlights the importance of governance arrangements capable of embedding responsibility within the everyday coordination structures through which interorganizational relationships are organized and managed over time.

Recent scholarship increasingly recognizes this challenge by emphasizing the importance of collaboration, stakeholder engagement and interorganizational coordination in realizing

integrated value outcomes. [Camilleri et al. \(2023\)](#), for example, argue that sustained stakeholder engagement and collaborative innovation can support long-term economic and societal performance while also highlighting the importance of embedding sustainability objectives within organizational governance structures and practices (p. 15). Similarly, [Mehera \(2017, p. 103\)](#) suggests that the transformative potential of shared value depends on how effectively stakeholder engagement and social innovation are integrated into organizational management and governance processes. Taken together, these contributions reinforce a common insight: realizing integrated economic and societal value depends not only on strategic alignment but also on governance structures capable of coordinating accountability, cooperation and value creation across complex interorganizational relationships.

Within this context, procurement and supply chain governance emerge as critical organizational arenas through which sustainability objectives are translated into operational practice. Procurement structures influence supplier behavior, shape sourcing incentives, support transparency and traceability and affect how firms identify and respond to sustainability risks across distributed value chains ([Trindade et al., 2025, p. 3](#)). Yet recognizing supply chains as governance sites does not by itself resolve how responsibility, coordination, monitoring and incentives are operationalized across interfirm relationships. The shift from voluntary CSR toward mandatory sustainability and due diligence regimes therefore intensifies the need for governance architectures capable of integrating economic coordination and sustainability responsibility across value chain systems. It is within this governance challenge that the strategic role of contractual governance becomes increasingly significant.

Law, strategy and interorganizational governance

Firms increasingly operate within regulatory environments in which legal obligations do not merely constrain organizational behavior but shape how value chains are structured, coordinated and governed across interorganizational relationships (see [Stohl et al., 2009](#); [Bagley, 2010](#)). In response, a substantial body of scholarship has reconceptualized law not simply as an external compliance requirement, but as a strategic organizational resource. Legal strategy research demonstrates that legal knowledge and legal design can contribute to sustained competitive advantage when integrated into managerial decision-making and organizational processes ([Bird, 2025](#); [Siedel and Haapio, 2010](#)). From this perspective, regulation is not merely administratively managed or reactively addressed; it can influence organizational resilience, innovation trajectories, competitive positioning and the broader governance structures through which firms organize economic activity ([Bird, 2025](#)).

This strategic orientation is reinforced by scholarship on legally astute management, which emphasizes that managerial decisions increasingly require simultaneous consideration of legal, economic, ethical and organizational dimensions ([Bagley, 2003](#)). Embedding legal foresight within managerial routines strengthens organizational coherence, enhances legitimacy and improves firms' ability to navigate uncertainty in complex regulatory environments ([Bagley, 2008](#); [Bird, 2010](#)). Related research on compliance and ethics programs similarly demonstrates that when legal awareness becomes integrated into operational and managerial systems, firms are better positioned to anticipate risk, adapt to regulatory change and coordinate decision-making processes effectively ([Peterson, 2013](#)). Together, these contributions establish that law can function not only as a mechanism of external control but also as an organizational capability shaping how firms manage relationships, allocate responsibility and coordinate strategic activity.

Building on these foundations, proactive law extends the strategic role of law by emphasizing that legal mechanisms can be deliberately designed not only to prevent undesirable outcomes but also to promote favorable organizational and relational conditions (Hurmerinta-Haanpää and Berger-Walliser, 2024). By combining preventive and promotive orientations, proactive law conceptualizes legal design as forward-looking, integrative and coordination-oriented (Haapio and Berger-Walliser, 2025). Rather than reacting to disputes after they arise, legal mechanisms are structured to shape expectations, support cooperation, facilitate adaptation and strengthen long-term relational performance. This perspective becomes particularly significant under mandatory sustainability and due diligence regimes, where firms must operationalize evolving regulatory obligations prospectively across complex value chain relationships rather than merely respond to liability after governance failures occur (see Berger-Walliser and Scott, 2018).

