CSR, Sustainability, Ethics & Governance
Series Editors: Samuel O. Idowu · René Schmidpeter

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Nicholas Capaldi
Samuel O. Idowu
Anika Stürenberg Herrera *Editors*

International Dimensions of Sustainable Management

Latest Perspectives from Corporate Governance, Responsible Finance and CSR

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Preface

The challenges of the twenty-first century are becoming increasingly complex and interdisciplinary in nature. The previous boundaries that existed between business, government, and society are becoming ever more blurred due to digitalization, globalization, and environmental challenges. Therefore, changes need to be made, in order to ensure that sustainable development is not just addressed by individual actors across a variety of sectors but is addressed by stakeholders in every corner of the globe. Local and global responsibility requires cooperation and interaction across all stakeholder levels. Hence, academics and progressive thinkers all around the world have begun to reexamine the way in which markets, government, NGOs, think tanks, and academia are interconnected and how an interdisciplinary approach represents the best way forward to solve the world's current and future challenges.

Even though CSR has existed as an academic and business concept since the middle of the twentieth century, it is only recently that scholars have truly begun to recognize the ability of global corporations to solve social challenges in a variety of innovative ways and methods. This fundamental shifts in the way that academics think about the role of business in society. This has led many corporate executives to start to reexamine and redefine the essential purpose of businesses—shifting from a mindset primarily concerned with short-term profit maximization to long-term maximization of shareholder value—and, thus, not only achieve excellent results for shareholders but also contribute to the solution of social and economic problems. This shift is certainly reflected in the rising prominence of business ethics in both business literature and the curricula of business schools.

Global Perspectives on CSR, edited by Prof. Dr. René Schmidpeter, Prof. Nicholas Capaldi, Prof. Samuel O Idowu, and Anika Stürenberg Herrera, is a remarkably rich compilation of essays that discusses the burgeoning sustainability movement around the world. The collection includes essays that address current world issues and explore the creation of the positive synergies that sit at the intersection of business, social, and environmental change. This compilation of global theories, practices, and cases will be an extremely valuable and insightful resource for practitioners and researchers, alike. It is certainly a herculean task to provide a broad yet comprehensive overview of how CSR functions in different nations and regions. Yet the editors have put together a useful compendium that can hopefully act as a jumping-off point for understanding what might be happening in one country or another and who might be the key players.

We would first and foremost like to thank the authors who contributed to this collection! We were extremely fortunate to have such an outstanding and diverse group of contributors. Their insights present a fantastic opportunity for readers to dive into the complex and interdisciplinary world of CSR and not only be provided with a diverse set of perspectives but also gain an understanding of different applications of CSR across industries and the world. The articles provide us with a lot of food thought in this exciting area of research, and hopefully projects like this will allow us to better connect CSR scholars from all regions, so that we can create a global network of CSR scholars to further the field and foster the exchange of ideas around the world.

We are also very thankful for all of the work that Prof. Nicholas Capaldi and Prof. Samuel Idowu have done on this collection, and, of course, we would like to thank the Global Corporate Governance Institute and all of our team members at the Center for Advanced Sustainable Management at the Cologne Business School for their continued tremendous support.

We would also like to thank Christian Rauscher and the whole team from Springer Publishing Group for their continued support. They are an outstanding partner and a true supporter of CSR as an academic field, and we are extremely pleased to have the opportunity to have another work published by the group!

Cologne, Germany René Schmidpeter

Contents

Part I
Conceptional Thoughts

Homo sapiens' Relationship to Earth: Preservation Versus Plunder

Paul McDonald

Abstract This chapter explores the nature of *Homo sapiens* as a species in relation to our ecosystem, planet Earth. The focal question addresses the degree to which humans are capable of acting in a guardianship role. This question is approached from two related perspectives: evolutionary psychology and genetics. The first thesis from the perspective of evolutionary psychology is that we humans are animals who have successfully adapted to our environments over time, including key transition points that fundamentally changed our relationship to Earth. The second thesis from the perspective of genetics is that the human gene is "selfish." Humans are biologically greedy and self-indulgent such that welfare of the planet holds little influence on our day-to-day behavior. Given these perspectives, implications for managing in a sustainable manner are considered. Four scenarios for the future are advanced in order to promote debate and broaden discussion as to the challenges of sustainable management.

> An evolutionary perspective of our place in the history of the earth reminds us that Homo sapiens has occupied the planet for the tiniest fraction of that planet's four and a half thousand million years of existence. In many ways we are a biological accident, the product of countless propitious circumstances. As we peer back through the fossil record, through layer upon layer of long-extinct species, many of which thrived far longer than the human species is ever likely to do, we are reminded of our mortality as a species. There is no law that declares the human animal to be different, as seen in this broad biological perspective, from any other animal. There is no law that declares the human species to be immortal. (Leakey and Lewin 1977, p. 256)

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1 Introduction

Planet Earth comprises nearly nine million species of which the human species (*Homo sapiens*) is but one. By virtue of intelligence and social cooperation, humans have become—for better or worse—the guardians of the planet. In terms of geological time, we are very much "newcomers." The degree to which our relationship with Earth is sustainable is the subject of escalating academic interest and debate (Ceballos et al. 2015; Steffen et al. 2011; Williams et al. 2015). The purpose of this chapter is to explore the nature of our relationship to Earth from evolutionary and genetic perspectives. The chapter is founded on the central proposition that humans are animals—sophisticated, web surfing, car driving—but nevertheless animals (Boero 2014). While the proposition is not new (Darwin 1859), its implications for our response to the challenges of managing sustainably have received little attention (Mills 2012; Rees 2010).

By way of introduction, the chapter starts with reflections on the dynamics and complexities of the relationship from a single personal viewpoint ($n = 1$)—that of the author. It is impossible to truly know the mind of another person, save for expensive neuroimaging technology, yet, we are aware of our own thoughts. In the case of the author, I have thoughts as to my relationship to Earth. On the one hand, Earth amazes me. Having had the opportunity to travel, its variety—in color, contrast, and complexity—surpasses comprehension. Its moods—from still to stormy—evoke emotion. And, its context—the night sky—speaks of endless possibility. On the other hand, I abuse the relationship. So far, it has worked to my benefit, but I am beginning to wonder if it is sustainable? I drive to and from work alone. I eat more than my body needs. I fly "business class" whenever circumstances permit. My closets have more clothing than they can hold, and my house has more bedrooms than are used. My true nature is most evident when I am eating out at a buffet-style restaurant. I have never approached the burgeoning serving tables without saying to myself: "take only what you need." And I have never left without taking more than I need (particularly the high value items) along with often leaving food on my plate at the end of the meal. All of this behavior is exonerated by my Sunday night ritual of sorting plastics, paper, and glass into our curbside recycling boxes.

What is the cause of this disconnect? I am respectful to the point of awe and grateful on a daily basis, yet I take advantage. The nature of my relationship would not be a problem, if it was only me, but it is not. Most people espouse values in support of behaving in a sustainable manner, but very few act on their espoused values (McKenzie-Mohr 2011). According to the World Business Council for Sustainable Development (2008), the problem is only going to get worse as a new "global middle class" emerges with common consumption patterns. It is proposed that we do not understand the real causes of our behavior. Our focus on "proximate" explanations has obscured the reality of "ultimate" explanations (Kenrick et al. 2010) which require a long-term horizon that integrates insights from evolution and genetics.

> Although most people want to preserve the natural environment, changing old habits can be a formidable challenge, especially when those habits have been adaptive for many millennia. (Griskevicius et al. 2012, p. 115)

2 Who Are We?: An Evolutionary Perspective

In terms of biological taxonomy, *Homo sapiens* (*sapien* is Latin for "wise") are only surviving members of the Hominina branch of the great apes. Our closest living relatives are chimpanzees (genus *Pan*), first, and gorillas (genus *Gorilla*), second, with whom we share about 98% of our genetic coding (DNA). Molecular biology indicates that genetic separation occurred 6–7 million years ago; however, the lineage of our species is only 200,000 years. Prior ancestors within the *Homo* genus were *Homo habilis*, the user of stone tools who evolved about 2.8 million years ago, and *Homo erectus*, who stood upright and evolved about 1.5 million years ago. *Homo erectus* was the first *Hominina* to spread from Africa into Europe and Asia. They made use of complex tools and fire. We, Homo sapiens, had several competing strands within the *Homo* genus, including *denisova*, *soloensis*, *neanderthalensis*, and *floresiensis*, the last of which (on the island of Flores, Indonesia) became extinct as little as 12,000 years ago.

Our history has five profound turning points, each with implications for a sustainable relationship with Earth. The first occurred around 800,000 years ago for our forebears, *Homo erectus*. It was the use of fire. At this time, our ancestors were in the middle of the food chain. They were hunted by predatory animals. They were third in line at a kill, after the primary predators, after the scavengers, left to crack open the remaining bones for marrow. The acquisition of fire didn't move *Homo erectus* to the top of the food chain, but it did offer greater protection. More importantly, it enabled foods to be heated, which in turn reduced disease, made proteins more accessible for brain development, and in the long-term allowed the intestinal tract to shorten. The brain and the intestines are big energy consumers in our species; shorter intestines left more energy for the brain. Today, humans gain the same energy input from cooked food within an hour that would require five hours for chimpanzees eating raw food. With respect to current sustainability challenges, it would not be uncommon for our ancestors to burn down an entire forest to make a meal from the animals within. When environmentalists today are shocked at indigenous farmers burning down native forests, they need to appreciate that the practice has a well-established evolutionary heritage.

The second point was the cognitive revolution which occurred about 70,000 years ago. Prior to this time, *Homo sapiens* along with other primates used nonverbal and verbal language: however, it was bound within the context of physical reality. For example, both chimpanzees and humans were able to warn members of the tribe that danger (e.g., a lion) was nearby. During the cognitive revolution, humans became able to mentally step outside physical reality into the realm of socially constructed reality. For example, "there is a lion nearby, and he is the spirit of our ancestors"

(Harari 2014). Mythologies quickly developed that led to normative behaviors that in turn allowed groups to function more effectively. In addition, fictive language facilitated gossip which today has negative connotations but then allowed humans to understand social landscapes, including who to trust, who to avoid, etc. Our ability to socially construct beyond the constraints of physical reality has implications for our current relationship with sustainability. For example, consumption (Paterson 2006) has become a dominant global mythology well beyond the reality of "need." Certain groups across the planet continue to kill each other on the grounds of ideological differences, but we all aspire to the same global icons whether in music, communication, timekeeping, transportation, clothing, or foodstuffs. Brands such as *Coca-Cola* have global meaning beyond that of a physical beverage. Malls have replaced our village squares, and "retail therapy" is commonly accepted practice. The cognitive revolution was the impetus of humankinds' ever-increasing journey to remove itself from the constraints of physical reality.

For two and half million years, members of the *Homo* genus lived on Earth without any attempt to manage their supply of resources. Food, fuel, and water were found. If unavailable, the tribe moved on. We foraged in relatively small groups. World population was in the order of five to eight million nomadic hunter-gatherers. Our ecological footprint was infinitesimal. The third pivotal point in our history was the agrarian revolution which changed the nature of our relationship to Earth from symbiosis to dominance. Harari (2014, p. 87) states: "All this changed about 10,000 years ago, when Sapiens began to devote almost all their time and effort to manipulating the lives of a few animal and plant species." Permanent settlements emerged, and we became static, bound for generations to one physical location, which we managed. Land was cleared and plowed. Canals were dug to move water for irrigation. Trees were planted in rows and nuisance plants were removed. Animals were domesticated, and large herds were shepherded. The human population expanded exponentially; by the first century CE, it had surpassed 250 million.

With respect to sustainability, the agrarian revolution changed our ecological footprint. Nature could no longer grow over, rain out, or wear away the residues of our presence. However, a more important subtle change happened—one which would have long-term implications for our relationship to Earth. No longer constrained to traveling light in small, highly interdependent, tribal bands, humans learned the concept of individual ownership. Huts were erected. Parcels of land were fenced off. Granaries and mills belonged to key individuals who bartered with farmers for their services. Social stratification became salient. A privileged elite collected taxes from farmers in order to live well and build armies to protect their interests. Humankind's first written form of communication, symbols scratched on to clay tablets, was not used for poetry or storytelling; our first documents recorded grain transactions.

The acknowledged concept of ownership changed our relationship to Earth. Collective notions of vulnerability, reverence, and dependence on nature were replaced with plans for dominance and control. Deities moved from animistic to human form. For example, King Hammurabi ruled what was once the world's largest city, Babylon. He applied a "code" that distinguished between the elite, commoners, and slaves. His regal mandate, through appointment by the gods of Anu, Enlil, and Marduk, was founded within dominant Mesopotamian mythology. Once humans learned to own and to be owned, our collective sense of dependence, and ultimately responsibility, changed. Today, we cut our own lawns, but not our neighbors'. We sustain the viability of that which we own—we paint our homes, maintain our cars, and look after our possessions. We have become one-step removed from Earth and its resources. Companies own access to resources. City councils own roads, rivers, and waterways, and national governments are responsible for vast tracts of land, as well as the air above and the ground below. At an individual level, we have lost the visceral feeling of connection with Earth and the attendant sense of responsibility for its well-being.

The fourth pivotal point—the industrial revolution—has set us on course toward potential future Armageddon. In many ways, the industrial age is rightly proclaimed as the start of humankind's modern golden age. Even though one-fifth of the planet still lives in poverty, we all live in a material-abundant world, whether it be in terms of clothing, personal items, cellphones, etc. Lifespans have increased around the globe, and standards of living have improved universally. A significant portion of humankind live better today than the most powerful of feudal lords in agrarian times. The essence of the industrial revolution was a change in humans' relationship to energy, which previously had been limited to our physical strength, our beasts of burden, and the occasional use of wind power. This all changed in 1765, when James Watt, building on the ideas of Thomas Newcomen, envisioned the steam engine. The ramifications were quick and many. Villages became cities joined by railway lines. Farmers became factory workers. Mechanization gave humankind the scale of mass production with all of its costs and benefits. We moved from harnessing steam to the electron and onto the atom, and in doing so, our capacity to do damage to Earth grew exponentially. For example, in Medieval times, five humans digging with shovels might be able to dig a pit into the Earth of about 20–30 cubic meters in volume in a single day. Today, the same number of humans working with a Bagger 293 (bucket-wheel excavator) built by Takraf, a global German industrial company, could move 240,000 cubic meters of soil in a single day. The origin of the Grand Canyon dates back 17 million years. A small group of humans, using current technology (one machine), could dig out an equivalent structure on the face of the Earth within the span of their own adult lifetimes.

The fifth revolution or turning point is nascent. Its implications are yet to be fully experienced and understood. This revolution will be the most significant to date. It is proposed that it will either result in the extinction of *Homo sapiens* as a species or our evolution into a new species of human—*Homo digitalis.*

The impact of the emerging "knowledge" or "information" revolution, characterized by the explosion of a World Wide Web of communications and a new generation of savvy, digital natives, will be profound from an evolutionary point of view. It will be much more than a technological phenomenon. It will change the fundamental dynamics of the universe as we currently know them. It will change humankind from a "Newtonian" universe of causes and effects, focusing on physical particles (e.g., molecules and atoms), to a "quantum" universe of probabilities, focusing on waveforms (e.g., frequencies and energies).

The human being as a physical entity (a clearly defined configuration of molecules) is under transition. Many humans presently have a virtual online presence which exists 24/7, not in a physical sense but in the form of energy. Our communication patterns are changing at a fundamental level, as is the nature of our social interaction, the very evolutionary advantage that enabled humankind to ascend millennia ago. The largest social communities exist not in physical space but in cyberspace (Facebook has surpassed 1.6 billion active users). If the cognitive revolution, 70,000 years ago, gave humankind a layer of reality beyond the physical world—a socially constructed reality of cultures, laws, norms, and hierarchies—then the knowledge revolution will give us a third layer of reality, known as "virtual" reality. As the name suggests, it will be one step further removed from physical reality. The advance of this reality will have profound implications for our relationship to Earth. We will be able to experience Earth more and more, including at a visceral level, without physical interaction. Earth and its preservation are at risk of becoming algorithmic abstractions presented to the minds of humans. What is motivation to sustain flora and fauna when humankind can recreate them in an authentic virtual world?

In summary, from the perspective of evolutionary psychology, this chapter has proposed that the imperatives of natural selection have made us who we are, which in turn has influenced our relationship as a species with Earth. However, current debate within the academic community suggests that evolution is obsolete as the dominant influence on our species. There are two competing theories. The first theory by Steve Jones (2015), emeritus professor of genetics, University College London, posits that the evolutionary imperative of natural selection no longer applies to *Homo sapiens*. Global reality is no longer a case of "survival of the fittest." The natural environment no longer "selects" based on genetic variation. First of all, genetic variation has declined in response to increased human mobility and crossbreeding. We are, in fact, becoming more alike as a species. Second, advances in modern science, transportation, and communication, including medicine, disaster relief, and humanitarian assistance, mean that the majority survive and reproduce. Less than 200 years ago, the child mortality rate, even in developed societies, was in the order of 50%. Today, the global average is under 5%. This theory predicts that we have stopped evolving and will remain static as a species.

The second theory (Miller 2001) puts forward the proposition that evolutionary change is accelerating. The fundamentals of human reproduction have changed dramatically with the introduction of birth control and fertility clinics, and further change is on the horizon in the form of genetic engineering. For *Homo sapiens*, engaging in sexual behavior as a biological urge has become separate from the decision to reproduce. Choice of mating partner is moving from the traditional localized contexts (gene pools) emphasizing physicality and health (now accepted as "givens") to broader contexts (including online) in which general intelligence (as a predictor of future social and economic success) becomes a key consideration.

In the future, evolution, in its current connotation, will be one of several influences that define the nature of the human species. Genetic engineering will enable explicit human intervention at the interface of "natural" selection. Medical science, in particular, organ printing and nanotechnology, has the potential to significantly extend human lifespan. Robotics will extend and enhance our physicality. Cloning and artificial intelligence could make us the first species on Earth to shake off our "mortal coil." Paradoxically, we have the potential to become the most infinitely, sustainable species in the entire 4-billion-year history of the Earth while creating the least finitely, sustainable physical ecosystem.

3 Who Are We? A Genetic Perspective

The focal question underlying this chapter is the degree to which humans are capable of behaving in a sustainable manner. Up to this point, the discussion has explored psychological perspectives with emphasis on humankind's key evolutionary turning points, which have changed the fundamentals of our relationship with Earth. Modern biological science would posit that the "human" is not the most appropriate unit of analysis in order to understand our relationship to Earth. Rather, it is the "genome"—the double-helix structure of long-strand nucleotides (DNA) which serve as the basic assembly and operating blueprint (information) for all species, including humankind. There are about 37 trillion cells comprising the human body of which the nucleus of nearly every cell (less red blood cells and certain skin and hair cells) contains two copies of our genetic inheritance, one from each parent. These genes are the basic unit of heredity with implications for not only physical attributes such as hair and skin color but also personality and behavioral attributes (Robinson et al. 2008).

> Individuals are not stable things, they are fleeting. Chromosomes too are shuffled into oblivion, like hands of cards soon after they are dealt. But the cards themselves survive the shuffling. The cards are the genes. The genes are not destroyed by crossing-over, they merely change partners and march on. Of course they march on. That is their business. They are the replicators and we are their survival machines. When we have served our purpose we are cast aside. But genes are denizens of geological time: genes are forever. (Dawkins 1989, p. 35)

According to evolutionary biologist, Richard Dawkins, genes are "selfish" such that they are biologically designed to perpetuate their own survival and replication within the gene pool. This genetic programming manifests in human behavior. At a very base level, humans are fixated on survival and reproduction—not as a global species (which would facilitate sustainable advances), not even at a collective, local group level—but at the level of individual beings, along with our kin (i.e., those carrying our genes). Individual interactions with the environment fall into two broad categories: things that get in the way and things that can be exploited. Regrettably, humans have a natural biological propensity to exploit our fellow humans, hence the economic phenomenon known as "tragedy of the commons." Dawkins acknowledges altruistic behavior in humans but suggests that it is directed to our kin and interactions in which cooperation will produce a net gain for all involved. In short, we cooperate when it satisfies our own self-interest.