These strands of scholarship collectively demonstrate that law can contribute not only to compliance and risk management but also to strategic reasoning, organizational capability and interorganizational coordination. Under mandatory sustainability and due diligence regimes, however, these challenges increasingly extend beyond internal organizational governance and into the management of interdependent value chain relationships. Legal obligations now influence how firms coordinate with suppliers, structure incentives, organize monitoring systems, allocate responsibility, manage information flows and define performance expectations across distributed organizational networks (see Cafaggi *et al.*, 2025).

This transformation elevates the importance of governance arrangements capable of translating legal and strategic objectives into operational coordination across interorganizational relationships. While legal strategy and proactive law explain how legal awareness and legal design can strengthen organizational capability and support long-term performance, mandatory sustainability regimes require these insights to operate through the structures organizing ongoing interaction between legally autonomous actors. Sustainability and human rights obligations must therefore become embedded within the governance mechanisms through which firms coordinate behavior, align incentives, manage adaptation and structure accountability across complex value chain systems.

Within this context, contractual governance becomes increasingly significant because contracts provide the formal structures through which interorganizational relationships are organized, coordinated and operationalized in practice (Cao and Lumineau, 2015). Contracts are not merely legal enforcement devices activated during disputes, but governance architectures capable of structuring coordination, accountability, adaptation, information exchange and collaborative value creation across distributed value chain relationships under mandatory sustainability and due diligence regimes (Lumineau and Malhotra, 2011; Reuer and Ariño, 2007).

Contracts as strategic governance in value chains

Building on these developments, contemporary contract theory increasingly extends beyond narrowly doctrinal and transactional understandings of contracting toward broader managerial, organizational and governance-oriented perspectives. This shift moves contract theory beyond viewing contracts solely as legal instruments recording rights and obligations toward understanding contracting as part of the broader organization and coordination of interfirm relationships and economic interaction (Hurmerinta-Haanpää, 2021).

Transaction cost economics (TCE) and institutional economics played a foundational role in this development by conceptualizing contracts as governance devices designed to manage uncertainty, mitigate opportunism and enhance efficiency within and between firms and

markets (Williamson, 1979; North, 1990). At the same time, the traditional TCE perspective remained predominantly defensive and economizing in orientation, focusing primarily on safeguarding and transaction cost minimization rather than on coordination, adaptation and joint value creation across ongoing interorganizational relationships. This limitation opened space for relational approaches emphasizing trust, reciprocity, cooperation and mutual adjustment within business exchange. From this perspective, contracts do not operate in isolation from organizational and social contexts, but become embedded within broader governance arrangements shaping how relationships evolve, adapt and perform over time (Macaulay, 1963; Macneil, 1978).

A similar limitation can be observed within legal scholarship. Traditional contract law analysis has often concentrated on questions of validity, interpretation, breach and judicial enforcement, focusing primarily on dispute resolution *ex post* rather than on how contractual arrangements support coordination, collaboration and performance *ex ante* (Nystén-Haarala, 2006). As a result, a contract may remain doctrinally valid while proving ineffective in managing adaptation, coordinating cooperation or sustaining relational stability in practice (see Abdi and Aulakh, 2017). This orientation leaves comparatively limited space for examining the governance work through which interorganizational relationships are structured and maintained over time, including contractual planning, coordination routines, monitoring systems and ongoing relationship management. Yet these mechanisms increasingly shape whether contractual relationships are capable of sustaining economic and relational performance under conditions of uncertainty and interdependence.

From a managerial perspective, a parallel concern emerges regarding the fragmented management of contractual relationships within increasingly interconnected commercial environments. Cummins (2015) observes that contracts are often treated primarily as compliance instruments, procurement formalities or dispute-management tools rather than as mechanisms supporting ongoing coordination and organizational integration across interorganizational relationships (see, for example, Chakkol *et al.*, 2018). Cummins therefore advocates a more integrated approach in which contracting is strategically aligned with broader coordination and performance objectives across organizational networks (2015).