While Dawkins' connotation of "selfish" is repugnant and has been contested, not only from a scientific point of view but also the manner in which he popularized the concept, his metaphor endures. Edwardes (2014) points out that the gene is not selfish in the context of modern usage of the word, rather it is "self-ish" in that it will exploit limited resources to the detriment of other genes. Modern evolutionary theorists (Laland et al. 2014) conclude that Dawkins understood part of a bigger, more complex picture. In essence, his thinking was gene-centric. Recent science suggests an "extended modern synthesis" theory of evolution in which the gene plays a significant role, but not the only role (Noble 2015).

Science commentator and theoretical physicist, Stephen Hawking (2009), suggests that evolutionary influences are changing radically with respect to humans. For our species only, biology is being eclipsed by our ability to store and disseminate information across generations. Until recently, humankinds' ability to store and disseminate information was both localized and limited. In his *Life in the Universe* lecture, Hawking points out that even though our DNA contains millions of bits of information, humankind is now producing billions of bits of useful information capable of influencing our behavior. A key consideration is, of course, relative efficacy based on information source. Even Dawkins acknowledges that humans can learn, for example, to be altruistic, but our genetic foundations should not be ignored when it comes to understanding the degree to which we behave (or don't behave) in a sustainable manner.

A case in point is the biological fact that all species are genetically programmed to breed, multiply, propagate, reproduce, or replicate in some form, either asexually or sexually. This propensity has critical implications for our relationship to Earth. There are two key considerations: the manner in which reproduction takes place and the additional resources that will be required. For example, cells replicate by splitting in two, via a process called "mitosis." The resultant growth pattern is 2, 4, 8, 16, 32, and 64—in a geometric sequence. Most people can appreciate that it is not long before the change curve becomes almost vertical relative to time. This is how a virus is able to spread quickly throughout the human body. Similarly, a single bacterium cell in a petri dish will quickly reproduce (asexually by binary fission) to fill the entire dish. The second consideration is the availability of resources. Life in any form on Earth requires energy. There are only two types of organism, autotrophs and heterotrophs. Autotrophs are able to create energy-based molecules from inorganic materials along with an external energy source, such as sunlight (e.g., a tomato plant). Heterotrophs cannot "fix carbon" and must consume organic substances in order to survive (e.g., a human being). Humans consume "far more energy than any heterotroph that has ever evolved" (Price 1995, p. 301).

Given these considerations, it is clear from a biological perspective that control over territory is critical. Species have a biological necessity to spread, to increase their territory and hence resource base, whether in a micro-sense (bacteria in a petri dish) or a macro-sense (humans on Earth). Prior to human dominance over nature, a very fine ecological tension existed called "balance of nature." There were of course exceptions during which extinctions occurred, but overall the ecosystem moved toward stability (homeostasis) through an infinite number of intertwined, cybernetic feedback loops. For example, if a prey population (i.e., rabbits) increased, then a larger predator population would be produced (i.e., foxes), which in turn would bring the system back into balance.

The growth and expansion of the human species, until recently, were subject to the same natural dynamics. The Reverend Thomas Robert Malthus observed in his book (1798), *An Essay on the Principle of Population*, that sooner or later population growth would be checked by disease or famine. Over 200 years ago, when the Earth's human population had just passed the one billion mark, Malthus stated (p. 5): "The power of population is indefinitely greater than the power in the earth to produce subsistence for man." Currently, at the global reproduction rate of 255 births per minute (350,000 per day), the Earth's human population is about 7.4 billion. A child born today will witness the human population doubling to 15 billion within his or her own lifetime. In the language of systems theory, we are quickly approaching what is called an "overshoot." This means that a final steady-state value in the system will have been exceeded.

> All species expand as much as resources allow and predators, parasites, and physical conditions permit. When a species is introduced into a new habitat with abundant resources that accumulated before its arrival, the population expands rapidly until all the resources are used up. (Price 1995, p. 308)

Mills (2012) uses the example of wine, a beverage many people are familiar with, as an example of ecological overshoot. The grape juice exists within a defined, finite system—the barrel. The winemaker introduces a living organism—yeast. The yeast consume the sugars in the grape juice and begin to rapidly multiply, quickly reaching an exponential growth rate. Eventually, all of the sugars run out. The yeast are left swimming in their own waste products—alcohol. There is a massive (and rapid) population die-off, and all of the living organisms within that particular system become extinct. There is similar evidence of this biological propensity in mammals. In 1944, the island of St. Matthew in the Bering Sea was covered by a thick, natural carpet of lichens (Klein 1968). A herd of 29 reindeer was introduced to the island. By 1957, the herd had grown to 1350 and then to 6000 by 1963. By this point in time, all of the lichens had been consumed, and the following winter the herd died off.

Nobel Prize-winning atmospheric chemist, Paul Crutzen, has named the Earth's current geological age—"anthropocene"—in recognition that human activity has become the dominant influence on the environment and climate. Crutzen, along with a large research team (Steffen et al. 2011), proposes that the Earth is at a crossroads. They predict resource scarcity, ecosystem degradation, and excess pollution. They state (p. 739): "This situation is novel in its speed, its global scale and its threat to the resilience of the Earth System."

4 Scenarios for the Future

While the following scenarios are presented as separate and in contrast to each other, they are not mutually exclusive and are much more complex than brief discussion recognizes.

4.1 Status Quo

The first scenario is "business-as-usual," which includes incremental changes to human behavior at the margin. The slow but sure proliferation of electric vehicles and electronic replacement of physical data are assumed under this scenario. However, it is likely that any gains will be offset by a burgeoning global middle-class population who will demand increased energy, material, and protein consumption. As the human population experiences (as of May 2016) the 13th consecutive warmest month on record, there will be increasing "felt" effects of climate change. For many of us, up until this point in time, the challenges of sustainability have been "distant"—images, statistics, and scientific reports which have prompted rational interest, that of a bystander, but little emotional impact. There is now sufficient evidence to state that the status quo will lead to further deterioration in the ecosystem (Steffen et al. 2011). As conditions deteriorate, the human species will become further divided between those who can afford to isolate themselves and their kin from the effects of a collapsing ecosystem, and those who cannot. Competition for key resources, including water, will increase, manifesting in violence at local and national levels.

It is not beyond historical precedent that humankind could experience a second "dark age"—a term coined by Renaissance Scholar, Francesco Petrarca (Petrarch). This would be a period during which the advance of human civilization regresses and what we know of as modern society—cars, electricity, rule of law, and logistical systems—disappears. Subsequent to the collapse of the Roman Empire (476 CE), Western Europe experienced a protracted period of deterioration, approximately 500 years (Early Middle Ages). We regressed as a species across cultural, economic, and demographic fronts. Tribal-like, warring bands (i.e., Huns, Goths, and Vandals) roamed, and the quality of life worsened. This sort of system "reboot" (back to basics) may be necessary for our species to redefine its ecological trajectory at a fundamental level.

4.2 Technological Reprieve

Whether in the form of a flint shard, fire ember, steam engine, or digital server, *Homo sapiens*—direct descendants from the original toolmakers (*Homo habilis*)—have an enduring and inextricable relationship with technology (which for the purposes of this discussion subsumes science and innovation in all its forms). In modern parlance, technology is a "game-changer." Unlike any other species on Earth, our survival is increasingly dependent on technology (Kahn 2011). Save for small groups (e.g., the Kalahari Bushmen), humans would not survive without current technology. Technological leverage has been immense in our civilization. Global food production, as an example, has tripled over the last 50 years using science and technology. Healthcare has extended the expected human lifespan from 50 to 83 years over the last century. And the Internet has redesigned the very fabric of human society. Williams and his colleagues state (2015, p. 208): "Eventually, technology allowed regional populations to grow beyond the individual survival capabilities of their members, and as global population growth accelerated local networks became connected to form a complex system of planetary scale."

As an adaptive species, we have come to expect that science, technology, and innovation will isolate us from our Darwinist reality. We continue to eat what tastes "good"—good as defined by obsolete evolutionary programming which values sweet and fatty foods—knowing that statins will keep our arteries clear. It is within the bounds of possibility that technology will rescue humankind from the challenges we face (Sharp 2014). This may explain humankind's sanguine response to the challenges of sustainability. The manner in which this reprieve will come is difficult to predict, but a low-cost source of clean energy is a candidate. The wind, oceans, lithium, and biomass all show potential, but real change will likely emerge from beyond our immediate horizon (antimatter, low-energy nuclear, harvesting from other planets). This would be a game-changer in that sea levels could be controlled by desalinating water from the oceans to irrigate large areas of nonarable land (i.e., the Sahara). It may not solve our fundamental drive to reproduce and dominate territory, but it would buy time to perhaps genetically reengineer our natural, biological propensity.

4.3 Beyond Physical Reality

Earth as a physical entity comprises four spheres: atmosphere (air), hydrosphere (water), lithosphere (earth), and biosphere (life). A fifth concept—technosphere—emerged early in the twentieth century to recognize the realm of human technological activity. Vladimir Vernadsky, one of the founders of geochemistry, conceived this category to capture all human workings as well as flows of energies and materials. Today, the technosphere is acknowledged as a human-created and controlled system with "quasi-autonomous" dynamics (Haff 2014). In essence, humans are no longer fully in control of the technosphere. This situation in concert with Moore's Law—computing power doubles every 2 years—provides the rationale for a third scenario in which humankind isolates itself from physical reality by evolving into a virtual reality.

Humans currently live, in part, in virtual reality. Holography already exists, as does the Oculus Rift VR headset. Virtual reality is already used across our technosphere, including education (virtual field trips), engineering and design (3D modeling), entertainment (CGI and gaming), medicine (stroke rehabilitation), psychology (phobia desensitization), training (surgical procedures), and social collaboration (avatars). Futurist and Google's Director of Engineering for machine learning and language processing, Ray Kurzweil (2005, 2012), who has an established predictive track record, gives talks in which a lifelike version of himself is beamed into the lecture theater. He envisages that virtual reality will become 100% authentic within the next two decades and that technology will enable individual human consciousness to be uploaded into cyberspace (i.e., "the cloud") within the next three decades. Kurzweil has popularized his version of "singularity," defined as the future point in our existence at which artificial intelligence (AI) surpasses human thinking. This may occur within the near future (20 plus years), perhaps sooner. Artificial general intelligence (AGI = networked AI) is expected to advance exponentially such that by the 2040s it will be a billion times more capable than biological intelligence.

Under this scenario, our relationship with Earth is beyond the scope of current imagination. Biodiversity, pollution, climate, and resourcing will fade as the critical factors to human sustainability because the nature of that which is being sustained will change. We may continue to experience (in our minds via stimulation of sensory modalities) the cool, lush feel of the Amazon rain forest; the visual majesty of polar bears, elephants, and lions; and the taste of a sparkling mountain stream; it's just that they will have ceased to exist in physical reality.

4.4 Earth 2.0

Immortality may become part of humankind's future not only in a virtual sense but also in a physical sense, as evident in the acceleration of recent medical advances (3D printing of organs, nanotechnology, and stem cell research) and extensions to human lifespan (current estimates indicate that there are over 300,000 centenarians worldwide). The possibility exists for indefinite human lifespan, a term Cambridge gerontologist, Aubrey de Grey, calls "longevity escape velocity." He suggests that the first human who will achieve a lifespan in excess of 1000 years is currently alive today. If this prediction is even partially accurate, on top of current population growth rates, the Earth will simply not be big enough to host humankind. We will need to find new extraterrestrial territories—Earth 2.0. The search is currently underway for "Goldilocks planets" that are not too hot or too cold (i.e., Kepler 438b, 475 light-years away). The next-generation space telescope, NASA's James Webb Space Telescope, due to launch in 2018 will facilitate this search.

This scenario fits with our historical behavior, when our ancestors *Homo erectus* first ventured out of what is now known as East Africa, more than 2 million years ago. It fits with the enduring human characteristic of exploration, whether to the far reaches of our landmass or depths of our oceans. Paradoxically, it also fits with one of humankind's present-day antagonistic behaviors which is thwarting sustainability—the widespread practice of "when something is no longer of use, then throw it away."

Under this scenario, instead of addressing the challenges of sustainability, we can simply leave them behind, perhaps not all of us, but a representative sample(s), which might mimic what at one time was "natural selection." Humankind has already proven that we can travel and live in outer space. Space colonization (permanent human habitation off planet Earth) is a viable possibility. Theoretical physicist, Stephen Hawking, advocates this idea as the means to save human civilization. NASA has plans to send humans to Mars in the 2030s and has already successfully launched a device (Voyager 1 in 1977) that has traveled beyond the limits of our solar system. The prohibitive factor is the cost of moving people and materials beyond Earth's gravitational field. Current costs are approximately of US \$6000 kg^{-1}. The scenario of space colonization could be brought forward with the advent of new energy sources (e.g., electric propulsion using superheated plasma) and/or technological innovations (e.g., a space elevator consisting of a carbon nanotube ribbon anchored to Earth's surface stretching 100 km to an object in geostationary orbit in outer space).

5 Concluding Comments

We live in an age of "discontinuity," which will only escalate in light of the wide array of disruptive technologies under development. Historical timelines are no longer valid. We have witnessed that global fundamentals can change very quickly, within weeks, if not days. In conclusion, to paraphrase Albert Einstein: when a large number of factors come into play, any sort of prediction is fraught. One prediction, however, appears to have strong validity: that is, as a species, our current relationship to Earth is no longer sustainable. Pending disaster can, without doubt, be attributed to many legitimate antecedents, including seemingly intractable adaptive lessons and biological imperatives. Regardless of causality, we are plundering our host. The purpose of this chapter has been to highlight the magnitude of the challenges which loom and the need for more than ritualistic, guilt-assuaging behavior.

Our most fatal error as a species would be to underestimate the magnitude of the challenges we face. In 1972, a team of researchers led by Dennis Meadows from the Massachusetts Institute of Technology warned humanity in a groundbreaking book based on computer simulation (*The Limits to Growth*) that disaster (plummeting population, contracting economy, and environmental collapse) would strike with the next 100 years (Meadows et al. 1972). It is not that this warning was restricted to the dusty recesses of a few university libraries, the book was published in more than 30 languages, and 10 million copies were sold. In 2012, a symposium (*Perspectives on Limits to Growth: Challenges to Building a Sustainable Planet*) was hosted by the Smithsonian Institution and the Club of Rome to mark the 40th anniversary of the publication. Actual data (1970–2000) confirms original predictions put forth under their "business-as-usual" scenario. Meadows and Jorgen Randers, two of the original authors, were in attendance at the 2012 symposium. Meadows, now retired, concludes that it is already too late. Collectively and globally, as a relatively young, evolving species with significant promise and potential, let us do more, much more, than simply hope—that he is wrong.

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Developing a CSR Definition and Strategic Model from the Sufficiency Economy Philosophy

Marissa Chantamas

Abstract Corporate social responsibility (CSR) is becoming more important in business practices since there is a growing demand for sustainability. However, to date the definition of CSR is still varied causing problems in its application. Therefore, it is the objective of this research to develop a CSR definition and framework for implementation. The Sufficiency Economy Philosophy proposed by His Majesty King Bhumibol of Thailand was incorporated into the study to develop a firm's strategy in dealing with its various stakeholders. This is because the Sufficiency Economy Philosophy focuses on the good values that will promote good within the community, which promotes a viewpoint in sustainability. This unique definition and resulting model is the first contribution of this research. The second contribution is the study of how firms can collaborate with the government in creating sustainable CSR practices. The third contribution of this paper is the wide cross section of companies studied including companies listed in the Stock Exchange of Thailand to small and medium enterprises. In addition a case study was conducted to further refine the framework developed. The CSR framework developed in this study proposes three stages in the development of sustainable CSR. The first is the basic stage showing accountability for business operations with a focus on long-term planning. The second stage is the integration of CSR practices with strategy in realigning work process and maximizing utility of resources. The final stage is the best practice where innovation drives the development of new products and services setting a new direction for the firm. The Hi-Q Company case study adds the importance of the dimension of partnership with stakeholders such as the government in ensuring that the CSR initiative will be a sustainable one.

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1 Introduction

The public expects businesses to be socially responsible and engage sustainable practices for the environment and the community. However, implementing such responsible practices still remains a challenge. As early as 1953, Bowen coined the term corporate social responsibility (CSR), which meant that firms had responsibilities to the community and society in addition to profit making. This view is further confirmed by Dahlsrud (2008). The author observed that businesses realized the importance of being responsible toward society, the environment, and its stakeholders. However, businesses needed an incentive to be socially responsible. Consequently in recent years CSR has come to be considered as part of the value creation for companies by providing long-term financial benefits (Bhattacharya and Sen 2009; Piercy and Lane 2009). It does so by creating meaningful delivery of relevant initiatives that resonate with the values of consumers (Bhattacharya and Sen 2009).

According to Carroll and Shabana (2010) the original CSR definition had three core ideas—manager as the public trustee, balancing the competing claims to the limited corporate resources, and corporate philanthropy, which is the business's effort in supporting good causes (Bhattacharya et al. 2009). This is similar to Kotler and Lee (2005) that defined CSR as "a commitment to improve community well-being through discretionary business practices and contributions of corporate resources." To date the most widely referenced definition of CSR was developed by Carroll (1979)—"The social responsibility of the business encompasses, the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time." In this definition Carroll defined four domains of CSR as the economic, legal, ethical, and discretionary or philanthropic activities. This definition has been used as the main framework for study by many academics.

However Galbreath (2008) pointed out that many researchers attribute CSR activities as being strategic by simply fitting it into Carroll's definition of philanthropic activities. But just engaging in a philanthropic activity is not sufficient for the organization to realize the full benefits of CSR among the various stakeholders. Even Carroll revised the model for CSR removing the philanthropic activity dimension. Schwartz and Carroll (2003) proposed the three-domain model of corporate social responsibility that is in line with the initial four-part model. The main difference is the exclusion of philanthropic activities from the main model. Philanthropy is "subsumed" under the ethical and/or economic domains, which should be a better reflection of the possible differences in the motivations driving those activities. Consequently it is important to shift away from just defining CSR activities to definitions that support the development of strategy.

To develop a strategic definition of CSR, its various dimensions from previous research are analyzed. A common thread among these works is the topic that CSR should address based on the interests of the stakeholders such as the society or community, environment, employees, and economic considerations. For instance, Dahlsrud (2006) identified the dimensions of CSR in previous studies including stakeholder dimension, social dimension, economic dimension, voluntariness dimension, and environmental dimension. Sen and Bhattacharya (2001) and Bhattacharya and Sen (2004) defined six areas in conducting CSR activities from a study of the Corporate Social Ratings Monitor. These six domains are listed as follows:

1. Community support such as the sponsorship of arts, health programs, or programs to help the disadvantaged groups
2. Promotion of diversity representing all groups regardless of sex, race, etc.
3. Employee support in terms of safety, job security, and benefits
4. Environmental protection and preservation
5. Extending the good practices to non-US-based operations such as labor practices
6. Product development to ensure safety and avoid controversial issues and antitrust dispute possibilities

Over the years the focus of CSR research has shifted from an ethical orientation (Carroll and Shabana 2010) to a firm's performance orientation with emphasis on the macro-social level to organization level. From the previous studies, it can be observed that the ethical orientation may create goodwill toward the firm. However, it still does not address the major objective of business in generating profits. Vogel (2005) termed this change to a performance orientation as the "new world of CSR" wherein the CSR initiatives must be linked to the firm's financial success. According to Vogel (2005), support for such a stand can be found in many research works. Kurucz et al. (2008) explained that there are four means in which a firm may gain profit from engaging in CSR activities, namely, (1) cost and risk reduction, (2) developing competitive advantage, (3) creating reputation and legitimacy, and (4) attaining synergistic value.

Supporting this view Berger, Cunningham, and Drumwright (2007) explained that CSR should be part of the day-to-day business agenda of the company. This can be applied in three types of models, namely, the social values-led model, business case model, and syncretic stewardship model. The social values-led model views that CSR initiatives are done for noneconomic reasons. The business case model means initiating CSR that has a direct link to the profit. The syncretic stewardship model is a more comprehensive model wherein the firm takes into consideration virtuous values while pursuing economic objectives. Thus it can be said that the syncretic stewardship model uses CSR as a management philosophy guiding the business practices.