Building on the broader development of law as a strategic resource, proactive contracting contributed significantly to expanding how contracts are understood within business strategy. Rather than focusing primarily on *ex post* enforcement and risk allocation, proactive contracting emphasized *ex ante* planning, lifecycle management and strategic alignment across legal, operational, technical and commercial domains (Haapio, 2006; Saloranta and Hurmerinta-Haanpää, 2023, p. 224). By introducing a promotive orientation alongside preventive logic, this perspective broadened the role of contractual governance beyond safeguarding toward supporting coordination, cooperation and relational continuity within ongoing interorganizational relationships (Hurmerinta-Haanpää and Berger-Walliser, 2024, p. 271).

This development reflects a broader transition in contract theory away from legal formalism and narrow economizing perspectives toward more organizational, relational and design-oriented understandings of contracting (e.g. Berger-Walliser *et al.*, 2011). Yet even within these advances, a foundational question remains: what role does contracting ultimately play within contemporary value chain governance? Viljanen *et al.* (2024) argue that traditional contract theories struggle to capture the realities of contemporary economic organization, which increasingly depends on continuous coordination across complex and interdependent organizational networks rather than isolated bilateral exchange. From this perspective, contracts are better understood as functional governance mechanisms through

which coordination, adaptation and interaction are structured across organizational boundaries.

Functional contracting, as elaborated by [Hurmerinta-Haanpää \(2021\)](#), builds on this broader evolution by conceptualizing contracts as multipurpose governance mechanisms extending beyond privity and organizational boundaries. From this perspective, contracts are understood not merely as legal frameworks, but as organizational infrastructures supporting coordination and interaction across interconnected networks ([Hurmerinta-Haanpää and Viding, 2019](#)). This functional perspective represents an important conceptual advance because it clarifies how contractual governance operates within increasingly interdependent and fluid organizational environments, where ongoing coordination and pragmatic problem-solving extend beyond isolated bilateral exchange.

As firms increasingly operate under conditions in which legal responsibility, economic coordination and societal expectations intersect across distributed networks, contractual governance assumes a more consequential organizational role. Coordination and relational stability remain important, but additional governance questions increasingly emerge regarding how responsibility is distributed, how incentives are structured, how commercial pressures are managed and how economic and social governance priorities are aligned across ongoing interorganizational relationships. In this context, contractual governance increasingly becomes part of the broader organizational architecture through which value chain relationships are coordinated and managed over time.

This shift becomes particularly visible under mandatory sustainability and due diligence regimes, where regulatory obligations do not merely require additional contractual commitments but increasingly influence how firms define responsibility, structure interfirm relationships and position themselves competitively within value chains ([Bueno et al., 2024](#); [Dadush et al., 2025](#)). Approaches focused primarily on embedding responsible commitments into contracts make an important contribution by strengthening accountability and reinforcing sustainability expectations across organizational boundaries. At the same time, heightened regulatory integration increasingly positions contractual design itself as a site where strategic priorities, governance structures and long-term organizational direction are materially configured. When responsibility extends beyond the individual firm and becomes embedded within interorganizational relationships, contracting cannot remain a neutral mechanism for implementing pre-existing strategy alone. Rather, contractual governance increasingly participates in shaping how economic coordination, regulatory responsibility and long-term value creation are jointly organized across complex value chain systems.

From extractive to shared value contracting: reconfiguring governance in value chains

Value chain management is no longer treated primarily as a cost-reduction function centered on negotiation efficiency and price optimization ([Trindade et al., 2025](#), p. 2). It has increasingly evolved into a strategic governance domain concerned with ensuring that sourcing, coordination and operational practices support environmental, social and ethical standards across global value chains ([Mansi and Pandey, 2016](#); [Stek and Schiele, 2021](#)). As a result, contemporary business models increasingly operate under a dual-value logic in which firms are expected to pursue economic performance while simultaneously addressing legally mandated social and environmental responsibilities ([Zott et al., 2011](#), p. 1029). This transformation increasingly reshapes the governance architecture of interorganizational relationships, as sustainability considerations become more deeply integrated into the structures through which value is created, coordinated and captured across value chains ([Eccles et al., 2014](#)).