Galbreath (2008) proposed anchoring CSR in the six dimensions of strategy, namely, mission, competitive advantage, strategic issues, resources, markets, and customer needs. O'Riordan and Fairbrass (2014) developed a framework proposing a set of steps in the process for developing CSR strategies. These authors based their work around the core concept of CSR stakeholder engagement believing that this model could help to improve the accountability of business. This is done by integrating their stakeholder network responsibilities (context) into business choices and calculations ultimately improving the way companies practice CSR as well as communication regarding the stakeholder engagement. However, it still is not sufficient to anchor CSR in strategy as described by Galbreath (2008).

Porter and Kramer (2011) proposed the idea of creating shared value (CSV) as a new perspective from their earlier work studying how CSR activities can be linked to the firm's value chain in 2006. The authors reasoned that CSV makes "doing good" for society part of the profitability of the firm. It can be achieved by realigning the company's resources to innovate products or markets, rethinking the value chain, and enabling clusters. These authors explained that shared value is the key to the next wave of innovation and business growth. These dimensions are also found in the Sufficiency Economy Philosophy. It is within this framework that this study would examine the business practice that takes into consideration the Sufficiency Economy principles of His Majesty the King of Thailand while engaging all the relevant stakeholders. As a consequence the first contribution of this study is to develop a CSR definition and model that uses the Sufficiency Economy Philosophy to develop a firm's strategy in dealing with its various stakeholders as Dahlsrud (2008) stated that it is important to develop guidelines for managing CSR within the context of business operations. Another contribution is the study of how firms can collaborate with the government in creating sustainable CSR practices. This is supported by the research conducted by Chapple and Moon (2005) explaining that CSR cannot be done solely by the firm. It is imperative to involve the network of the firm including the government. The third contribution of this paper is its comprehensiveness in conducting data from companies that range from top performers in terms of CSR listed in the Stock Exchange of Thailand to small and medium enterprises. There are two phases of the study wherein the data from the first phase is used to identify the best practice to be studied for definition and model development.

2 The Sufficiency Economy

The view of CSR as a management philosophy is a balanced alternative view in creating what Reidenbach and Robin (1991) call an "emergent ethical corporation." In Thailand, this interpretation is done based on the Sufficiency Economy Philosophy proposed by His Majesty King Bhumibol Adulyadej as a means to ensure that business and society coexist (Suwanraks 2000; Kantabutra 2007).

The Sufficiency Economy Philosophy is distilled from the experiences of His Majesty throughout his reign. The emphasis is on staying on the "middle path" for the individual, family, and community. This is not a denial of globalization, but the critical element is a way to soften the blow from internal and external shocks to the economy.

Research conducted by many academics primarily on the SMEs in Thailand lend support for the success of firms that practice the Sufficiency Economy Philosophy in their operations (Puntasen et al. 2003; Kantabutra 2005a, b; Nuttavuthisit 2005; Kusumavalee 2005). Kantabutra (2005a, b) proposed that firms may adopt these principles into corporate values that can be critical to the practice for corporate sustainability. These studies focus on the application of the three basic tenets of the Sufficiency Economy Philosophy in business operations. Synthesizing Thai and

Western studies on best business practices, Kantabutra (2007) defined the set of practices called Sufficiency Economy business practices as follows:

1. Adopt a long-term perspective to management and decision-making.
2. Genuinely value and continuously develop human resources.
3. Be honest and genuinely concerned with and accountable for a wide range of stakeholders, including the society, the environment, and future generations.
4. Nurture both incremental and radical innovation throughout the entire organization, including products and processes.
5. Utilize resources effectively and efficiently.
6. Adopt/develop effective, but not expensive technology.
7. Expand business because of its actual growth as opposed to a surge in market demand.
8. Carefully diversify products, markets, and investment portfolios to minimize risks.
9. Share knowledge to develop the market.

According to Kantabutra (2007) the Sufficiency Economy Philosophy is the development of self-reinforcing management system that enhances the firm's ability to compete in the global market and sustain the success. Beyond the practices of transparency and responsibility to the society and environment, it is the prudent management of the business to reduce "people-hidden cost and the highest quality of products and services and bring about innovation not in products but throughout the entire organization." The key concept is keeping the business operations profitable and yet ethical. Rather the Sufficiency Economy Business Philosophy emphasis on knowledge, reasonableness, and self-immunity principle ensures an approach to business that should ensure operations would be sustainable and operated in the most effective and efficient manner with consideration made for all stakeholders and making an effort to maintain this good practice in the entire value chain (Kantabutra 2007; Puntasen et al. 2003).

3 Thai CSR

CSR in Thailand is usually associated to charitable acts and volunteerism (Prayukvong and Olsen 2009), which is a fundamental Buddhist practice (Rajanakorn 2012). Thai CSR activities fall primarily in the domain of economic/ethical overall as defined by Schwartz and Carroll. In this domain of economic/ethical overlap, law is not the only bind on the corporate activity. Rather it is ethical and economic in nature simultaneously. Activities that fall within this category should already be compliant with the law because any illegal activity would by default be unethical (Schwartz and Carroll 2003). Succinct to say it's the adage "good ethics, good business." The companies that engage in such activities can be defined as the "emergent ethical" corporation, which is actively seeking a greater balance between profits and ethics as described by Reidenbach and Robin (1991).

In line with the CSR dimensions discussed in the previous section, studies showed that Thai companies focused the theme of their activities based on their respective industries (Ratanajongkol et al. 2006). Rajanakorn (2012) explained that the manufacturing firms focused on the environmental theme while the products targeted at teens focused on sports and music, for instance.

The Office of the Securities and Exchange Commission (SEC) encourages the listed companies to have good governance practices consequently creating the Corporate Social Responsibility Institute (CSRI) to ensure registered companies adhere to the philosophy of benefiting community, society, and the environment while in the pursuit of profit. Based on a study supported by the Thailand Research Fund using qualitative data from the existing business activities, SET has come to define that there are two types of CSR. The first is the in-process type, which integrates CSR into every process and activity that is conducted by the firm to make a profit. The second is after-process type, which is how the firm chooses to use the profit to benefit society (Srisupaolarn 2013).

The interpretation of CSR in Thailand became about doing good and attaining good governance practices. The Sufficiency Economy Philosophy was always evoked as the guiding principle for good practices in business. For instance, in 2006 the Securities Exchange of Thailand issued an attempt to align the concept of good governance with the principles of the Sufficiency Economy Philosophy as follows:

> The principles of good corporate governance are in line with the philosophy of the Sufficiency Economy initiated by His Majesty the King to ensure sustainable development. The philosophy of Sufficiency Economy emphasizes equilibrium and flexibility together with careful, thorough and moral application of knowledge. These are all basic concepts of good corporate governance.

As it is evident in the definition, this application of Sufficiency Economy Philosophy does not provide sufficient guidelines for developing a business strategy that has concerns for society's well-being along with the generation of profits. This is the major research problem that this study aims to address.

4 Research Methodology

The study is a qualitative research collected from the side of the company, investors, and community. This is in line with Marshall (1996), which explained that qualitative research with the aim to explore complex human issues is "neither productive nor efficient" to use probabilistic sampling. As long as an acceptable interpretative framework can be established reaching a stage of thematic theoretical saturation, further interviews may be terminated. This method is used to determine the sample size for this research. The data collection for the first phase of the study is in the form of in-depth interview of company employees and management involved in developing CSR spanning a period of 2013–2014. The interview structure was developed to address CSR definition and practices based on the CSRI definition widely used in Thailand, the understanding of Sufficiency Economy Philosophy along with its subsequent application, and how it has contributed to the firm's profitability. There are a total of 45 companies' responses used in the analysis. Of this number 19 were companies registered in the Stock Exchange of Thailand, 11 multinational firms, 10 companies not registered in SET and SMEs, and 5 state enterprises. A convenience sampling method was used in selecting participating organizations since the selection into the sample depended on whether the companies were willing to give time for the interview. Some of companies interviewed are in the ranking top 20 in the Asian Sustainability Rating, which reflects the best practices of CSR by the company.

5 Research Findings Phase I

There is no significant difference in the responses from the different types of organizations. Part of the reason for the CSR initiatives are driven by the requirement set by the Thai (CSR) created by the Thaipat Institute or "compulsory CSR," which is done in response to fulfilling a law or requirement by the market or government or the SET. As a result many CSR activities are relevant for the organization, for instance, manufacturing firms or organizations that directly involve the use of natural resources organize activities in caring for the environment, banks organize workshops to train children to save, whereas service firms direct their efforts in promoting sports or music activities for a healthier society. This complies with the recommendation of authors such as Porter and Kramer (2006), Lantos (2002), and Mullen (1997) that companies should spend on philanthropy, sponsorships, and cause-related marketing that are related to their objectives and needs.

The companies in the top 20 Asian Sustainability Rating are especially strong in developing activities that are not only relevant in their respective areas but also have a commitment to sustainability of the initiatives, good communication within the organization encouraging involvement, and instilling pride in operational-level staff. This is consistent with the previous report of CSR Asia Center at AIT (2010), which states that because these companies are so influential, their actions may have a direct impact on the economy, environment, and society as well as their capability in requiring their partners in the supply chain to adopt their values. Some companies that achieve the Dow Jones Sustainability Index (DJSI) certification go a step further by empowering the employees to develop their own CSR initiatives. This serves to empower the employees making them more loyal to the firm. In addition this allows the firm to be more responsive to the demands of society or the community because employees base the development of CSR activities on their own needs, which are more likely to reflect the needs of the public. This is more effective than the traditional top-down method where the management develops the idea and the employees simply implement it.

On the flipside some registered firms despite being in SET also take the approach of just making donations to charities or some environmental preservation activity. However, upon in-depth probing, they might emphasize specific stakeholders such as their employees, but it is not defined as CSR because management thinks it is human resource development. For non-SET-registered firms, it is found that in these smaller companies, SMEs, some small multinational firms, and state enterprises, the CSR activities are more along the lines of donations in terms of money, class or, sports equipment or planting trees. This is in line with the findings reported in the studies of Rungsuk and Sirathanakulb (2013), Prayukvong and Olsen (2009), and Ratanajongkol et al. (2006).

Analyzing the CSR activities based on the definition proposed by CSRI, it is found that more firms engage in after-process type of CSR. This might be due to the relative ease in implementation. The key to choosing the activities lies in the theme. In general companies prefer themes that support the environment or community/ social issues because they feel that it actually helps to contribute to make a better place for everyone as explained by Srisupaolarn (2013). In addition most firms view the act of going out for the volunteer activity a way for engaging the staff and a recreational activity. Only a few companies actually engage in the development of new products or services that are aimed to make a difference. These companies exhibit strong executive commitment to the CSR principles and usually put being socially responsible as part of their company mission. As a result it is not surprising that these companies are the ones that achieve the DJSI certification (Table 1).

Based on the CSR practices of the companies interviewed, it can be summarized that CSR is primarily done in compliance to the legal requirements. However, it can be observed that firms realize that for CSR to be successfully implemented, it must be rooted in the best practices of the industry and fulfill business objectives. Also it is found that companies realize the value of CSR in recruitment and retention of employees. Companies use the CSR activities as a means of providing empowerment and entertainment to the employees. In addition for the companies that have achieved DJSI certification, it is found that they make CSR a commitment, a part of the mission paving way for innovative business practices. As a consequence, this study proposes the definition of CSR as follows:

> CSR is a commitment to sustainability embedded in the needs of the industry, business, and community implemented by the company as a strategy to empower all stakeholders to transform business practices to create value for all parties involved.

All the companies and state enterprises interviewed know of the Sufficiency Economy Philosophy. In a majority of the firms, the understanding is rather superficial. The most cited response is a long-term perspective, caring for the environment and using resources efficiently. There are some firms that engage in integrating the Sufficiency Economy Philosophy into their business strategy. They modify existing work processes and attempt to create value in their supply chain. Also it is found that a few companies have best practices that go beyond CSR application of the Sufficiency Economy Philosophy. These companies truly take the Sufficiency Economy Philosophy and integrate it into the future vision of the company. Consequently

Table 1 Summary of CSR activities based on CSRI definition

Theme-based CSR	In-process	After-process
Environment-based	– Product-service – Innovation – Implementing environmentally friendly process or technology	– Make donations – Volunteer to plant forests or mangroves – Volunteer to engage in other activities that help the environment – Organize events to raise money for donations
Community-social issues	– Contract farming	– Make donations to schools – Support royal projects – Offer training or education on useful topics – Support activities like contests, concerts, or other youth-related projects – Support a health cause – Organize events to raise donations
Employees	– Good hiring practices – Provision of housing – Training – Health consciousness initiatives	– Set up activities to help increase income

Table 2 Revisiting the Sufficiency Economy Philosophy concepts for CSR strategy

Basic	Integrated	Best practice
– Adopt a long-term perspective to management and decision-making – Be honest and genuinely concerned with and accountable for a wide range of stakeholders, including the society, the environment, and future generations	– Genuinely value and continuously develop human resources – Utilize resources effectively and efficiently – Adopt/develop effective but not expensive technology – Expand business because of its actual growth as opposed to a surge in market demand – Carefully diversify products, markets, and investment portfolios to minimize risks	– Nurture both incremental and radical innovation throughout the entire organization, including products and processes – Share knowledge to develop the market

Table 2 summarizes how companies appear to use different practices of the Sufficiency Economy Philosophy in their business practices. These different levels of performance can be applied in the development of the strategic CSR model.

However, the major challenge of implementing the Sufficiency Economy Philosophy in CSR is the lack of concrete guidelines. There are companies that have best practices, but these cases have not been used to develop a means of implementation that can be adopted by other organizations. This leads to the second phase of the research. In line with the previous research conducted on Thai CSR, the case study method is used. The analysis is based on one firm considered to have best practice in the use of the Sufficiency Economy Philosophy for strategic development. The goal is to create a model for using the Sufficiency Economy Philosophy as a strategy along with the formation of partnership with various stakeholders most important of which is the government sector.

6 Research Phase II

As suggested by Bhattacharya et al. (2008) the relationships between stakeholders need to be examined. This will be particularly interesting in the firms that have made this CSR part of their strategy as suggested by Porter and Kramer (2006). Consequently this case study involves in-depth interview with the management, Ministry of Health officials, media, athletes sponsored by the company, employees, consumers, teachers, and students at the target schools. The researcher also followed the management to attend the CSR activities in order to observe the results.

The firm chosen for best practice and model development is Hi-Q Co., Ltd. Selling ready-to-eat food, canned mackerel, and tomato sauce, its positioning is “Good taste, Loads of benefits.” Like most other companies, the CSR activities started by the firm supporting Thai athletes such as the Thai women’s running team and BMX bicycle team. However, upon sponsoring these athletes, the company found that most of the Thailand’s best-performing athletes had very small bodies, unlike foreign athletes where sports science has been implemented so the body built will be much larger. The company explored the idea and found that this was due to poor nutrition in the diet while these athletes were growing up contributed to their relatively small built since most of them came from rural areas.

Being a company that relies on the fresh produce, Hi-Q Co., Ltd. has contract farming in the northeastern region of Thailand, where many of these athletes come from. So the company wanted to find ways to improve the nutrition for the children. But being a small company with a fraction of the budget of big registered companies, an effective use of the budget to maximize the benefit was necessary. The company then turned to the health consultants in the Ministry of Health. They identified a poorly publicized but quite important project the ministry was conducting rather ineffectively. The project entailed that schools had to improve their basic facilities in terms of cleanliness, provide food that includes the necessary nutritional value for children, teach them basic health information such as taking care of their teeth, and encourage parents to give children better food. When schools are deemed as successful in attaining these goals, they are given a diamond rating together with a budget for further development of the school. Many of the schools wanted this diamond rating but did not have the means to achieve all of the criteria set by the Ministry of Health. As a consequence Hi-Q Co., Ltd. took this opportunity to provide training to the schools. The reason is that as schools achieve this standard of excellence, all of the students and teachers including the community would receive the benefits. This is the start of the project wherein teachers from five selected schools are given intense training sponsored by the company. They go back to their schools to improve the standards, and when they receive the diamond rating, the company comes back to celebrate with them bringing athletes and celebrities, which is a fairly big deal in the rural areas.

After running this CSR campaign for 6 consecutive years, Hi-Q Co., Ltd. made nutrition and quality development the main strategic focus of the company. As a consequence the company expanded their product lines to ready-to-eat meals that are not only tasty but focus on good nutritional value. The range also includes unpolished rice, which has very high nutritional value.

7 Discussion of the Findings

Combining the findings from Phase I and Phase II, a strategic CSR model based on the Sufficiency Economy Philosophy has been developed. Businesses recognize that CSR is an obligation (compulsory CSR) or as part of the image creation for the firm. Thus they engage in a combination of the CSRI "in-process" and "after-process" CSR. Consequently the research found that companies prefer topics including environment or community/social issues because it has an impact on a broad audience. Therefore, in the basic stage is quite evident in most of the companies involved in the study. Adopting a long-term perspective and being accountable are things firms are familiar with as part of the operations. The challenge is in the remaining two stages of integration and best practice.

Integration looks beyond long-term planning and accountability to developing new ways to achieve efficiency of resource allocation and seeking new market opportunities as a consequence of the CSR implementation. This is in line with the syncretic stewardship model proposed by Berger et al. (2007) wherein virtuous values are attained together with the achievement of business goals. This is the step that Hi-Q Co., Ltd. has attained. The company sought out the best means to make use of their limited CSR budget for the largest benefit by cooperating with the Ministry of Health to develop the nutrition and cleanliness for the schools close to their contract farms and factories. This is a true commitment to developing the human resource in the area in the long term. In addition the company has developed innovative products that will enable them to purchase more of the produce from the region. By making more ready-to-eat food available, the company diversifies its risk from being dependent on tomato sauce and canned mackerel. Since tomato harvest is only seasonal, producing foods from different types of vegetables allows the farmers to be able to sell their crops to the company year-round, thus increasing their income. The concept of diversifying the crops in order to have produce yields continuously securing income flow is one of the well-known applications of the Sufficiency Economy Philosophy. On the side of the company, this means that they can target more young generation health-conscious customers who want to enjoy healthy local meals.

Best practice is a stage where the company and the various stakeholders align their vision to create a new direction for the firm. At this point the firm is no longer operating solely by its own. There must be cooperation with stakeholders and other industry players to improve the know-how of the industry to better serve the public. For instance, the companies producing roof tiles with asbestos came together to discuss the future of non-asbestos alternatives and developed a timeline for changing the production even before the government reinforced the law banning asbestos roof tiles. This is seen in companies that achieve the DJSI including PTT, Thailand's major petrochemical company, and SCG, Thailand's leading construction material company. These two companies have developed new businesses as part of the implementation of CSR as a strategy. PTT has a biodegradable packaging company, while SCG has a line of paper products made from recycled paper. As Kotler et al. (2009) has noted that companies can no longer be in the same business in the next 5 years and expect to survive, these companies have shown that radical innovation is important for the long-term sustainability of the firm. This is the final proof that CSR done right is not a cost to the firm but a contribution to its profitability through enhancing the firm's competitive advantage.

The Sufficiency Economy Philosophy is an important guide in conducting the lives and businesses of the people and businesses through perseverance, mindfulness of others, and generosity (Piboolsravut 2004). The CSR definition developed in this study is "CSR is the process of addressing the needs of society through the continuous improvement of operations by being mindful of the needs of all stakeholders throughout the value chain of the firm in order to develop a competitive advantage that will ensure the long-term sustainability of the firm and society."

However, caution must be exercised in implementing CSR in Thailand. This is because Thai companies may not always publicize their CSR activities for the benefit of the company or products or services due to the Thai value of not wanting to flaunt good deeds performed. This is in line with the Thai saying "Pid Thong Lang Phra" meaning putting the gold leaf at the back of the Buddha image, where others cannot see and know except the person, who has done the deed (Srisupaolarn 2013). Even Hi-Q best practice CSR is not widely publicized. In a way this might make it difficult for other companies to see the virtue of doing good CSR preferring the easy option of simply making donations (Fig. 1).

8 Theoretical and Managerial Contribution

O'Riordan and Fairbrass (2014) developed a framework to explain the steps in developing CSR strategies. The theoretical contribution of this research takes the direction further in order to use CSR as a corporate strategy. The resulting CSR definition is thus a strategic direction in the pursuit of profit through processes that integrate virtuous values for the sustainability of the business and society through the cooperation with all stakeholders in innovating new practices that will be beneficial to all.

Managers can use this framework in implementing CSR with a lasting impact. CSR strategy implementation starts with the assessment and understanding the

Fig. 1 Strategic CSR model based on the Sufficiency Economy Philosophy

situation of each respective firm. Before CSR implementation the firm must first evaluate its resources and the requirements of the industry. At the most basic level of CSR implementation, the firm can exist in harmony with the community. As the firm has more resources or can rally the support of other members of its value chain, the contribution it has to society can increase, while the profitability of the CSR drive itself will start to contribute back to the firm. In addition to recognizing that the government may have good programs that aim to improve the livelihood of the people, cooperation could increase the effectiveness of CSR implementation. Thus, instead of viewing CSR as an activity driven by one company, it can be an initiative shared by a network of organizations working together. This should result in programs that truly have a lasting impact.

This research defines CSR as a commitment to sustainability. It is the view of this research that CSR is no longer a voluntary action because consumers expect businesses to be responsible. Thailand is no stranger to how such consumer expectations can hurt businesses. The European Union's warning to curb illegal, underregulated, and underreported fishing (IUU) has caused a major disruption to one of the country's main exports. In the future sustainability may become one means of nontariff barriers for trade at the macro level, while at the micro level, this might lead to the boycott of individual brands that fail to recognize the importance of sustainability.

9 Research Limitations and Future Directions

This research is exploratory in nature and there are still more avenues that can be explored. There are companies that have best practices, and they are willing to share their know-how, which is consistent with the finding by Srisupaolarn (2013). Therefore, more case studies across different industries and companies of different sizes may improve the understanding of CSR applying the Sufficiency Economy Philosophy. The methodology of comparative case study as employed by O'Riordan (2010) can be used. As suggested by Bhattacharya et al. (2008), the relationships between stakeholders especially those that may include customers in international markets need to be studied. This will be particularly interesting comparing the firms that have made CSR part of their strategy as suggested by Porter and Kramer (2006) in order to develop a more comprehensive strategic CSR model.

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To Legislate or Not: That Is the Question—Comparing CSR Intent and Effects in Economies with Voluntary CSR and Legislated CSR

Lars Isaksson and Nayan Mitra

Abstract Multinational companies (MNCs) often debate whether or not corporate social responsibility (CSR) is worthwhile pursuing, whether it is a cost for mere window dressing or whether it is an investment with promising and interesting outcomes. On the other hand, governments debate whether CSR should be legislated or voluntary. Hence, while some MNCs engage in CSR voluntarily pursuing the benefits, other MNCs are 'forced' to engage in CSR—regardless if they believe in the concept or not. There are various examples and approaches. Among developed economies, for example, we find Sweden who does not have CSR legislation (yet the majority of Swedish MNCs are highly active in voluntary CSR) and Denmark, Germany and Canada with various degrees of industry-specific legislation. In emerging economies, we find, for instance, Mauritius, Indonesia and India legislated CSR to cover precise monetary contributions towards the social, economic and environmental development of these countries. Whether the global economy gravitates towards some degree of responsible capitalism or not, the discussion and arguments for and against mandatory CSR is likely to increase in the near future. To contribute to the debate, this chapter describes the differences between CSR among MNCs in Sweden (a developed economy believing in voluntary CSR) and India (an emerging economy) where CSR is mandatory by law. Our research indicates that MNCs in both economies (with voluntary or legislative CSR) strategically benefits from CSR and that CSR legislation positively affects MNCs in at least one emerging economy (India).

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1 Introduction

Perspectives differ on whether multinational companies (MNCs) should develop centrally coordinated, 'global' corporate social responsibility (CSR) strategies or whether they should stimulate decentralized, 'local' CSR strategies (Isaksson et al. 2014; Muller 2006). A global strategy might involve an efficient transmission of proactive CSR practices throughout the organization worldwide but may also lack ownership and legitimacy at the local level. On the other hand, a more responsive, reactive and local CSR strategy can be fragmented and misaligned with global corporate objectives. Moreover, when the local context in a country displays lower CSR standards, there is a risk that decentralization lead subsidiaries to target those lower standards rather than the higher standards expected in their home countries (Muller 2006).

Opponents of mandatory CSR debate that the efficacy of self-regulation allows each MNC to balance profits and social responsibility without unnecessary administrative burdens, supported by suggestions that legislated CSR risk to distort the allocation of resources and actually increase the likelihood of social irresponsibility. Proponents, on the other hand, view that CSR must be legislated to end exploitation of human rights, working conditions, etc. and that a legislated approach is just fair given that corporations have proven to be foundationally irresponsible (in, e.g., the global financial crisis). To contribute to the debate, this chapter describes the differences between MNCs from one developed economy (Sweden) where MNCs voluntarily engage in CSR, in contrast to MNC activities in one emerging economy (India) where CSR reporting is mandatory by law and outline the respective country's reasons, beliefs and practices regarding CSR as a concept.

The intentions of this research are therefore to extend the understanding of CSR by researching the topic from a strategic intent perspective in both economies where CSR are voluntary and legislated. Thus the unit of analysis has shifted from the macrosocial impact to the organizational level in developed economies with voluntary CSR and vice versa in emerging economies with legislated CSR. We selected Swedish MNCs since they are among the world leaders in voluntary CSR (KPMG 2011; Swedish-Institute 2009; Zadek and MacGillivray 2008) and India having the latest (2013) and arguable the most comprehensive CSR legislation in the world. By combining primary (questionnaire), secondary (annual reports), and third-party verification (indexes), we followed proven recommendations (Bansal and Roth 2000) to increase quality and robustness when investigating why MNCs in economies with voluntary or legislated CSR engage in CSR and their potential outcomes.

2 The Strategic Rationale of CSR

Since CSR has an impact on the strategic management field (Drucker 1984; Isaksson et al. 2014; Mintzberg 1983; Porter 2008; Porter and Kramer 2006) and is considered to be a core business function central to MNCs' strategy (Carroll and Shabana 2010; Ramchander et al. 2012), it continues to be an important research field. This is evident as MNCs increasingly publicize their commitment to CSR and advertise their codes of conduct. These CSR Codes are mostly the result of genuine corporate intent in combination with external market pressures. In a competitive environment, MNCs' managers might endure less incentive to adopt codes that can limit corporate activities. It is for this reason some researchers claim that regulation by public authorities or at the industry level provides better safeguards than voluntary regulation by the individual company (Levis 2006). Yet, due to the same competitive environment, countless MNCs use CSR to increase the scope of corporate activities.

MNCs debate whether or not CSR is a cost for mere window dressing to avoid legislation or an investment with the potential to add and increase competitive strengths. Governments, on the other hand, debate whether CSR should be legislated or remain voluntary (Isaksson et al. 2014) resulting in that some MNCs engage in CSR voluntarily pursuing the benefits, and others are 'forced' to engage in CSR—regardless if they believe in the concept or not. In any case, they must design and implement CSR with maximum impact. This can be the core reason that CSR is an increasingly applied practice for firms worldwide today (Carroll and Shabana 2010; Kang 2009; Moon and de Leon 2007; Porter 2008; Erin Reid and Michael Toffel 2009) and perceived to be a long-term investment that can lead to competitive advantages (Carroll and Shabana 2010; Kang 2009; KPMG 2011; Mattingly 2012; McWilliams and Siegel 2000, 2011; Porter and Kramer 2006), for instance, in form of improved brand image, improved reputation and enhanced customer relationships (Du et al. 2010; Kirca et al. 2005).

CSR and strategic management are therefore integrated (Porter 2008; Porter and Kramer 2006) in that the strategic planning process explicitly targets customers and customer satisfaction (Ruekert 1992) and that organizations need a corporate culture with strong norms towards market knowledge (Brady and Cronin 2001; Gebhardt et al. 2006; Lam et al. 2010) since profitability is a consequence of its deployment rather than being directly derived from it (Kohli and Jaworski 1990). MNCs with sincere CSR intent hence focus on specific strategic benefits in order to increase market attractiveness (Barnett 2007; Barnett and Salomon 2012; Kiessling et al. 2015). The target benefits span—apart from the previously mentioned—positive customer perceptions, increased employee engagement, improved customer satisfaction and acceptance of MNCs' value proposition and solutions. These are all relationship- and reputation-building interactions and a foundation for all CSR efforts to be market oriented, subjective and holistic.

3 Voluntary Versus Legislated CSR

While the drivers behind and levels of CSR enactment are different in different economies (voluntary vs. legislated), we find that CSR high-performing MNCs in both types of economies engage in CSR for similar reasons and beliefs (positive reputation, increasing competitive advantages and market risk mitigation) while providing societal improvements and a win-win outcome. MNCs who do not 'believe' in the concept, yet engage in minimal CSR for reasons of market pressure or legislation, are doing worse in regard to both social contribution (misallocation) and in terms of corporate gain (Barnett and Salomon 2012; Isaksson et al. 2014).

Among developed economies, whose MNCs significantly engage in CSR, we find, for example, Sweden, who does not have CSR legislation, yet the majority of Swedish MNCs are highly active in voluntary CSR. Another example is Denmark, who also has a large proportion of firms engaging voluntarily in CSR yet has an existing CSR legislation (2009). Danish companies must report the extent of CSR activities (policies, implementation and results or expectations) but are not required to actually engage in CSR, in belief, that such corporate governance pressure instilled by the government will increase CSR investments. Therefore, they follow a mixed voluntary and legislated model. Another example is Germany whose legislation (2012) focuses on implementation, best practices and decisive factors of success or failure and Canada, who enforces CSR (2007) on selected industries (mining and extraction industry) to enhance these sectors' global competitiveness.

In contrast, several emerging economies have distinct legislation in place. Mauritius and India legislated (in 1995 and 2013, respectively) that foreign and local companies alike of a certain size must allocate parts of their operating profit in contribution to the social, economic and environmental development of these countries. Indonesia, on the other hand, forces companies carrying out activities in the natural resources and related sectors to participate in environmental social responsibility programmes to restore caused damage.

In India, the concept of CSR is governed by Section 135 of the Companies Act, 2013. The role of the Indian companies is certainly more complex than the role of corporations in the developed country (Maira 2004). They have to connect with the conditions in their own country and the communities around them (Maira 2004) so as to bring about the country's development holistically. The Section 135 of the Companies Act acknowledges this uniqueness of the Indian socio-economic and environmental challenges and the role of corporations in addressing these challenges and has put forward guidelines 'for India, by India, from India (Chatterjee and Mitra 2016)'.

Regardless of a voluntary or legislated approach to CSR, globalization poses novel sources of opportunities, uncertainty and risks. Business indicators show that the level of uncertainty for corporate leaders has increased, in part, to rapid change in technology, connections and information flows as a result of globalization and problems in managing upscaling across the extended enterprise (Kytle and Ruggie 2005).

The result of interdependencies and hidden vulnerabilities that businesses now face is increasingly affecting corporate decision-making. Current network-based operating models highlight the growing importance of establishing greater connectivity among and between stakeholders globally. This stakeholder engagement also creates new stakeholders and the need for innovative forms of risk management (Kytle and Ruggie 2005). Reputational capital (RC) is the new currency (Isaksson et al. 2014; Kiessling et al. 2015). Changes in the operating model have led to a significant shift in market power—not just to customers and traditional investors but also, and more importantly, towards all stakeholders (for instance, communities, employees, regulators, politicians, suppliers, non-governmental organizations (NGOs and media). As a result of this shift in market power, 'social risk' is a rising area of concern for global corporations (Kytle and Ruggie 2005) forcing investments in behaviour to increase RC. The application of CSR as a tool for social risk management is said to require three insights: CSR as a natural extension of scaling adjustments (for instance, forming strategic alliances, staffing in foreign cultures), understanding that CSR activities are not discretionary expenditures or cost-cutting activities but a long-term investment and that CSR must be linked strategically to core business functions to reap the full benefits (Isaksson 2012; Kytle and Ruggie 2005).

4 Voluntary CSR in a Developed Economy: Sweden

Sweden is a representative country of well-developed economies. According to the World Bank, Sweden is the 42nd wealthiest country in the world with a per capita GDP (adjusted for purchase power parity—PPP) ranked 26th. This is noteworthy given that the population is small (9.8 million, rank 91st). Other signs of prosperity are the ratio of high-value services to farming, wealth distribution between rich and poor (GINI), electricity consumption per capita, taxation and infrastructure. In these aspects Sweden provides 65% of services versus farming, ranks 141st on the GINI index, is the 27th largest consumer of electricity, has the 14th highest income taxes (55.8%) and ranks 13th in the world in regard to paved roads, 21st in regard to railways and 25th in regard to the number of commercial airports, respectively. Among the 525 publicly traded companies on the Stockholm stock exchange, the majority are MNCs. A staggering 26.8% of these (141 firms) actively operate in India employing more than 160,000 direct employees and 1.1 million indirect employees in their supply chains.

Among the Top 100 most CSR-ish MNCs publicly traded on the Swedish stock exchange (19% of all listed companies), our research achieved a response rate of 82%. All of the respondents engaged in CSR for reputation-building purposes and to gain some competitive advantage, usually making it easier to win foreign contracts. In regard to the implementation and alignment of CSR, we discovered that the majority (66%) have informal procedures and decision-making. We also found that the respondents focused on being customer and market oriented (83% and 50%, respectively) to be more innovative in their CSR and general value offering. Further, respondents displayed specific strategic intents with their CSR efforts for either reputational reason, creating competitive advantages to reduce market risks or combinations thereof. For instance, the strategic intent evolves around monitoring current and prospective customer demands, ensuring that product offerings align with such demands, predicting competitor behaviour and balancing long-term market goals with short-term financial goals, customer satisfaction and problem-solving approaches towards their business customers (83%).

We further found that Swedish MNCs voluntarily engage in CSR with the strategic intentions of reputation building (74%), improving competitive advantages (55%) and reducing their market risks (54%). Our research further revealed that firms engaging in CSR voluntarily attracted better talented employees without paying higher than industry average salaries and that their recruitment processes were completed faster. Hence, a focus on long-term goals and on market share (vs. purely financial goals) indicates that reputation and risk reduction efforts (being both long-term and market related) connect CSR with company-specific strategic objectives in the form of RC. As indicated, one of the most distinct links between CSR and strategy in our sample (Sweden) was strategic intent. This was also the case for our Indian study, where the law acknowledged and recognized the ‘business sense’ of CSR that also automated the specific reasons for the Indian MNCs to engage in CSR in the form of increased reputation, competitive advantage or risk reduction—yet “creating a system of accountability and responsibility attached to it” (Indian Institute of Corporate Affairs 2014), guided by law. Firms that have these strategic intentions (e.g., risk reduction) with their CSR efforts therefore take various managerial decisions to implement it.

The topic of operative CSR management (the location of decision-making) is an increasingly important part of CSR along with prioritization of CSR matters. While many MNCs assign CSR decision-making to the top-management teams (TMT), others chose to delegate CSR decision-making to a CSR committee or a dedicated CSR manager. This is perhaps not surprising in India where CSR governance is covered by the current legislation but more so in Sweden who does not have a CSR legislation. These MNCs assign CSR to be important enough to include it as a reoccurring topic on the TMT and/or board meeting agendas in conjunction with a dedicated CSR manager or CSR committee: 71% of the respondents had a CSR committee, while 61% had a CSR manager. However, this was not correlated with CSR decision-making. One explanation could be that a dedicated CSR manager commonly holds a higher (executive) position and, thus, is likely to make autonomous decisions without the need for putting the suggestions in front of a committee or the TMT or that the committee evaluates various CSR activities and then presents their recommendations to a CSR manager for decision-making or, more likely, via consensus being common in Swedish business management culture.

Other supportive evidence of this sincere effort is that 57% of the Swedish MNCs viewed their firm as being strongly trustworthy and that the majority (85%) cared for all of their stakeholders. In addition, one-tenth of the respondents graded their firm as having either an inferior or a superior CSR reputation. External CSR activities were exemplified as support of a local NGO or other not-for-profit organizations (76%), a local sports club (60%) or support of local businesses (51%) or providing general financial education support (35%), helping foreign suppliers to improve working conditions, etc.

5 Findings from a Mini Case Study Where Voluntary CSR Applies: Sweden

A Swedish MNC with worldwide operations that engages voluntarily in CSR is Oriflame. Oriflame is a fast-moving consumer goods company (FMCG) in the cosmetic industry with more than 3.4 million active sales consultants worldwide. Applying a direct-marketing concept, their turnover surpassed 1.27 billion euros in 2014 with earnings before interest and taxes (EBIT) of 123 million euros (10.33%). Their business model provides direct self-employment opportunities in both developed and emerging economies; hence, regardless of the income generated by the sales consultant, it all goes directly to his/her family instead of some local retailer where the potential benefit flows back to a MNC in a developed economy. Yet, Oriflame takes to CSR sincerely in everything they do. When assessing CSR opportunities, they want to connect and relate to the effort and the timing of any CSR activities with their stakeholders, i.e. at the head quarter, at the local management level and at the individual sales consultant. They also assess whether to partner with other organizations (for instance, a local NGO) or provide CSR in-house. One example of this approach resulted in a CSR programmes in India, where they together with Deepalaya (a New Delhi-based NGO) provide schooling for 1000 under privileged girls aged 4–17 years. Since this demographic group also represents Oriflame's potential customers, it supports future spending by this target group on, for example, cosmetic products—from a reputable company. The result is reputation benefits across all of their markets and home country investor likings. The CSR deliverables are then regularly communicated with their employees, sales representatives, suppliers, customers, investors and other stakeholders via blogs, websites and direct marketing. The approach enables a true win-win outcome for Oriflame, the local sales consultant and management and the local community, addressing a serious social problem.

6 CSR in One Emerging Economy: India

To promote CSR activities in India, the Ministry of Corporate Affairs, Government of India, introduced the first set of guidelines in December, 2009, urging "business entities to formulate CSR as an integral part of their overall business policy" (Indian Institute of Corporate Affairs 2014). The Department of Public Enterprises (DPE) issued guidelines (April, 2010) that linked CSR and Sustainable Development to actual spending and also incentivized performance through monetary gains, for example, earmarking five marks out of the nonfinancial parameters for CSR activities and five marks for Sustainable Development initiatives from 2010 to 2011 onwards (Indian Government Department of Public Enterprises 2015). The National Voluntary Guidelines (NVGs) on Social, Environmental and Economic Responsibilities of Business (launched July 2011) focus on life cycle management of products and services (i.e. a 'cradle to grave' perspective) and promoted responsible business through conscientious corporate governance (Indian Institute of Corporate Affairs 2014).

While the NVGs were first to positively link realities of Indian business, societal, environmental and economic aspects with global trends and practices (Indian Institute of Corporate Affairs 2014), the CSR guidelines outlined in the Section 135 of the Companies Act (the Act), 2013, caused debate. Section 135 stipulates that every company covered by the inclusion criteria should spend at least 2% of their average net profit in the previous 3 years on CSR activities. The Act applies to companies with an annual turnover exceeding 1000 crore Indian rupees (INR) (US$200 million) or a net worth exceeding 500 crore INR (US$100 million) or a net profit exceeding 5 crore INR (US$1 million). The new law (applicable from the fiscal year 2014–2015 and onwards) also requires companies to erect a CSR committee consisting of their board members, including one or more independent directors. It is currently estimated that 16–17,000 companies operating in India must comply with the legislation on annual basis (PriceWaterhouse Coopers PWC 2013). We note that while the initial inclusion criteria were noted in USD, we include the current value in Euro due to currency fluctuations; hence the inclusion criteria today represent >137.4 million euros in turnover, >68.7 million euros in net worth, or >0.687 million euros in net profit (according to Forex INR-EURO exchange rates, January 15, 2016). It is expected today that the included companies will infuse an estimated flow of INR 200–250 billion into the economy annually (approximately 2.7–3.4 billion euros) thus changing the fundamental interaction between business and society and affecting the country at a multi-stakeholder level. The radical and broad scope of the Act can position India as the birthplace of social, economic, and environmental transformation through CSR provisions (Mitra and Schmidpeter 2016), perhaps even trigger an era of widespread business humanism.