Despite this transformation, contractual governance practices have not fully adjusted to the changing architecture of value creation. Many firms continue to respond to mandatory sustainability and human rights obligations through what [Dadush \(2022, p. 153\)](#) describes as extractive contracting, in which dominant buyers structure agreements primarily to secure economic advantage while externalizing responsibility and compliance pressures onto suppliers. Under this model, governance remains shaped by zero-sum assumptions that prioritize short-term efficiency, cost compression and risk transfer over long-term coordination and collaborative problem-solving ([Leite et al., 2025, p. 2051](#)). The result is a growing misalignment between the dual-value logic embedded within contemporary business models and the governance structures organizing value chain relationships in practice.

This extractive orientation generates predictable distortions within value chain governance (see [Glavee-Geo et al., 2022](#); [Wang et al., 2015](#)). When buyers retain economic control while shifting sustainability risks downstream, suppliers may lack both the incentives and organizational capacity required to meet imposed standards. At the same time, dependency on the continuation of the commercial relationship can discourage transparency and incentivize concealment of adverse impacts or noncompliance ([Jevremovic, 2022, p. 406](#)). Under such conditions, contractual governance centered narrowly on compliance enforcement and liability allocation may intensify conflict rather than strengthen accountability and coordination ([Saloranta and Hurmerinta-Haanpää, 2023](#)). Formal conformity may become prioritized over substantive responsibility, while governance structures continue rewarding short-term economic extraction even where such practices undermine the social and environmental objectives mandatory due diligence regimes seek to secure.

The literature on responsible contracting represents an important response to these governance failures. Through the development of prosocial contracting and shared-responsibility approaches, scholars such as [Dadush \(2022\)](#) and [Dadush et al. \(2023, 2025\)](#) demonstrate how contractual governance can move beyond unilateral risk shifting toward more balanced allocation of responsibility, cooperative remediation, relational problem-solving and ongoing due diligence coordination across supply chain relationships. Rather than relying primarily on representations of perfect compliance, strict liability allocation and termination-based enforcement, these approaches emphasize cooperation, transparency, information sharing, remediation and attention to the role of buyers' own purchasing practices in generating sustainability and human rights risks ([Dadush, 2022](#); [Dadush et al., 2023, 2025](#)). In this respect, responsible contracting makes an important contribution by showing that sustainability governance cannot be effectively operationalized through extractive and purely compliance-oriented contracting structures that incentivize concealment and opportunistic behavior across supply networks. Instead, responsible contracting reframes contractual relationships as shared governance processes through which responsibility is coordinated and operationalized across interdependent value chain relationships rather than merely imposed through downstream control mechanisms.

At the same time, mandatory sustainability and due diligence regimes increasingly expand the governance demands placed upon value chain relationships (Directive [EU] 2024 / 1760, recital 46). The challenge no longer concerns only the allocation of responsibility or the prevention of harm within individual contractual relationships. Firms are also required to reconsider how sustainability obligations become integrated into broader organizational routines, sourcing structures, operational incentives, investment decisions, transition planning and long-term business model configurations. Under such conditions, responsibility cannot remain a parallel governance layer operating alongside commercial strategy. Instead,

sustainability obligations increasingly influence how value creation itself is structured and coordinated across interorganizational systems.

This shift becomes particularly significant when business models are understood not as abstract representations of value creation, but as concrete configurations of routines, incentives, governance structures and interdependent organizational relationships through which firms create and capture value across networks of suppliers and partners (Casadesus-Masanell and Ricart, 2010; Zott and Amit, 2010). In contemporary value chains, value creation is increasingly distributed rather than internally contained within the boundaries of the individual firm (Zott and Amit, 2010; Adner, 2017). Organizational performance therefore depends on how relationships between interdependent actors are governed, coordinated and adapted over time. Under such conditions, governance is not secondary to value creation but constitutive of it.