Moreover, Schedule VII (Annexure) of the Act identifies the priority areas of CSR intervention providing direction so as to bring about "the most rapid developmental results" and create "the possibility of delivering high-impact outcomes while achieving stringent CSR norms and goals" (Indian Institute of Corporate Affairs 2014). However, Schedule VII should be interpreted liberally to capture the essence of the subjects listed in the schedule. The Act also specifies the formation and composition of the CSR Committee of the Board of Directors, reporting of the composition of this committee and shouldering certain responsibilities by this committee. It is therefore specifically directed that a CSR committee should consist of three or more directors and that at least one director shall be an independent director. It is also stated that the CSR Committee's duties are to formulate and recommend to the Board a CSR Policy which shall indicate the activities to be undertaken by the company as specified in Schedule VII, recommend the amount of expenditure to be incurred on these CSR activities, and monitor the CSR policy of the company from time to time. In addition, each companies' CSR programmes must be quantifiable and measured in INR; allocate funds that directly provide benefits to the marginalized, disadvantaged, poor or deprived sections of a community; and benefit not only the employees of the company but also their families; and marathons, awards, charitable contributions, advertisement and sponsorship of TV programmes, etc. do not qualify as CSR expenditure formats, unless these are specific parts of the CSR project component.

Thus, the Act recommends (PriceWaterhouse Coopers PWC 2013) that CSR activities should be managed like any other managerial disciplines, with sincerity, as part of normal operations, and integrated with other corporate objectives to provide some return or benefit for the organization providing it. It should be operated like an ongoing continuous 12-month rolling project and contain (among other things) a need-based assessment, a baseline survey or study, a clearly identified time frame, a specific annual financial allocation, clearly identified and measurable milestones and objectives and a robust and periodic review and monitoring and be evaluated and assessed by or together with a third party where possible.

The broad scope and detailed recommendations (while necessary from the regulators point of view) fuelled the debate among companies who viewed the CSR legislation as forced taxation in disguise and criticized it as an instrument for "outsourcing of governance" where what should be the responsibility of the Government was placing general societal responsibility on the Corporations (Nilekani 2011). However, to understand this industrywide frustration, non-Indian researchers and practitioners need to understand the dynamics of an emerging economy, such as that of India. India has a steep population growth and the world's second largest human population next to China and predicted to have one of the world's youngest and largest working population by 2026 (FICCI EY 2015) providing great economic opportunities. Among the challenges, we find a 135th rank (among 186 countries) in the Human Development Index (HDI) (Human Development Report 2013), an estimated 269.3 million poor people, approximately 80% of the poor people (216.5 million) residing in rural India (Rao 2013) and 287 million illiterate adults (UNESCO 2014) accounting for the largest illiterate population globally (or 37% of the world total) (Bhowmick 2014). To make the challenges harder, 10% of India's population lack any type of skilling (2% formal and 8% informal) (Ernst and Young FICCI 2012; Mitra 2014). This background is an important base line for the Act since firms, not governments, are generally best suited to deal with social improvements as firms are faster and can more easily commit resources when a solution is perceived to be an opportunity that optimally generates mutual benefits (Drucker 1984). The Act therefore has the potential to become a nationwide competitive advantage. This will also take the pressure off from 44.7 million unorganized micro, small and medium enterprises (MSMEs) which play a vital role for the growth of the Indian economy, employing over 100 million people providing >6000 quality products (accounted to be a large share of total industrial units) (MSME 2012) representing 43% of India's total exports in 2012 (Government of India Ministry of Finance 2013; Mitra 2015a). However, these MSMEs do not have the resources to provide additional social responsibility contributions other than what is the normal scope of any business—providing jobs and paying taxes. Hence, these are exempted from the new legislation until the day they grow to the financial inclusion levels.

It was for the above reasons viewed that regulations similar to the OECD countries (practising voluntary CSR) would not drive necessary and needed change. The assumption therefore emerged that to achieve true and substantial economic development and societal upgrade (in regard to severe poverty and lacking humanitarian infrastructure), it was an absolute necessity for India to leapfrog decades of lingering behind developed and other emerging economies. It became crucial that successful and resourceful (larger) companies must contribute more resources than mere job creation and taxation to nurture social and environmental growth after reaching a critical level of economic development themselves (Beloe et al. 2004; Khan 2007; Muller 2006). The Section 135 was therefore designed to "...bring rapid developmental results [and] delivering high impact outcomes [to] achieve stringent CSR norms and goals" affecting approximately 16,800 companies operating in India that collectively can contribute an estimated 2.7–3.4 billion euros per annum. Potentially, this can be a competitive advantage of the whole country.

Like any major paradigm shift, the transition from sole profiteering to also harvest reputational capital is not free of friction—especially when corporations face new and mandatory expenditures. While some companies like the ITC Limited (ITC) proactively welcomed the Act and aligned the mandatory components with the already existing CSR programmes, other companies like Idea Cellular (owned by the Aditya Birla Group) did not spend anything on CSR in the Financial Year ending 2015 with the explanation (annual report) that it spent the first year preparing to implement a CSR policy. In contrast, companies like the Hero MotoCorp that have spent INR 23 million (0.31 million euros; 0.1% of its net profit) and Lupin 126 million INR (1.72 million euros; 0.7% of its net profit) have been defensive in their approach to the mandate (Economic Times 2015). This can be explained by most of these companies as 'testing the water' and trying to find out their 'what ifs and how' in regard to CSR investments, usually backed by a high emphasis on marketing communication. This is interesting since the issue is frequently also an obstacle in developed economies where MNCs new to the CSR concept also struggle with the 'ifs and how'. Hindustan Unilever Limited (HUL), for example, embraced the Act with a mind-set of creating shared value. This involves being creative and innovative in building CSR programmes and creating CSR initiatives to ensure that existing core competencies of their business can be made stronger—built to benefit the society as well as spawn returns for the company. While such standpoint is positive, it is a more Western concept as opposed to an Eastern concept. Solutions for societal improvement (as covered by the Act) in India are not acknowledged to seek 'shared value' despite of strong lobbies for this approach. This is because, as Porter and Kramer (2011) states, "shared value is not social responsibility, philanthropy, or even sustainability, but a new way to achieve economic success. It is not on the margin of what companies do but at the centre" (Porter and Kramer 2006). Moreover, the Indian economy and society needs much more than merely "shared value";

Table 1 Examples of intangible benefits (outcomes) of CSR

Type of benefit	Description	Source
Internal	Increased employee loyalty and organizational belonging	Murray and Montanari (1986), DeTienne et al. (2012)
Internal	Improved employee courage, commitment and willingness to increase customer services	Fombrun (2000), Kang (2009), Porter (2008), Shen and Benson (2016), Wieseke et al. (2009)
Internal	Decreased levels of employee turnover and increased firm attractiveness for future recruitment	DeTienne et al. (2012), Shen and Benson (2016)
External	Power to attract more customers	Harrison et al. (2010)
External	Forming stronger customer relationships and increasing corporate liking	Du et al. (2010)
External	Supportive to corporate culture	Porter and Kramer (2006)

it needs the "involvement of the Corporations in shaping the country's economic development" (Chatterjee and Mitra 2016).

At large, we find the perception and implementation of the CSR concept to be similar between our selected, developed and emerging economies (Sweden and India). In these countries, both the voluntary and the mandatory approaches acknowledge "the business case for CSR". These countries both recognize that CSR can and should provide tangible and intangible benefits for organizations to have a measurable payoff and make general economic sense. The changing role of CSR from being charity-centred to imposing a focus on stakeholder management entails that corporate citizenship and sustainable development can be beneficial, most commonly in the form of cost and risk reductions, enhancement of competitive advantages, reputation building, increased legitimacy and exploring synergy-based win-win outcomes (Indian Institute of Corporate Affairs 2014). Thus, social responsibility and business competitiveness can work side by side to benefit the society and the business at the same time (Table 1).

7 Findings from a Mini Case Study Where Mandatory CSR Applies: India

The Indian MNC, Tata Group was founded by J.N. Tata in 1868. In 1984, the Tata Group commenced real estate operations via their daughter company, Tata Housing Development Company (THD) (Mitra 2015b, c; Tata 2015). THD have emerged as the fastest-growing company in the Indian real estate sector and established themselves as a "high growth pan-India sustainable residential developer". The company has grown from INR 360 million during the fiscal year (FY) 2008 to INR 1146 billion during FY 2014 (approximately from 4.9 million euros to 15.5 billion euros in 6 years' time) with a compounded annual growth rate (CAGR) of 37% in the last 5 years. The vision of the company is to "build sustainability into everything they do so that their profitable growth helps reduce inequality and rejuvenates the environment" (Tata Housing Imprints 2015; Mitra 2015b, c); hence, THD's CSR plan of community engagement has its logical base on its unique social challenges that affect its business challenges as well. In other words, THD deliberately identifies, prioritizes, and addresses the most important social matters, on which it can make the highest impact to society and the business's future as is evident from Table 2 (Mitra 2015c).

Thus, THD's CSR strategy not only makes meaningful social impact but also strengthens the firm's long-term competitiveness: "the community engagement work of THD have seen considerable appreciation in terms of social performance awards,

Table 2 Strategic interventions of THD by integrating social, environmental and business challenges

Social and environmental challenges	Business challenges	Strategic objectives/ social opportunities (integration of business and social challenge)	Focused interventions
Unemployment among scheduled caste/scheduled tribe (SC/ST; official designations given to various groups of historically disadvantaged people in India, also known as the Depressed Classes) youth school drop-outs from among SC/ST children	Shortage of construction workers—both skilled and unskilled	Skill training in construction trades generating employment among SC/ST and helping business. Skill training in nonconstruction services generating employment among SC/ST and helping business	Tata Affirmative Action Program—Employability, Education, Entrepreneurship, Employment (TAAP) project
Rapid urbanization in city outskirts, resulting in unemployment and social unrest; lack of quality teaching and inadequate school infrastructure	Lack of household services (salon, drivers, tailors, etc.) in new projects; shortage of skilled and unskilled labour; social licence to operate	Skill training in construction and nonconstruction trades, helping business and generating employment; providing quality education, thereby gaining community confidence	Skill Development (SAMARTH); Educational Development (SRIJAN) project
Underdeveloped public infrastructure like roads, sewage system, unhygienic public defecation, etc.	Sluggish property appreciation due to inadequate public infrastructure in the vicinity and sanitation issues	Developing infrastructure, leading to economic development, community support and faster appreciation of property	Community infrastructure development including toilets (SPARSH and SWACHH projects)

Source: Tata Housing Imprints—Sustainability Report: 2013–2014, 2014

Table 3 Social performance awards received By THD, FY 2013–2014

Sl. no.	Name of the award/rating/certification	Awarding/rating/certifying organization
1.	Reality King Best CSR Practice Award	Think Media
2.	Reality King CSR Leader of the Year	Think Media
3.	Best Skill Development Initiative of a Corporate	Think Media
4.	Best CSR Practice for Affirmative Action	Think Media
5.	Certificate of Excellence for Exemplary CSR	Think Media
6.	Highly Commendable Project—MYST	Asia-Pacific Property Award

Source: Adapted from the Tata Housing Imprints—Sustainability Report: 2013–2014 (Mitra 2015b, c)

received in various forums over the years". Some of them, received in FY 2013–2014, are displayed in Table 3 (Mitra 2015b, c).

8 Conclusion

In summary, in our choice of a developed economy (Sweden), the sample MNCs engage voluntarily in CSR with a specific strategic intent behind their efforts (increased reputation, competitive advantages or reduced market risk in that order) based on a "business case" rationale and mind-set. This is also the approach in one emerging economy (India). While imposed by law, the Indian approach acknowledge and recognize that the "business sense" of CSR should be beneficial for the same reasons, that is, "while benefiting the society as a whole through CSR policies, practices and investments, companies can also keep a firm hold on the bottom line while ensuring the long-term viability of CSR interventions and initiatives. Social Responsibility and Business competitiveness are no longer at odds with each other" (Indian Institute of Corporate Affairs 2014). Regardless how CSR has emerged to become a worldwide phenomenon, how it has arisen from different circumstances, being voluntary or legislated in its delivery, being deployed in a developed or an emerging economy, we find CSR to be positively related with strategic intent and financial benefits. The strongest links between the two approaches (voluntary vs. legislated) are that these companies (1) engage in CSR for reasons to improve their reputation, to build competitive advantages or to reduce market risks; (2) manage CSR like any other managerial discipline; (3) view that companies are better suited than governments to find solutions to problems transformable into opportunities; and (4) view the CSR specifics ('how' to do CSR and what the outcomes might be 'if' they engage in CSR and the implementation thereof) to be challenging. Hence, the triangular relationship between the CSR Needs, the CSR business case and the strategic intent behind CSR can be symbiotic, nutritive and a leverage to progress the interaction between society at large and the companies providing it with goods and services.

Annexure: Schedule VII of the Companies Act, 2013

Schedule VII of the Companies Act, 2013

(i) Eradicating hunger, poverty and malnutrition, promoting preventive health care and sanitation, including contribution to the Swach Bharat Kosh set-up by the Central Government for the promotion of Sanitation and making available safe drinking water;
(ii) Promoting education, including special education and employment enhancing vocational skills especially among children, women, elderly, and the differently-abled and livelihood enhancement projects;
(iii) Promoting gender equality, empowering women, setting up homes and hostels for women and orphans; setting up old age homes, day care centres and such other facilities for senior citizens and measures for reducing inequalities faced by socially and economically backward groups;
(iv) Ensuring environmental sustainability, ecological balance, protection of flora and fauna, animal welfare, agro-forestry, conservation of natural resources and maintaining quality of soil, air and water, including contribution to the Clean Ganga Fund set-up by the Central Government for the rejuvenation of river Ganga;
(v) Protection of national heritage, art and culture including restoration of buildings and sites of historical importance and works of art; setting up public libraries; promotion and development of traditional arts and handicrafts;
(vi) Measures for the benefit of armed forces veterans, war widows and their dependents;
(vii) Training to promote rural sports, nationally recognised sports, para Olympic sports and Olympic sports;
(viii) Contributions or funds provided to technology incubators located within academic institutions which are approved by the Central Government
(ix) Rural development projects.
(x) Slum development.

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A Systematic Literature Review on Social Impact Assessment: Outlining Main Dimensions and Future Research Lines

Giorgia Nigri and Laura Michelini

Abstract Social impact assessment is increasingly attracting the attention of scholars and businesses due to its sustainability and environmental outlook which has grown progressively. Over the years, several aspects have been studied by scholars offering different outlooks of the concept. This chapter aims to provide an understanding of the state of art of social impact assessment through a systematic literature review; add an integrated framework helpful to shed new light on the relevant dimensions of SIA and generate insights for new research streams.

1 Introduction

Social impact assessment (SIA) has recently become a concept of interest within the public domain, soliciting further study by academics especially since entrepreneurs, managers, and business consultants have begun to see its business potential. SIA is an interdisciplinary and/or transdisciplinary social science that incorporates various fields and is regarded as a technique for predicting social impacts as part of an Environmental Impact Assessment (EIA) or as a stand-alone process. Although the EIA was intended as an all-inclusive framework for the consideration of noneconomic results, both environmental and social, it failed to adequately address the social issues (Esteves et al. 2012); thus SIA was developed with a gradual extension of the items under consideration. The role of SIA within the broader context of EIA has long been marginal, as shown by several studies that indicate it as the "lesser sibling" (Hildebrandt and Sandham 2014). However, its focus on the social well-being of societies has become an area of increasing concern in recent decades, leading SIA to an accelerated development (Grieco et al. 2015).

Starting from these premises, the aim of this chapter is to contribute to the knowledge base of SIA through a systematic literature review. More specifically, the research seeks to understand how SIA has been addressed in academic literature, provide an integrated framework helpful to shed new light on the relevant

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dimensions of SIA, generate insights for businesses, and discuss the implication for future research developments in the field.

We begin by describing our research methodology, followed by the review and classification of the results. We then synthesize our findings into a comprehensive Social Impact Assessment Multidimensional Framework. Finally, we discuss the implications of our findings for both research and management and propose ideas for future research.

2 The Origin of Social Impact Assessment

The origins of social impact assessment began with EIA in the early 1970s in response to the formal requirements of the National Environmental Policy Act (NEPA) 1969 of the USA. The first milestone paper was the publication of the guidelines and principles for social impact assessment by the Interorganizational Committee on Guidelines and Principles for Social Impact Assessment (1994). Over time there was demand to develop international guidelines and principles, and it became obvious that there was a wider purpose for SIA (Vanclay 2003b, 2006): SIA had to be a mechanism that could deal with multiple regulations and enhance the outcomes of development projects.

SIA practitioners work with communities, development and regulatory agencies, and private sector companies to design better projects and policies and provide information for the development approval process and ongoing regulations. Their shared professional values and understandings have been codified in the "International Principles for Social Impact Assessment" (Vanclay 2003a), and the International Association for Impact Assessment provides SIA practitioners and researchers with a professional home where they can publish and contribute to the core literature. However, the difficulties in identifying qualitative and quantitative metrics for reporting information make the assessment of social impact problematic. Many different models have been developed by different entities, due to the fact that organizations differ in size, capacity, activities, and focus, to provide guidelines and indicators for the implementation of the process. In for-profit companies, for example, the increase in this trend is directly linked with the growing importance given to CSR activities and the consequent need for proper measuring indices. Since the concept of sustainable development has been coined by the Brundtland Commission's Report (1987), sustainability was adopted by many companies through their mission statement and strategy, and it raises the issue of how to incorporate social and environmental dimensions of sustainability in programs and projects (Grieco et al. 2015). While its use in project approvals is still the predominant form of SIA, the drivers and focus for SIA have shifted. Some organizations and companies have implemented ongoing processes—assessment, management, and monitoring—to improve the identification of the social impacts that occur during project implementation and to respond proactively to change (Franks et al. 2009; Franks 2011; Kemp 2011; Vanclay and Esteves 2011). Stakeholder-related risks have been identified to be significant influencers on the success, timeliness, and cost of projects (Ruggie 2010).

The first "state-of-the-art" paper on SIA appeared in 1975 (Wolf 1975, 1976, 1977) and contributed to establishing the field followed by Finsterbusch, Freudenburg, and Murdock et al. in the 1980s, Burdge and Vanclay in the 1990s, Vanclay, Lockie, and Esteves more recently (2001–2012), with Esteves producing the last state-of-the-art paper so far (Esteves et al. 2012). The researchers' intent in undertaking this study is to update the extant research, establishing connections and assigning categories to the disparate literature, and identify future research streams.

3 Methodology

Systematic literature review (SLR) (Tranfield et al. 2003) is the most suitable literature method to pursue these research aims, because SLR supports research to (1) analyze the progress of a specific stream of research, (2) evaluate the contribution of a given body of literature to specific causes, (3) make recommendations for future research, (4) develop a model or framework, and (5) answer specific research questions (Fink 2005). We followed the three-stage procedure of planning, executing, and reporting (Fink 2005; Tranfield et al. 2003).

In the planning stage, we defined the specific aims of the research and the key data sources. With respect to the key data sources, as primary source we chose peer-reviewed journals (document type "article," "chapter"), because these can be considered validated knowledge and are likely to have the highest impact in the field, followed by books and e-books. SCOPUS, Ebscohost, Ingentaconnect, and ScienceDirect were chosen as databases, as they are the most comprehensive of peer-reviewed journals in the management, organization, and social science fields.

The execution phase of the SLR process consists of two steps: data collection and data analysis. Data collection involved the extraction from the electronic resources. The academic journals were screened for articles including "social impact assessment" in "title, keywords, or abstract." Moreover, the bibliographic research was conducted considering the following set of criteria (Fig. 1):

- Only full-text articles, book chapters, or e-books (including few conference proceedings and working papers)
- Only articles written in English in order to be able to compare different works
- A publication time frame that covers the period from 2005 to present, both inclusive, as the most recent studies on the topic are the ones that interest us the most
- Only papers and reviews published on academic journals

The data analysis phase includes different activities. First, all materials were named and stored. In this phase duplications (i.e., journal articles which appeared twice by searching with different keywords or in different databases) were deleted. The researches read 274 abstracts and considered only those papers that were relevant; after the screening procedure, a total list of 234 articles was selected.