Within this distributed architecture of value creation, contractual governance increasingly shapes how interorganizational relationships are coordinated across organizational boundaries (see Argyres and Mayer, 2007). Contracts structure the allocation of responsibilities, risks, incentives, information exchange, performance expectations and adaptive processes across interconnected actors within the value chain. If contracting functions as part of the operative infrastructure through which distributed value creation is coordinated, its relationship to the business model cannot remain peripheral or symbolic. Instead, contractual governance increasingly becomes embedded within the broader organizational architecture through which interorganizational relationships are structured and managed over time.

Under mandatory sustainability and due diligence regimes, this governance architecture acquires a distinctly dual-value character. Firms must simultaneously pursue economic returns while fulfilling legally mandated social and environmental obligations across value chain relationships. The central governance challenge is therefore not whether these objectives exist, but how they are integrated within interorganizational coordination structures. Where economic incentives are embedded directly within contractual governance while sustainability obligations remain external commitments or parallel compliance systems, structural misalignment becomes likely. Under such conditions, responsibility risks functioning as an additional governance burden rather than as an embedded component of interorganizational coordination. A strategic approach to contractual governance therefore increasingly requires the integration of economic coordination and legally mandated responsibility within the same governance architecture.

Regulatory developments further reinforce this architectural shift. Article 22 of the Corporate Sustainability Due Diligence Directive (Directive [EU] 2024 / 1760), for example, requires covered firms to adopt and implement climate transition plans designed to ensure that their business models and strategies are compatible with the transition toward a sustainable economy and the objective of limiting global warming to 1.5°C in line with EU climate commitments (Regulation [EU] 2021 / 1119). These obligations extend beyond reporting or procedural compliance and increasingly require strategic and operational reorientation at the level of the business model itself (Kuusniemi-Laine *et al.*, 2024, p. 16). Under such conditions, governance mechanisms cannot remain external to organizational strategy. Contractual governance increasingly becomes a strategic capability through which firms coordinate economic activity, operationalize regulatory responsibility and manage interdependent value chain relationships under conditions of increasing sustainability integration.

Within this evolving governance context, shared value contracting emerges as a contractual governance configuration through which firms operationalize the dual-value

logic embedded within contemporary business models under mandatory sustainability regimes. Rather than treating sustainability obligations as external compliance layers added onto commercial exchange, shared value contracting integrates legally mandated social responsibility directly into the contractual governance structures organizing economic activity across value chains. In this configuration, contractual governance functions as the interface through which regulatory obligations, economic incentives and interorganizational coordination are aligned over time.

Shared value contracting rests on three interrelated governance dimensions. First, value-logic integration. Economic coordination and legally mandated social responsibility are embedded within the same contractual arrangements rather than treated as parallel or competing objectives. Sustainability obligations therefore become integrated into the operational structures through which interorganizational value creation is coordinated.

Second, incentive alignment. Contractual mechanisms such as pricing structures, risk allocation arrangements, performance metrics, monitoring rights, remediation procedures and information-sharing systems are configured so that economic incentives support responsible conduct and ongoing coordination across distributed value chain relationships.

Third, operational governance routines. Sustainability obligations are translated into ongoing coordination mechanisms embedded within contractual interaction itself. Monitoring systems, escalation procedures, adaptive review processes, collaborative remediation structures and performance coordination routines ensure that regulatory obligations actively shape interorganizational governance practices rather than remaining symbolic commitments or external compliance requirements.

Under this configuration, contracting extends beyond the allocation of legal responsibility alone. Contractual governance increasingly operates as part of the broader organizational architecture through which economic coordination and regulatory responsibility are jointly organized across interdependent value chain relationships.

The figure illustrates how contractual governance translates regulatory obligations into coordinated interorganizational structures that align economic incentives and legally mandated social responsibility within distributed value chain relationships.

Operationalizing shared value contracting

Shared value contracting becomes operational when sustainability and due diligence obligations are embedded directly within the contractual governance structures organizing interorganizational coordination, economic exchange and distributed value creation across the value chain rather than appended as isolated compliance clauses. Its three governance dimensions, dual-value integration, incentive alignment and operational governance routines, materialize through contractual governance structures that coordinate behavior, allocate responsibility, stabilize commercial relationships and support adaptive coordination across interdependent value chain systems (see [Argyres and Mayer, 2007](#)). Operationalization therefore depends not simply on the inclusion of sustainability-related contractual terms, but on how contractual governance structures the organizational, operational and commercial architecture through which firms coordinate value creation and regulatory responsibility across interdependent value chain systems.

In practice, the governance configurations through which shared value contracting is operationalized may differ across industries, business models, value chain structures and sustainability exposures depending on the coordination requirements shaping the relationship. Governance mechanisms embedded within contractual design may include sourcing structures, pricing arrangements, forecasting systems, information-sharing procedures, performance coordination routines, traceability mechanisms, adaptive review

processes and relational governance structures that jointly organize economic coordination and legally mandated responsibility within interorganizational relationships (see [Roehrich et al., 2020](#); [Selviaridis and Spring, 2018](#)). Their significance lies not merely in supporting formal compliance outcomes, but in shaping the operational and commercial conditions through which firms coordinate production, allocate resources, manage interdependence, stabilize long-term cooperation and organize distributed governance functions across value chains.

Where value chains depend heavily on sourcing continuity, production flexibility and forecasting stability, sustainability governance pressures associated with purchasing practices, sourcing volatility and labor and human rights risks may become integrated directly into sourcing coordination, production planning and pricing structures ([IEA, 2023](#)). Rolling forecasts and collaborative planning arrangements may reduce volatility-driven operational pressures, while pricing structures can incorporate governance-related investments supporting workforce transparency, operational resilience and long-term supplier stability. Incentive alignment may emerge where sourcing continuity, allocation decisions and commercial renewal processes are linked not only to cost and delivery performance but also to governance reliability indicators such as disclosure consistency, corrective-action implementation and operational transparency. Operational governance routines may, for example, include collaborative review mechanisms, adaptive coordination procedures, verification processes and staged escalation frameworks designed to stabilize interorganizational coordination under conditions of regulatory and operational uncertainty. In such governance configurations, sustainability obligations increasingly shape sourcing discipline, production coordination, pricing logic and relational governance within the broader architecture of commercial exchange.

A similar governance dynamic may emerge within traceability-intensive supply arrangements operating under heightened due diligence obligations, particularly in sectors where traceability, supply chain transparency and upstream due diligence increasingly function as central governance requirements within global supply systems ([IEA and OECD, 2025](#)). In these contexts, traceability requirements and human rights governance obligations may become embedded directly within long-term supply coordination structures and supported through co-investment arrangements integrated into sourcing and pricing systems. Incentive structures may link supply stability, preferred supplier status or commercial allocation mechanisms to verified improvements in traceability reliability, disclosure quality and governance performance across upstream relationships. Operational governance routines may also involve coordinated verification procedures, adaptive governance reviews, structured remediation frameworks, information-sharing mechanisms and escalation procedures triggered by identified governance risks within the supply network. Under such conditions, regulatory obligations become operationalized through the same contractual coordination structures that organize long-term supply stability, strategic sourcing relationships and distributed governance accountability across the value chain.

As illustrated in [Figure 1](#), contractual governance functions as the organizational interface linking regulatory obligations, business model organization, coordination structures and commercial incentives within contemporary value chain systems operating under mandatory sustainability regimes. Shared value contracting therefore translates dual-value business logic into operational governance configurations capable of jointly organizing economic coordination and legally mandated responsibility across interdependent value chain relationships.