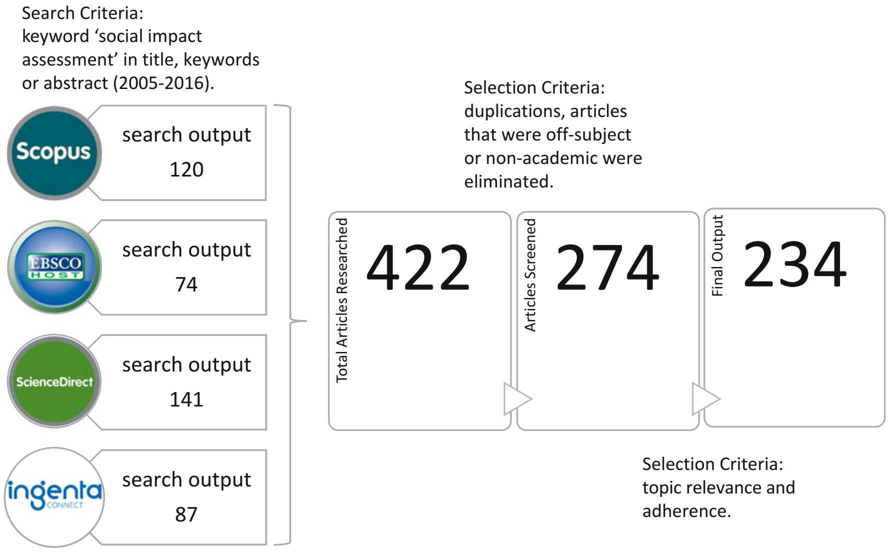

Fig. 1 Article selection process

The next step deals with the analysis of each abstract. In order to provide a structured approach to the review, each article was analyzed using content analysis technique (Hsieh and Shannon 2005) guided by a framework based on similar reviews (Coviello and Jones 2004; Keupp and Gassmann 2009). In cases where the abstract was not sufficient to convey the purpose and be tied to one of the categories present in the grid, the article was read fully. The analytic grid assessed the following categories:

– Reference data: year, country (first author's university affiliation).
– Methodology issues: type (theoretical vs. empirical) and method (case study vs. literature review).
– Context issues: industry.
– Content issues: each article has been coded using two categories.

Finally, for the qualitative analysis, 45 papers were selected and analyzed thoroughly to develop the theoretical framework. Papers were selected based on pertinence and coherence with the subject and their relevance as a theoretical contribution.

4 Results

4.1 *State of Research: Quantitative Database Analysis*

Regarding the year of publication of the selected articles and considering the time range, review shows that there was a substantial but stable increase in the number of articles between 2010 and 2013 with a peak of interest in 2015. Thus, it seems that this research field has raised interest mainly in recent years and is likely to raise more in the future (Fig. 2).

An interesting fact emerges from the analysis of the countries where universities of the first authors reside. Indeed, the interest appears to be concentrated in a few countries, above all Australia, followed by the USA and the UK, including a high number in the Netherlands—with IAIA contributions at the top (Fig. 3).

The analysis of the industry points out that most research in the field has been done in the oil and gas industry; through the *OnePetro* journal, most of the research on social impact is published (thus in the private sector). High numbers are present both in the *Multiple Industry* or *Generic* labels as most theoretical papers are not necessarily tied to a specific industry. Finally, most of the research can be found in the mining and fishing industry. It is interesting to point out that in the *Other* label, very particular sectors were present spacing from gambling to hunting to recycling which underlines the versatility of social impact assessment as an indicator (Fig. 4).

As previously mentioned, theoretical articles confronted the social impact assessment theme in general, through a literature review or a framework analysis. Moreover, the social impact assessment concept seems to be considered more as an approach, and articles tend to be empirical, utilizing single cases (Fig. 5).

The literature on social impact assessment mainly focuses on four dimensions: (1) SIA models/tools/processes, (2) SIA of specific projects, (3) environmental aspects, and (4) the community. The researchers assigned two categories to the analyzed articles and found that a common topic that resulted from the literature review was the introduction of new frameworks and indicators to study SIA, as this field is in continuous growth. Several scholars also pointed out the crucial role played by the environment. In this respect, SIA is defined as an enhancement of EIA.

The study highlighted mainly that SIA is seen as part of broader assessment procedures—risk, economic, and life cycle—just to mention the main ones which

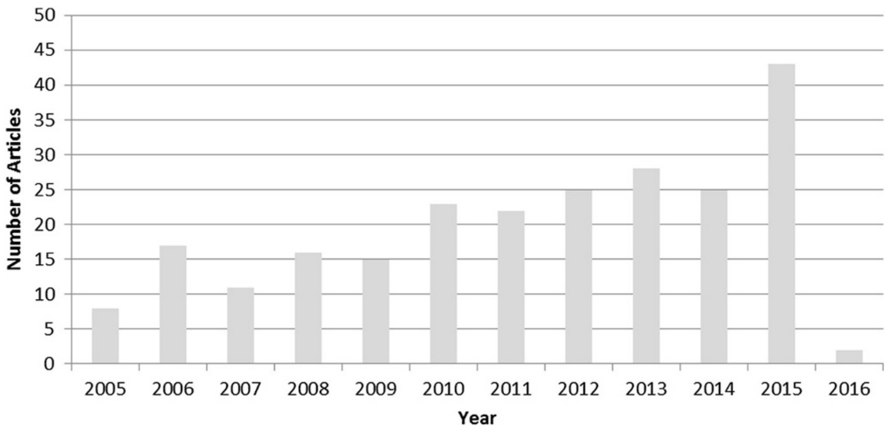

Fig. 2 Number of articles per year

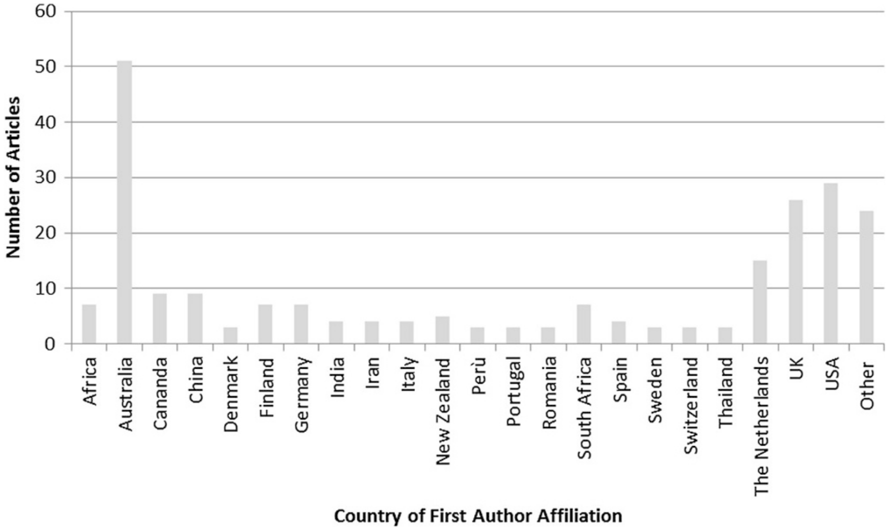

Fig. 3 Number of articles per country

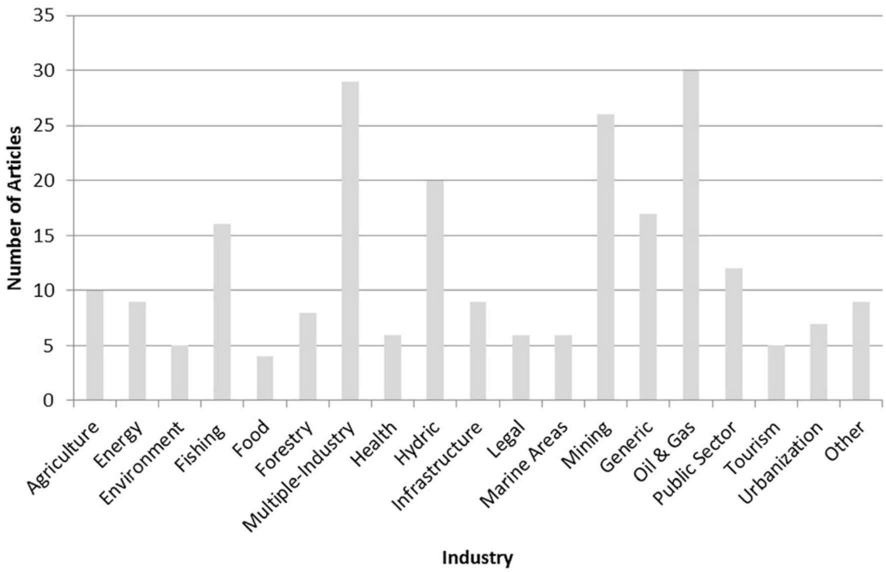

Fig. 4 Number of articles per industry

will be analyzed further in the proposed framework. According to the predominant literature, other relevant factors were human rights, the community (including all stakeholders), and CSR/ethics/sustainability. Finally, SIA was mostly utilized to study the social impact of specific projects (Fig. 6).

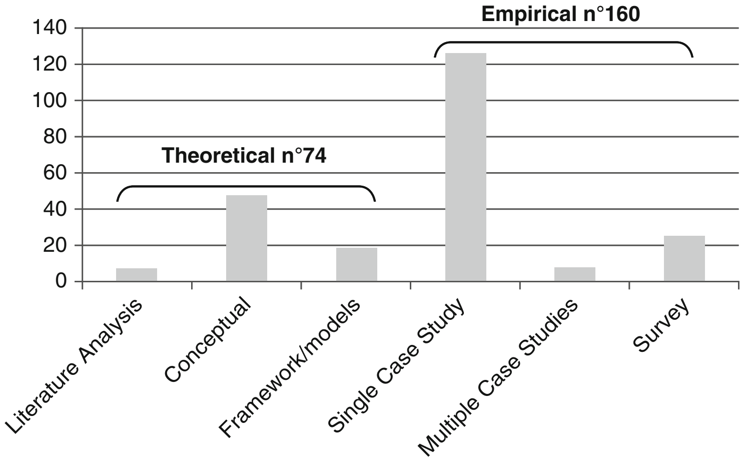

Fig. 5 Number of articles per type and method

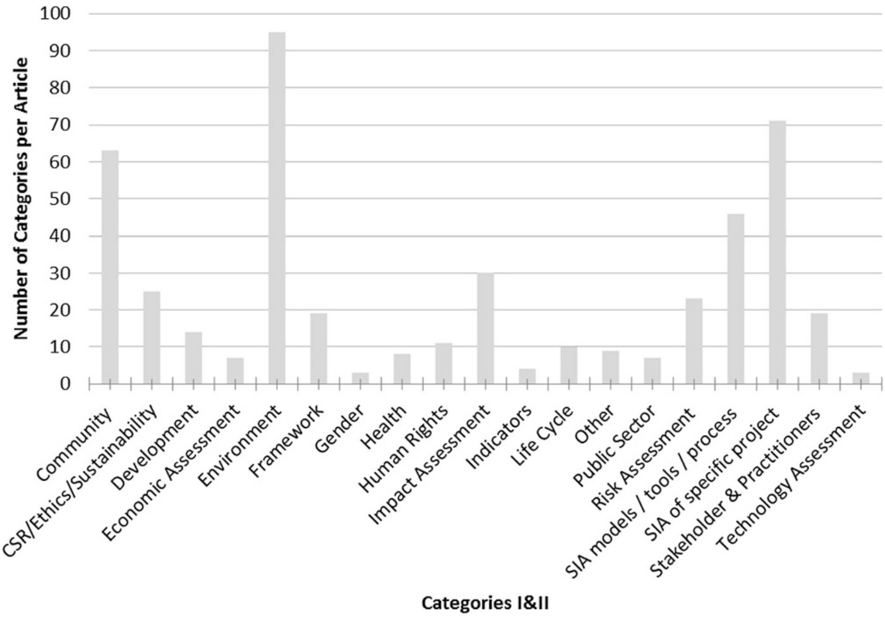

Fig. 6 Main topics of research in SIA

The relevant issue that emerges from the quantitative review is that although social impact assessment is expanding as a field and attracting ever growing interest both from practitioners and scholars, it is still very project based, and the frameworks and models are scattered and not clearly identified or common. Study approaches should address the frameworks in which SIA operates in order to identify processes and methodologies that can help to better formalize the social impact assessment concept and its benefits.

4.2 State of Research: Qualitative Database Analysis

The current section aims at discussing the relevant dimensions of social impact assessment that emerge from the literature analysis. As previously mentioned, contributions to the topic focus mainly on empirical research and single case studies that address specific projects. However, a comprehensive review of the literature helped to identify the main theoretical issues linked to SIA design and implementation.

Figure 7 highlights the key elements identified through the literature review that characterize the framework, i.e., impact assessment typologies linked to SIA, drivers, and organizations involved (private and public sector, SIA models and framework, stakeholders, and community). These dimensions are described in detail in the next paragraphs.

With regard to "typologies," Table 1 portrays the main definitions of the different impact assessment methods linked to SIA. All the definitions, although they refer to different issues of analysis, highlight the importance of being developed through programs, methods, procedures, and tools.

Furthermore, a combination of some of these typologies has not only led to forms of integrated assessment such as Environmental and Social Impact Assessment (EsIA), Environmental Social and Health Impact Assessment (ESHIA), Environmental Life Cycle Assessment (eLCA), Social Life Cycle Assessment (sLCA), and

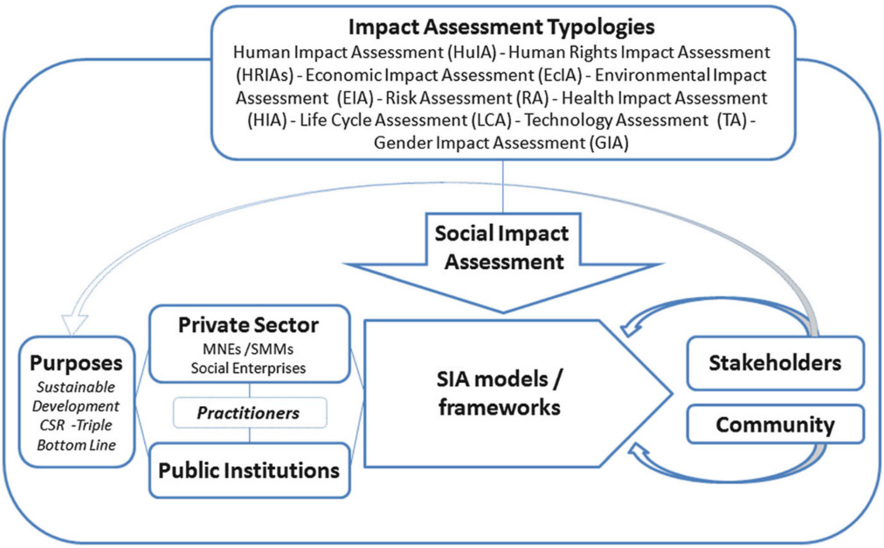

Fig. 7 A literature-based framework on social impact assessment

Table 1 Impact assessment typologies and definitions

Impact assessment typologies	Definition
Human Impact Assessment (HuIA)	Human Impact Assessment (HuIA) is a relatively new concept. It describes an integrated process that encompasses both Health Impact Assessment and social impact assessment and is used to anticipate the effects of programs, projects, and decisions on human health and welfare (Garbarino 2014)
Human Rights Impact Assessment (HRIA)	Human Rights Impact Assessment (HRIA) follows the due diligence requirements of the United Nations Guiding Principles for Business and Human Rights. The HRIA model emphasizes the identification of human rights impacts and the assessment of the effectiveness of responses to such impacts (Boele and Crispin 2013)
Economic Impact Assessment (EcIA)	Economic Impact Assessment (EcIA) is a cost-effective impact assessment method that can ensure multiple benefits and positive outcomes on projects and greatly reduce the risk of negative ones (Richards and Panfil 2011)
Environmental Impact Assessment (EIA)	Environmental Impact Assessment (EIA) is an instrument required to facilitate large development projects. In view of the fact that development is an ever growing process, its impact is also ever increasing, leading to rapid deterioration in environmental conditions and human health. EIA thus ensures that the potential problems are foreseen and addressed at an early stage in the projects planning and design and is used to predict possible consequences of any development project (Sairinen et al. 2010)
Risk Assessment (RA)	Risk Assessment (RA) analyzes a project's exposure to a range of internal and external risks and studies the impacts they may have on surrounding communities and which mitigations can increase societal acceptability and thus decrease societal risks in order to better manage external project risks (Chau et al. 2015)
Health Impact Assessment (HIA)	Health Impact Assessment (HIA) is a combination of procedures, methods, and tools by which a policy, program, or project may be judged as to its potential effects on the health of a population and the distribution of these effects in that population (Winkler et al. 2013)
Life Cycle Assessment (LCA)	Life Cycle Assessment (LCA) involves environmental and social impacts surrounding the entire product life cycle. It includes stakeholder relationships, risk management principles, cost analysis, environmental and social impact assessments, and associated action plans (Schaubroeck and Rugani 2017)
Technology Assessment (TA)	Technology Assessment (TA) studies the social impact of pervasive technologies such as the Internet and mobile telephony (Clarke 2009)
Gender Impact Assessment (GIA)	Gender Impact Assessment (GIA) portrays how men and women exposed to and confronted by social, economic, and environmental realities react in different ways and how their ways of participating in society and decision-making are interrelated not only with location, age, socioeconomic class, or culture but also with sexuality and (gender) identity and how this shapes their local responses to the impact environmental changes have (Keeling and Sandlos 2009)

Life Cycle Costing (LCC)—as a counterpart of LCA for the economic assessment and Health Technology Assessment (HTA) but also inspired very particular assessment procedures ranging from Rapid Impact and Vulnerability Assessment (RIVA) to Peace and Conflict Impact Assessment (PCIA) to Strategic Environmental Assessment (SEA).

The "purposes" topic includes literature that mainly addresses the motivations and aims of SIA. One of the relevant purposes which has led to the rise of Environmental Impact Assessment first and social impact assessment next is the environmental issue. It has then been declined into different concepts such as sustainability, biodiversity protection and preservation, resource development, and so on. Some scholars have pointed out that the motivations of environmental and social impact assessment have recently shifted. As mentioned earlier, SIA for a long period of time was only considered as part of the regulatory approval process for infrastructure and resource extraction projects, while today many organizations have adopted the assessment procedure and implemented actual ongoing processes to improve the identification of the social impacts and respond proactively to change (Esteves et al. 2012).

Other purposes are related to the concept of social license to operate that refers to the community's perceptions of the acceptability of a company and its local operations (Thomson and Boutilier 2011). Some authors pointed out the need of reporting social impact according to the Triple Bottom Line that states that organizations have economic, environmental, and social impacts, consequences, and responsibilities (Elkington 1998). This is also linked to CSR (Bice 2015) although SIA literature that specifically addresses this topic is few. One of the studies that linked SIA to CSR and the Triple Bottom Line report was developed by Miller et al. (2007). The authors considered that, despite the growing popularity of CSR and TBL in the business community, there was lack of clarity and consensus regarding what actually constituted the social dimension and how they would go about measuring it. A framework was proposed based on five social dimensions which enable the identification, quantification, and comparability of social impact reporting: demographics, individual well-being, community well-being (social capital), employment, and industry impact (perceptions and opinion). For each dimension, outcome and measurement tools were identified. Still today, after almost 10 years, many studies were proposed regarding SIA and CSR but rarely are they connected. In this respect, literature points out elements of similarity and divergence between the two (Fig. 8) (Bice 2015).