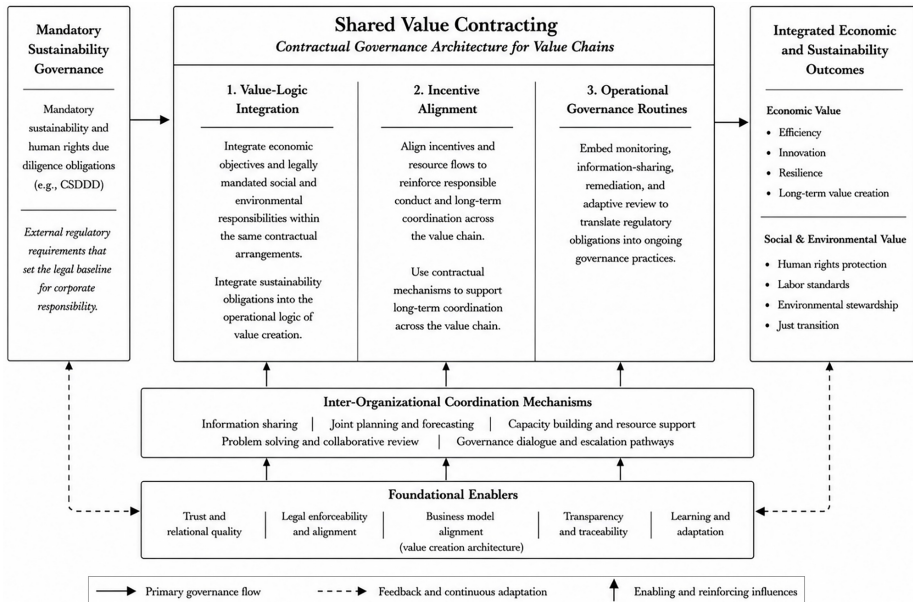


Figure 1. Shared value contracting as governance architecture

Source: Author's own work

From compliance to contractual governance

The transformation from compliance-oriented contracting toward shared value contracting reflects a broader shift in how law operates within contemporary business governance. Under traditional compliance-oriented approaches, contracts primarily function as instruments for allocating liability, managing legal exposure and demonstrating conformity with regulatory requirements. Under mandatory sustainability and due diligence regimes, however, regulatory obligations increasingly shape sourcing structures, coordination systems, monitoring processes and long-term business model adaptation across value chains. Contracting therefore assumes a more strategic governance role within interorganizational relationships, positioning contractual governance as part of the organizational architecture through which economic coordination and regulatory responsibility are jointly managed.

From this perspective, the central issue is no longer limited to how firms avoid regulatory risk, but increasingly concerns how regulatory obligations are operationalized within the governance structures organizing economic activity across value chains. Shared value contracting reflects this shift by reconceptualizing contractual governance as a strategic interface through which legal foresight, organizational coordination, business model logic and sustainability objectives are deliberately aligned. Contractual design therefore becomes part of the broader governance architecture through which firms structure incentives, organize accountability, coordinate adaptation and support long-term value creation under conditions of heightened regulatory integration.

Prior scholarship has established that contracts can perform strategic and organizational functions extending beyond formal legal enforcement alone. Legal strategy research demonstrates that contractual design can reduce opportunism, strengthen cooperation and

support relational and organizational performance over time (Bagley, 2015, p. 12; DiMatteo, 2010, p. 731). Similarly, research on relational and performance-based contracting shows that alignment between governance structures and business objectives can enhance long-term coordination, adaptability and collaborative performance across interorganizational relationships (Frydinger *et al.*, 2019, p. 16). These contributions collectively demonstrate that contracts possess governance significance extending beyond dispute resolution or risk allocation. Building on these insights, the argument developed here extends their implications under mandatory sustainability governance by positioning contractual governance as the mechanism through which economic coordination and legally mandated social responsibility become integrated within the same contractual governance architecture.

The integration of economic coordination and regulatory responsibility alters the meaning of value within contractual governance itself. Financial efficiency, operational performance and risk mitigation remain essential dimensions of business activity, but they are no longer sufficient as standalone measures of strategic success. As Dyllick and Muff (2016) argue, contemporary business performance increasingly depends on the extent to which firms integrate social and environmental well-being into their core value creation logic rather than treating such concerns as peripheral or external responsibilities. Under mandatory sustainability regimes, this expanded understanding of value cannot remain confined to corporate reporting or strategic narrative alone. Shared value contracting operationalizes this transformation by embedding legally mandated social and environmental responsibilities directly within the governance mechanisms organizing exchange, coordination, accountability and performance across value chain relationships.