Public institutions and private sectors (such as MNEs or SMEs) are organizations involved in SIA implementations; however, a significant role is played by the community of practitioners that refer to the people who "practice the methodology of SIA and undertake associated social and environmental research to inform the practice of SIA" (Vanclay 2003a). Corresponding to the aims and context of SIAs, the types of practitioners can be different. For example, in the SIAs conducted by corporations to seek social license for their development projects, the practitioners can be internal staff or external private consultants, while in other cases (such as community initiatives), the practitioners can be community members or consultants

Linking SIA and CSR	
Similarity	**Divergence**
- Not a static and one-off reporting, but a dynamic and responsive process - Involving of community in measuring and defining impacts - Adoption of stakeholder engagement tools - Best practices are principled and value-based - Increasing professionalization and use of methods, tools and theoretical linkages to social sciences	- Divergence between formalised CSR and SIA policies and practices - CSR is ruled by voluntary regulation while SIA is binded to regulation (legal requirement set out by institutions) - Separation between SIA and CSR at an organizational level. While CSR is managed internally, SIA is often carried out by independent consultants.

Fig. 8 Linking SIA and CSR [adapted from Bice (2015)]

hired from universities (Vanclay 2003a; Wong and Ho 2015). Moreover, recently the concept of social impact has been adopted even in the social enterprises context (Grieco et al. 2015). The reasons for the growing interest in this field can be found in the limitations of financial accounting and the need for social enterprises to measure their social output.

Concerning SIA methods and frameworks, authors mainly describe models adopted within a specific case study, while researchers that address general frameworks are limited. Some scholars have classified 76 different assessment models (Grieco et al. 2015); however, models and tools for measurement come mostly from managerial rather than academic literature. The issue of "community" can be analyzed from a twofold perspective. On the one hand, it represents the analyzed social impact object, while on the other hand, it can be considered as a relevant actor in a specific phase of the SIA process (ex ante ore ex post evaluation). In this case the assessment methodology (participatory method) is based on community involvement (e.g., toward a quantitative survey among citizens) with the final aim of assessing and understanding community views about specific topics (Schweinsberg et al. 2012).

Finally, the role of stakeholders is linked to the main purpose, since they can act as a stimulus to implement SIA methods and can be directly involved in the process (Arce-Gomez et al. 2015).

4.3 Expert Survey

Since the current state of research still finds itself in an early stage, the question now arises about what are the most important future research priorities. Therefore, a survey was conducted among experts in the field to determine the future needs of research (Wirtz et al. 2015). A selection of practitioners and academics who are active in this area have been contacted directly by e-mail utilizing the results of the literature analysis as well as university and work connections. The invitation to participate in the online survey has been accepted by 16 experts.

The questionnaire contains three sections. In the first section, an open question on what should be further investigated in scientific literature was asked to get a direct

Table 2 Question: How important do you consider the following areas for future academic research?

Future research lines on social impact assessment: expert survey	
Answer options	Rating average
Social impact assessment phases and tasks	2.88
Local community engagement methods	2.65
Stakeholder engagement methods	2.88
Social impact assessment and public policies	2.82
Social impact assessment models/methods/framework for social enterprises	2.65
Social impact assessment models/methods/framework for benefit corporations (B-Corp)	2.89
Social impact assessment models/methods/framework for private sector (for CSR reporting)	3.00
Social impact assessment on specific industry (those with high impact such as oil and gas, mining, fishing)	2.53
Social impact assessment on specific projects (as a predictive study)	2.65

and personal response. In the second section, a five-point scale (1 = not important to 5 = very important) was used in order to evaluate specific areas for future academic research. Finally, the experts were questioned on methodological aspects to clarify whether more empirical or conceptual papers are necessary and which research methodology is to be favored.

In response to the open question, the experts had very diverging opinions and proposed various themes going from strategic planning to sustainability reports, from benefit corporations to human rights which once again portrayed the great versatility of SIA. With a mean value of 3.00, social impact assessment models/methods/framework for the private sector (for CSR reporting) resulted as having the greatest significance for future research followed by social impact assessment models/methods/frameworks for benefit corporations (B-Corp) with a mean of 2.89 (Table 2).

As a whole, the results considering methodology to be utilized showed that multiple-case studies would help to anchor the approach in the academic context, while 13% placed equal relevance on conceptual, single-case studies and in-depth interviews. As mentioned by one of the practitioners, "it would be mostly interesting to do conceptual, theoretical, and empirical work using a mixed-methods approach" which strengthens the integrated assessment argument mentioned in the framework proposed above.

5 Discussions and Conclusion

This chapter aims to provide an extensive theoretical framework about the state of art of SIA through a systematic literature review (SLR). Based on the SLR carried out, the increasing rise of interest in various industries utilizing existing and new models can be noticed. Data shows that starting from 2013, the topic attracted the ever growing interest of scholars mainly concentrated in a few countries, such as Australia and the USA. The in-depth SLR analysis adds to the existing literature in different ways: as an update to previous studies in this field of research, highlighting strengths, weakness, opportunities, and threats (Esteves et al. 2012), identifying the role of practitioners (Wong and Ho 2015), and highlighting the main procedures (Arce-Gomez et al. 2015). The main research areas have been identified and organized in a conceptual framework that provides an overview of the topics and results mainly addressed by extant literature. The identified dimensions of analysis are typologies of assessment, purposes, organizations involved (private sector, public institutions, and practitioners), SIA models and frameworks, stakeholders, and the community.

The proposed conceptualization is in line with some common understandings of the SIA (Vanclay 2015) and supports the most recent statements regarding the topic and its interdisciplinary nature, the shifting in the objectives (Esteves et al. 2012), and the extension to other fields of research such as social enterprises and CSR. The study highlights how, on top of an approach that interprets SIA as a regulatory tool, the most important driver in the spread of SIA is CSR. In this regard, relatively few papers connect these two issues, and it is evident how these two literature pillars rarely communicate. However, more recent studies, starting from the work of Bice (2015), underline that "the field of impact assessment is expanding, and impact assessment is becoming much more integrated with project development, corporate social responsibility, and social performance" (Vanclay 2015). Dendena and Corsi also state that "in the global scenario of actors having a part in the design, funding and implementation of projects, the private sector is no exception in acknowledging the need for a better evaluation of the social dimension of project impacts" (2015). Finally, the expert survey assessed the need to clarify the subject focusing on the specific themes tied to it through multiple-case studies. In particular, the topics that generated greater interest were the private sector, focusing on CSR, and benefit corporations.

As to the limitations of the study, we acknowledge that our focus is very specific (focused research on "social impact assessment") and that there is a high degree of subjectivity in the evaluation and categorization of the articles. The present analysis aims to be illustrative, rather than exhaustive or definitive. Future research directions should address improvements of the identified framework by including other published contributions on the topic itself and other linked topics, such as corporate social responsibility and benefit corporations.

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Building Resilience into the Organization

Corporate Social Responsibility (CSR) and Sane Leadership: Showcases in the German-Speaking Countries

Karl Kaz

Abstract Organizational resilience is defined as ability of an organization to anticipate, prepare for, respond, as well as adapt to incremental change and sudden disruptions in order to survive and prosper. In the last decade(s), organizations have often lost their "natural" resilience because there was a high priority on superficial efficiency over a long period. But an exaggerated focus on efficiency leads to brittleness and weakness in living systems. There is not enough redundancy and diversity anymore to buffer uncertainty and permanent changes. To (re)balance our organizations, we have to become more flexible and robust at the same time, and systems have to enhance diversity and be more open to different opinions and alternatives.

In the last 10 years, psychosocial diseases have grown tremendously in German-speaking countries, with days absent due to psychosocial diseases growing 100% in Germany during this time. The main reason is depression often caused by burnout syndrome. Usually burnout is treated as a personal problem. However, there is a connection between frequency of burnout and the corporate culture. Companies must therefore treat hidden conflicts and unhealthy structures in their systems. Sane leadership feels the responsibility to foster a health-conscious (salutogenesis) organization.

In German-speaking countries, more and more pioneers—often smaller- and medium-sized companies—are realizing successful businesses in connection with resilient culture and structures, a healthy work environment embedded in a trusty corporate culture, and a high-level CSR policy. In this chapter four short case studies in German-speaking countries are presented.

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Core statement of this chapter: Sane leadership and organizational resilience are the basis of widespread and all-embracing corporate social responsibility (CSR).

1 Organizational Resilience: Toward a Holistic Approach

In Anglo-American business literature, the term resilience is mostly focused on aspects like security, protection, crises management, preparedness, and risk management. British Standard BS65000 defines "organizational resilience" as the "ability of an organization to anticipate, prepare for, and respond and adapt to incremental change and sudden disruptions in order to survive and prosper." This means that the main efforts focus on improving structures and processes, measurement and controlling, and the physical or technical as well as the financial environment of the company. We cannot deny the need and necessity of all these activities. In our opinion, however, this is a narrow-minded concept of organizational resilience, and hence we want to open the concept up to new aspects.

The origin of the term resilience comes from the material sciences, which defines resilience as the ability of a material to absorb energy when it is deformed elastically and release that energy upon unloading. This means that resilient organizations have to show both stability and flexibility. In nature, descriptive examples for resilience are bamboos or the sponges. But flexibility in organization depends strongly on the human factor. This means that leadership and corporate culture should play bigger roles in this context. Rigid alarm plans or perfect security instruction is maybe useful but does not help make a company more creative and robust in a world of permanent change. What is needed are highly flexible and smooth organizations that demonstrate robustness and cleverness at the same time.

Really resilient organizations have the ability to endure strategic brakes. They have the power to act actively during phases of transition and do not lose power. Phases of change that are unclear, uncertain, and often confusing are almost the norm in twenty-first-century companies. There is the ongoing technological progress, incredible developmental speed, globalization, and enhanced digital possibilities. Stolid and cumbersome strategies will not work anymore. If old-school strategies no longer make sense, then the solution lies in an enhanced organizational resilience that can become the new, key strategic factor.

2 Three Ways to Deduce Organizational Resilience

We want to present three ways to deduce organizational resilience. The first approach will be to look what ecological system theory has to contribute to its understanding (Holling 1973; Holling et al. 2002; Lietaer et al. 2010). A second possibility is to transfer the individual resilience concept of the positive psychology

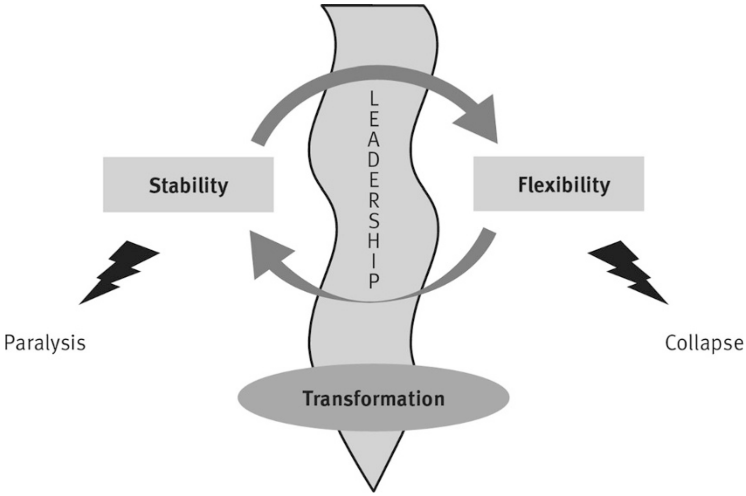

Fig. 1 Transformation in the flexibility dilemma (Hänsel 2016, p. 29)

(Reivich and Shatté 2002) to the organizational level. And the third avenue we have found is an empirical approach: Which companies coped best in the deep crises after 2008? "Leadership matters, but it is not sufficient. You don't rely on the right leader alone for success but build the capability to be resilient into the organization" (Välikangas 2010).

2.1 Resilience and the Ecological System Theory[1]

Transformation processes can be understood as an interrelationship between stability and flexibility. A successful transformation can be reached if a balance between both poles is achieved. Too much stability means paralysis—too much flexibility means collapse (Fig. 1).

Healthy and sustainable systems are capable of entering an adaptive cycle, which is illustrated in the next graphic. After a phase of continuous growth, the system comes to a phase of stagnancy. Nowadays, only a crisis helps initiate further development. The growth phase means more efficiency and optimization—but in a crisis phase, the system needs resilience (Fig. 2).

> The front loop of the adaptive cycle can be seen as largely characterized by incremental innovation, and the back loop is typically marked by radical innovation. Factors that trigger a switch from the front loop to the back loop often derive from processes operating at larger or smaller scales than that of the system of interest (Holling et al. 2002). "Traps" in the adaptive cycle may also be seen in the context of innovation. A "poverty trap" (stuck in the α-phase)

[1]Thanks to my friend Markus Hänsel who shared these ideas with me (Hänsel 2016, pp. 13–40).

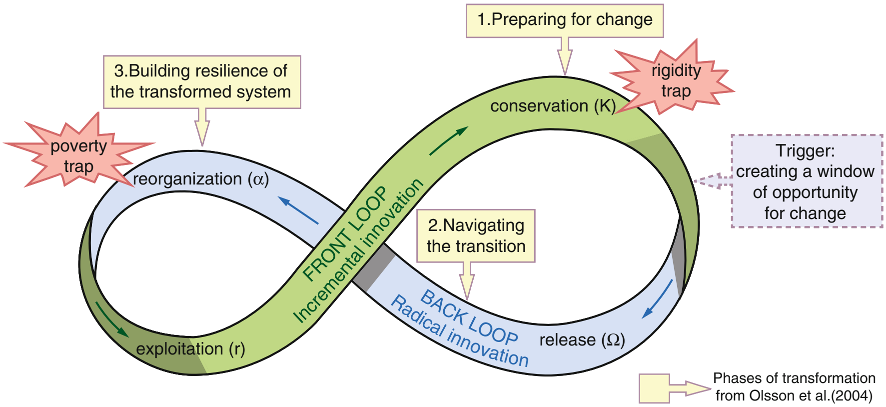

Fig. 2 The adaptive cycle of transformation (C.S. Holling 1973)

> refers to a situation where the system is unable to move out of the back loop because of a lack of new ideas or an inability to choose an option and act upon it, given a lack of resources, for example. A "rigidity trap" (stuck in the K-phase) results from resistance to the adoption of new innovations because of, for example, large, rigid bureaucracies or powerful groups with vested interests . . .. Boxes indicate the phases of transformation in ecosystem management identified by Olsson et al. (2004) that we have mapped onto the adaptive cycle.[2]

The resilience research of socio-ecological systems has formulated three central dimensions (Folke et al. 2010):

- *Robustness*: Smaller disturbance factors can be easily coped; there are buffer components which stabilize the system.
- *Adaptation*: A very flexible learning system while maintaining system integrity.
- *Transformation*: When changes are so fundamental and powerful that adaption no longer makes sense, the system is capable of fundamental transformation (without dissipating completely or collapsing) (Fig. 3).

A key factor for the capability of adaptation—and in the end, of transformation (if needed)—is the diversity and the connectivity in the system. Lietaer[3] and his staff have shown that there is a window of viability where the system can thrive successfully for long periods of times. If there is not a balance between efficiency and resilience, there is the danger that the system becomes brittle and fragile. The balance optimum is even more important in the area of resilience than in the field of efficiency. If we really embrace this phenomenon, short-term efficiency and short-term thinking will increasingly disappear. We can learn a lot from nature and existing ecosystems and transform this knowledge into productive social systems (i.e., companies).

[2]http://www.ecologyandsociety.org/vol15/iss2/art9/figure1.html

[3]Lietaer et al. (2010, p. 8).

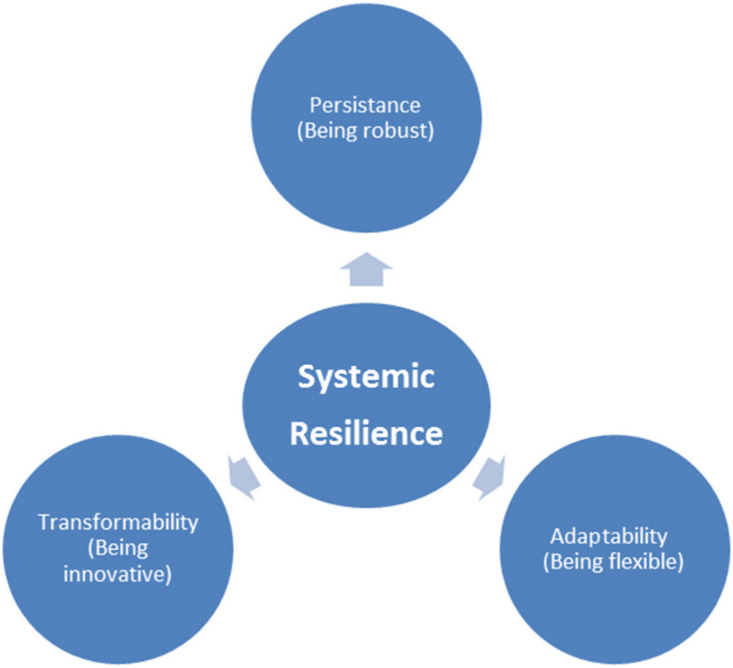

Fig. 3 Dimensions of the resilience of systems

In my opinion we have reached a limit in the last 30 years. Before the digital revolution at the end of the last century, corporate systems had much more natural "resilient buffer," and built-in stress was much lower. Somehow it is logical that the issue burnout is coming up the public discussion in the last decade of the last century. Ecological system theory can become a huge resource and could be used very concretely in business administration (but also in economic theory if "Big Brother" efficiency finally gets a "sister" named resilience).

2.2 The Individual Concept of Resilience and Its Transfer to the Organization

In German-speaking countries, concepts of organizational resilience were mostly derived from psychological models. Almost every German publication started with the concept of Reivich and Shatté (2002). The Institute of Positive Psychology (the famed Martin Seligman found the Positive Psychology Center in Pennsylvania) has developed an empirically based concept of so-called resilience factors (www.positivepsychology.org).

	STAFF	LEADERSHIP/MANAGEMENT	ORGANIZATION
1 Meaning	Future oriented	Meaningful, gives meaning	Values
2 Contribution	Belonging, contact to others	(Self-) Confidence	Transparency
3 Self-Awareness	Identification	Ambiguity tolerance	Robustness
4 Positive Values	Development	Solution orientation	Focus on resources
5.Constructive Effectiveness	Capacity to act	Agility and Objectives	Capacity of reaction
6.Adequate Behavior	Acceptance and retain control	Orientation& Empathy	Redundancy
7.Frame Conditions	OPEN, ROBUST…	AND ADEQUATE …	FRAME CONDITIONS

Fig. 4 Seven levels and three pillars of resilience qualities (Translated by the author of this chapter)

Empirical studies show there are several factors that develop and sustain a person's resilience:

- The ability to make realistic plans and be capable of taking the necessary steps to follow through with them
- Positive self-awareness and confidence in one's strengths and abilities
- Communication and problem-solving skills
- The ability to manage strong impulses and feelings

These factors are not necessarily inherited; they can be developed in any individual and promote resilience.

In Germany, Austria, and Switzerland, management consultants and trainers have derived resilience concepts to create leadership and managerial training (e.g., Wellensiek 2011, 2012; Mourlane 2013, 2015; Heller 2013, 2015). In a next step, concepts for organizational consultancy were developed (e.g., Philipsen and Ziemer 2014; Beyer and Haller 2016; Huemer and Preissegger 2016). For example, Philipsen and Ziemer (2014, p. 73) developed a concept with seven levels and the three dimensions "staff," "leadership/management," and "organization" (Fig. 4).

This is an attempt to develop a holistic view about developing resilience in an organization. The human resource aspects and the factual considerations are respected in a similar manner.

Huemer and Preissegger (2014, 2016, p. 229) are describing the Trigon consultancy model. They recognize four dimensions that are relevant to organizational resilience (Fig. 5).