Within this governance paradigm, compliance becomes increasingly embedded within organizational and contractual governance itself. Frameworks such as the Corporate Sustainability Due Diligence Directive do not merely require firms to disclose information or adopt formal policies; they increasingly require the reorganization of how responsibility, incentives, monitoring systems, remediation processes and transition planning are coordinated across interorganizational relationships. When these obligations become embedded within contractual governance structures, compliance is no longer external to economic coordination but becomes integrated into the operational architecture through which value chain relationships are organized and managed. Law, in this sense, functions not only as a boundary condition constraining organizational behavior but also as a governance catalyst shaping the structures through which cooperation, accountability and long-term value creation are coordinated across distributed business systems.

Shared value contracting therefore represents a reorientation of contractual rationality under conditions of mandatory sustainability governance. It does not replace compliance, nor does it abandon risk management or economic efficiency. Rather, it situates these objectives within a broader contractual governance architecture in which economic coordination and legally mandated social responsibility are jointly organized through contractual design. By translating regulatory obligations into enforceable coordination mechanisms embedded within business model logic and interorganizational governance structures, shared value contracting positions contractual governance as the strategic interface through which regulatory responsibility and economic coordination become systematically integrated across contemporary value chains.

Conclusion

Mandatory sustainability and human rights due diligence regimes are reshaping the governance of global value chains by transforming responsibility from a largely voluntary aspiration into an increasingly enforceable organizational obligation. Under these conditions,

the central challenge is no longer simply whether firms acknowledge sustainability responsibilities, but how such responsibilities are operationalized across interdependent value chain relationships in ways that support long-term coordination, organizational adaptability and sustainable value creation. Approaches that treat due diligence primarily as a procedural compliance exercise risk reproducing a governance disconnect in which formal commitments remain insufficiently integrated into the organizational and contractual structures shaping commercial behavior across value chains.

This article has argued that addressing this challenge requires a reconfiguration of contractual governance itself. It developed shared value contracting as a contractual governance framework through which economic coordination and legally mandated social and environmental responsibilities become integrated within the same governance architecture. The core argument is not merely that contracts can support sustainability objectives, but that contractual governance increasingly functions as the organizational infrastructure through which firms coordinate incentives, accountability, adaptation, monitoring and long-term interorganizational performance under mandatory sustainability regimes. Under such conditions, the critical governance issue is not the presence of sustainability clauses alone, but whether contractual governance embeds regulatory responsibility directly within the coordination structures organizing value chain relationships.

The article contributes to several strands of scholarship simultaneously. It extends shared value theory by introducing a governance-oriented explanation of how dual-value business logics may become operationalized across interdependent organizational relationships. It further develops proactive, functional and responsible contracting scholarship by positioning contractual governance as part of the broader strategic organization of value chain coordination under mandatory sustainability conditions. More broadly, the article contributes to emerging discussions concerning how law functions not only as a mechanism of compliance and external constraint but also as a governance capability shaping the organizational architectures through which economic coordination and sustainability responsibility are jointly organized across distributed business systems.

Although the analysis focuses primarily on the governance implications of the CSDDD, the framework developed is not confined to the European context alone. Similar governance dynamics increasingly emerge across global regulatory initiatives aimed at embedding sustainability, human rights, environmental responsibility and supply chain accountability within interorganizational business governance (e.g. the proposed New York Fashion Sustainability and Social Accountability Act). Shared value contracting should, therefore, be understood as a broader governance approach adaptable to evolving regulatory environments in which sustainability obligations increasingly shape how value chains are organized, coordinated and governed over time.

The implications are both practical and research-oriented. For firms, the transition from compliance-oriented governance toward integrated contractual governance depends less on adding isolated sustainability commitments than on redesigning the coordination structures through which value chain relationships are managed. Regulatory obligations increasingly influence sourcing arrangements, incentive systems, monitoring processes, remediation structures and long-term organizational coordination across distributed actors. For scholarship, shared value contracting opens a research agenda concerning how contractual governance structures shape interorganizational adaptation, strategic coordination and the joint organization of economic and sustainability objectives under conditions of increasing regulatory integration. More fundamentally, the study suggests that the future of sustainability governance may depend not only on the expansion of regulatory obligations

themselves but also on how contractual governance evolves as a strategic organizational capability for coordinating interdependent value chain relationships under conditions of increasing regulatory integration.

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