These are some descriptive aspects of the four dimensions:

- Self: Self-regulation, meaning, balance, finding orientation in a complex world, awareness
- Team: Trustful dialogue-oriented corporate culture, using diversity, success of the team has priority, courageous decisions

Fig. 5 Dimensions of organizational resilience

- Organization: Honest "culture of error," learning organization, focus on innovation, participation, erasing system blockades, buffering risks
- Environment/Market: Using knowledge from the point of sale, recognizing weak signals concerning chances and risks, finding new scenarios, thinking the unthinkable

2.3 An Empirical Approach to Organizational Resilience

Välikangas and her team have done a valuable empirical study in the United States. After the 2008 financial crisis, she asked why some companies coped so successfully with the hard times. What she found was five dimensions of organizational resilience. These dimensions can be described as follows:

> 1. Organizational intelligence: Organizations are intelligent when they successfully accommodate multiple voices and diverse thoughts.
> 2. Resourcing: Organizations are resourceful when they manage to mitigate change or, even better, use resource scarcity for innovative breakthroughs.
> 3. Design: Organizations are robustly designed when their structural characteristics support resilience and avoid systematic traps.
> 4. Adaptations: Organizations are adaptive and fit when they rehearse change.
> 5. Culture: Organizations express resilience in a culture when they have *sisu*[4]-values that do not allow the organization to give up or give in, but instead invite its members to rise to the challenge. (Välikangas 2010, p. 92 f.)

The book of Välikangas is full of original ideas. For example, she suggests using a corporate jester: "In Of Managers, Ideas, and Jesters, Guje Sevón and I argue that ideas are very resilient—indeed more so than people often succumb to their

[4]Means in Finnish tenacity, persistence, or toughness

persuasion. Humor is important in combating bad ideas that do not go away or which reappear in history again and again" (Välikangas 2010, p. 118). Other helpful references are playing devil's advocate, a shadow executive team (a group of managerial junior staff), developing a network of independent people or exploring issues in terms of extremes.

The subtitle of the book is named *How Adaptive Culture Thrives Even When Strategy Fails*. Indeed it seems that it makes less and less sense to formulate 5-year strategies if the world is changing so rapidly. It seems better to have a resilient and flexible organization which copes with the challenges as a vital intelligent system or better organism.

3 Growth of Psychosocial Diseases and the Basic Psychological Needs

It is alarming: In the last 10 years, psychosocial diseases have grown extremely in the German-speaking countries. Days absent due to psychosocial diseases have doubled in Germany in the last 10 years (BundesPsychotherapeutenKammer 2015). The main reason is depression often caused by burnout syndrome. Usually burnout has been treated as a personal problem. But there is a connection between frequency of burnout and the corporate culture. Companies must therefore treat hidden conflicts and unhealthy structures in their systems. Sane leadership embraces the responsibility of fostering a health-conscious (salutogenesis) organization.

Here is not the place to describe burnout syndrome or other psychosocial diseases extensively. What we want to show is the correlation between the growth of psychosocial diseases and the persistent ignorance concerning basic psychological needs. As the third component in this game, resilience seems like the adequate attribute to cut off the vicious circle.

In a world of permanent change, people must be flexible and open to new challenges and at the same time have a stable and centered personality. This is difficult in a world with thousands of distractions and overstimulation. We live in the so-called VUCA world (volatile, uncertain, complex, and ambiguous).

If the people (management and staff) in companies could be more resilient and the culture and structures in companies supported this work and lifestyle, many problems could be solved.

> A person demonstrates resilience and stress tolerance by continuing to perform effectively when faced with time pressures, adversity, disappointment, or opposition. A person with this competency remains focused, composed, and optimistic in difficult situations and bounces back from failures or disappointments.[5]

[5]https://business2success.wordpress.com/2008/09/24/core-management-skills-and-competencies-resilience-and-stress-tolerance/

SCARF Model	Possible Threats (Examples)	Possible Rewards (Examples)
Status	Negative judgements, (public) critique	Being the best in a special discipline, positive feedback from others
Certainty	Not knowing the expectations of others, people are acting incongruently, ambiguous situations	Management by objectives in the best sense, clear communication concerning outcomes and deadlines
Autonomy	Narrow mindedness, being closely observed and controlled	Having enough freedom to develop the own potential
Relatedness	Meeting new people, coping intercultural situations	Feeling comfortable in well-known social networks, having friends at work
Fairness	Lack of basic values, inconsistent behavior	Clear rules, sportsmanship

Fig. 6 The SCARF model (David Rock 2009)

But this ideal could be, of course, also a new trap. Thus, it is extremely important to make clear what the basic psychological needs human beings are. There are different models. In the last decade, neurobiological concepts have come up with the following (Fig. 6).

Since the 1970s and 1980s, management theory knows that motivation, satisfaction, and contentment of people depend not only on one's salary (Maslow, McGregor). It is challenging but very useful to develop consulting and training concepts that respect basic human needs and for a company to show it can create a culture where future-oriented competencies like resilience are combined to satisfy these basic needs (see also Grawe 2004 for the SCARF model, Rock 2009). The mental and physical health of the staff is possible and most definitely a huge competitive advantage. CEOs and/or managing directors can get so much more commitment and engagement from their staff when they start to seriously respect people's needs.

Only one example suffices: In the last three decades, the need to act more autonomously has grown steadily. It is so obvious that nobody needs a scientific survey to confirm it. Nevertheless, often people have only the latent feeling that something runs away. For example, they have been not really asked, or the objective agreement is more a decree than the result of fair negotiations. It is a managerial task and challenge to foster basic human needs (here, autonomy, fairness).

In the next chapter, we will show several showcase examples. In German-speaking countries, more and more companies are trying to combine financial success with "happy people" (Haas 2014; see also the concept "corporate happiness" on the website http://corporate-happiness.de).

4 Showcases in the German-Speaking Countries

In German-speaking countries, more and more pioneers—often smaller- and medium-sized companies—are realizing successful businesses in connection with resilient culture and structures, a healthy work environment embedded in a trusty corporate culture, and a high-level CSR policy. In this chapter we will present four short case studies with showcase examples in German-speaking countries.

– Upstalsboom GmbH (hotels and holiday flats, about 700 employees)
– Clean Power GmbH (cleaning company, about 1200 employees)
– DM Drogeriemarkt GmbH & Co. KG (retail store cosmetic/toiletries chain with 3149 stores and more than 50,000 employees in Europe (36,000 in Germany; 6000 in Austria))
– STP (software development for legal branch, 150 employees in Germany)

Editing the Springer publication “CSR und gesunde Führung (CSR and sane leadership)” (Hänsel and Kaz 2016), my colleague Markus Hänsel and I interviewed several managing directors and the personnel management from these entities. Here we present short company portraits on the base of these interviews. The interviews could be a basis for more systematic empirical research in the future, and for this purpose we can deduce some working hypotheses.

4.1 Upstalsboom GmbH[6]

Upstalsboom GmbH is a hotel chain with about 700 employees. Most of the hotels are located on the North and Baltic Sea coast.

We conducted an interview in Hamburg with the Director of Human Resources, Bernd Gaukler (Gaukler 2016, p. 301 ff), in May 2015. Upstalsboom has become well known in Germany because the owner and managing director of the company spent a few months in a monastery contemplating and meditating. From an economic point of view, the company was on a healthy way, since in a service-oriented branch, employees are the most important resource. However, surprisingly, a very disappointing employee attitude survey suggested otherwise. The survey confirmed a big absentee rate, and the young managing director, Bodo Jansen (Jansen 2016), decided to take a radical step, forging a new and courageous path.

After his monastery stay, Jansen started to implement a basic participation program. In the last 5 years, the company has changed fundamentally. A new, anonymous attitude survey has shown that personnel morale (measured employee satisfaction) has improved 80%. The company spent a lot of money on personnel training—not only for management but for every employee as well. The employees could also choose to stay in a monastery (Fig. 7).

[6] http://www.upstalsboom.de/filme.html

Fig. 7 The Upstalsboom value tree

There are two big workshops each year where more than hundred employees (not only leadership teams) come together to work on their next challenging issue. In the first year(s), the main issue was the corporate culture and company values. The so-called Upstalsboom tree was created together. And because it was not a top-down process with minimal participation, this value tree has strong meaning to the entire staff. The truly lived values are fairness, appreciation, trustworthiness and reliability, openness, loyalty, role model, awareness, trust, responsibility, heartiness, lust for life, and quality. The key change in the organization has been the trust it has placed in its people. Some managers left the company because this new culture was too alien to them. Nonetheless, for now the company is very successful, fast growing, and has received many awards.

Some key findings in this case are:

- In midsized companies, the owner/managing director can be the key for huge change.
- Encouraging the staff to engage and participate can be an enormous resource.
- Economic success can be combined with an attractive work environment.
- Wages are higher than average.
- Even difficult issues and phases can be managed much better with flexible, courageous, and highly motivated staff (organizational resilience).
- Migration is seen as a chance for the company.
- Social projects and engagement are also growing now (building schools in Ruanda).
- CSR has become a natural part of the process and did not have to be implemented artificially and separately.

4.2 Clean Power GmbH

Clean Power GmbH has its head office in Bonn, and it was there that we interviewed the owner and managing director, Thomas-Michael Baggeler, in April 2015 (Baggeler 2016, p. 205 ff). The slogan of the company is CLEAN—for a better life in the here and now. Similar to Upstalsboom, the cultural change has depended on the owner and managing director Thomas-Michael Baggeler. Baggeler started with an ecological certification already in 1995. Since then sustainability has been a core value at CLEAN: CO_2 reduction and ecological cleansing compounds are making CLEAN unrivaled. Furthermore, CLEAN has a strong focus on its people: In a business in which many employees are immigrants, the company has created a special corporate culture where all these people from different nations have found a (new) home. Similar to the hotel sector (see Upstalsboom), it is not easy to find good staff to perform these jobs. Moreover, CLEAN pays wages above industry average. The managing director prefers quality competition and is fighting against dumping prices.

CLEAN has ethical fundamentals like ecological and social sustainability. Staff and customers are very much appreciated and there is a focus on facilitating communication. This is a field where special training is offered within the company. CLEAN is offering its services in North Rhine-Westphalia, Münster, Bielefeld, Koblenz, Berlin, Frankfurt, and Munich.

Some key findings in this case are:

- Midsized company, decisions depending on the owner/managing director.
- More traditional leading style, “boss—the good guy.”
- Modern ecological approach in the work processes and its usage.
- Economic success can be combined with attractive work environment (clothes, cars, cleansing compounds).
- Wages are higher than branch average.
- Future-oriented concept, immigration is seen as a chance for the company.
- Corporate culture as a core instrument steering the company.

4.3 DM Drogeriemarkt GmbH & Co. KG

DM Drogeriemarkt GmbH & Co. KG (retail store cosmetic/toiletries/healthcare and household products and health food chain with 3149 stores and more than 50,000 employees in Europe (36,000 in Germany; 6000 in Austria)).

DM Drogeriemarkt is headquartered in Karlsruhe. In its branch, DM is Germany’s largest retailer measured by revenues. DM has stores in Germany, Austria, Hungary, the Czech Republic, Slovakia, Slovenia, Croatia, Serbia, Bosnia-Herzegovina, Romania, Bulgaria, and Macedonia. The company has flat hierarchies, and social commitment ranks high. For founder Götz Werner, well-being of the employees is more important than the company’s return (Werner 2015).

DM stores can act relatively autonomously. Of course, many processes are centralized due to cost-effectiveness. But, for example, store staff can take the initiative and make their shop unique. Nevertheless, competition between the shops should not be too aggressive.

We conducted an interview with Mike Metzger, who is responsible for staff development at DM (Metzger 2016, p. 103 ff).

Some key findings in this case are:

- “Leading by dialogue” as a principle (Dietz and Kracht 2011)
- Strong focus on talent management and personal development
- Special apprenticeship programs
- Fostering self-reliant behavior
- Focus on people (staff and customer)
- Responsibility for ecological aspects (value chain)
- Supporting social engagement
- Important values: transparency, openness, communication

4.4 STP Holding GmbH

We talked with the human resources team leader, Bettina Andrae, in June 2015 (Andrae 2016, p. 113).

STP is a midsized company but one of the biggest software developers for lawyers in Germany. Their core competence is the development of software solutions and information systems for lawyers, justice administration, and all institutions that are in contact with legal intermediaries. The firm is also a market leader in the field of software for voluntary administration, for voluntary administration courts and quality management systems for lawyers.

This midsized software company has adapted the scrum organization[7]—not only for the software development but using it as an organizational principle for the whole firm. Hence the organization is extremely process-oriented and team-focused. Participation of employees in all fields is the norm. The success of STP is the success of each employee. Every employee is a qualified and respected member of the STP community. "There is trust, respect, fostering and integrity" (Andrae 2016, p. 113). SCRUM means teamwork and a self-reliant staff. Sane leadership means that all people are feeling satisfied on the job. The art consists in achieving a long-term balance through repeated give-and-take between company and staff.

STP has implemented pair programming, meaning that a senior and a junior programmer develop software together. For the corporate culture, it is important that each new employee's whole personality fits in the organization—it is not enough that they might be experts.

STP has received a family award for "Best Work-Life Balance." Social engagement is growing at STP and there are several ongoing CSR projects at the firm. In the company a health program with several offerings exists: massage, stress reduction program, relaxation, etc. Work overload is to be avoided, and on the weekend and during vacation, working via e-mails and phone calls are exceptions.

Some key findings in this case are:

- Midsized company, software developer
- Modern leadership
- Process-oriented organization, team organization (SCRUM)
- Explicit values: trust, respect, fostering, and integrity
- Self-reliance, participation
- Internal health program
- Growing CSR activities

[7] http://www.scrumguides.org/history.html

5 High-Level CSR and Organizational Resilience as an Excellent Competitive Advantage in Highly Developed Countries: Conclusions

Schneider (2012) has shown the different levels of CSR development in companies. In our showcase examples, it is surprising that the term CSR or corporate social responsibility is often not mentioned explicitly. Nevertheless it is a fact that these companies are "living" CSR, and in different ways these companies feel responsible for:

- The physical and mental health of their staff
- Fostering a work-life balance
- The implementation of values that are really lived in the company
- Finding solutions to lead people in a respectful manner
- A flexible modern organization combined with clear competencies
- Positive environment and corporate culture
- Intrinsic motivation
- Enhanced participation
- Supporting self-reliance and autonomous behavior
- Fostering diversity and new ideas
- Social engagement and ecological sustainability

In all these aspects, we see a combination of growing organizational resilience and intelligence, a new level of (sane) leadership, and a (even if not explicitly said in the company) high-level CSR policy.

Hence we can come now to the final and core statement of this chapter: *Sane leadership and organizational resilience are the basis for widespread and all-embracing CSR.*

The findings in these showcases can—and should—be used for further empirical research.

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Forest-Based Health Tourism as a Tool for Promoting Sustainability

A Stakeholder-Based Analysis of Supply-Side Factors in Tourism Product Development

Monika Bachinger and Hannes Rau

Abstract Increasing sustainability in tourism is one of the most important challenges in the light of the steady growth of international tourism arrivals. In this context, forest-based tourism products have gained growing attention. Forest-based tourism products relate to all three dimensions of sustainability: they reconnect human beings to nature and they promote generation of sustainable income. Furthermore the social dimension is addressed by the health effects of nature on humans. However, very little research has been published concerning forest-based tourism. Most publications in the field of health-related forest research concentrate on biomedical evidence. In the field of nature-based tourism, most research focusses around water-based products like spas. Furthermore, the majority of publications are driven by the customer's point of view. Little research concerns the supply side and the question of what supply factors may further the development of nature-based tourism. The paper cites empirical research based on a set of qualitative interviews of public and private authorities and businesses in the region of the Northern Black Forest. It provides insight on natural and human resources and competencies which are crucial for an increase in sustainability by producing forest-based tourism products.

1 Introduction

Whereas, for many years, forest ecosystems have been discussed by experts, the debate about forests and their positive effects on human beings has now reached the general public (Wohlleben 2015; Spafinder 2015). Moreover, forest visitors have changed their perception (Kirig and Schick 2008): in many cases forests today are not merely used as a setting for sporting activities. Forests themselves have become the core of the vacation experience: observation of nature, plant, and animal wildlife

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and an interest in ecosystems have become central to a growing number of holidaymakers (FUR 2015). The market share of nature and nature-based vacation has therefore increased (Arnegger et al. 2010; Strasdas 2006). Particular customer segments choose forest destinations because they appreciate clean air and cool temperatures in the summer and because of other effects on human health. Indeed, there is evidence that holidaymakers rediscover forests for the promotion of health (Ensinger et al. 2013; Forster 2009). However on the supply side of tourism, forest-related resources and especially forest health effects are still widely unknown and thus underused in product development (Arnberger et al. 2016). Forest-based tourism products however carry great potential for promoting sustainable tourism, first and foremost, because they enhance people's understanding of the positive effects on health and why the protection of nature should be a self-seeking goal of mankind (Reid and Hunter 2013; Warber et al. 2013; Coles and Millman 2013; Jackson 2005). This raises the question which conditions on the supply side of tourism may enhance product development in the field of forest-based health tourism.

2 Conceptual Framework

It is assumed that tourism products that are based on forest resources and that center on the promotion of human well-being contribute to sustainable development. In order to explicate this assumption, three conceptual components are considered.

First, the components of the supply side: forest-based health tourism will be characterized and important touristic stakeholders will be identified.

Second, the component of sustainability: the contributions of forest-based health tourism to sustainable development will be explained.

Finally, the third component considers prerequisites that should be met on the supply side to enable realization of forest-based health products.

2.1 Forest-Based Health Tourism

The World Health Organization understands health as a "state of complete physical, mental and social well-being and not merely the absence of disease" (WHO 1948). Health thus has three dimensions: the physical, mental, and social dimension. If a holistic understanding of human health is to be applied, the salutogenic model gains in importance (Keyes 2015; Mittelmark and Bull 2013; Antonovsky 1987). According to this model, health is a process rather than a status. Consequently, individuals are not regarded as sick or healthy per se but travel between the poles of sickness and health throughout their life. Hence, there is a need for individual health promotion and health prevention. As an essential element of health prevention, the salutogenic model refers to so-called sources of resistance (Mittelmark and Bull 2013; Antonovsky 1983). These sources allow individuals to cope with stressors from the environment. One of the most important sources of resistance is the sense of coherence: it may be experienced in situations which are understandable, manageable, and meaningful to the individual. These situations may be found in nature rather than in urban environments, because nature is perceived as less complex. Nature is therefore supposed to help build up sources of resistance which support individuals' state of health (Takayama et al. 2014; Bowler et al. 2010; Hartig et al. 2003; Staats et al. 2003).

From a forestry perspective, forests can be defined as "any area which is timbered by forest plants" (Federal Forest Law 2016). However, when linking health to forests, it seems worthwhile to understand how particular forest attributes affect human health. In Europe there are some baselines of what people consider pleasant (Stölb 2005): There should be a variety of old and young trees, light and shadow, high and low parts, proximity and distance, hardwood and softwood, green and brown, nature and culture, etc. Beech and oak as native main species are preferred; however they should alternate with conifer stands. A hall-like forest structure that allows a view far into the forest interior is aesthetically extremely valuable. The same is true for old trees. However, variety with other landscape elements is important for the forest experiences. Too much forest is "scary." Therefore, meadows, ponds, memorial stones, rocks, huts, etc. are to be integrated. Particular emphasis should also be placed on scenic views (Konu 2015; Shackell and Walter 2012; Ulrich 1983).

Forest with structures that meet those criteria can be assumed to positively affect human health, especially on the three dimensions of health mentioned above (Ochiai et al. 2015; Corazon et al. 2012; Bowler et al. 2010). Firstly, physical effects can be attributed in forests both while resting and during exercise. Medical evidence on hypertension and stress symptoms resulting from a passive stay in forests has been verified (Takayama et al. 2014). Actively hiking in the woods leads to positive effects on the immune system, on the heart, and on blood circulation. Secondly, the psychological effects of forests are to be cited (Ochiai et al. 2015; Berman et al. 2008). The most striking fact is that forests have a direct and strong relaxation effect. They support the recovery process from stress and contribute building up the source of resistance mentioned before (Jordan 2015; Ensinger et al. 2013; Corazon et al. 2012). Forests help to restore one's attention and one's power of concentration (Kaplan and Kaplan 1989). Finally, forests have positive social effects. It was observed that, for example, handicapped people find it easier to connect with groups in forests because nature is experienced by everyone in a similar and direct way and serves as a common ground for communication (Korpela et al. 2014; National England 2013; Maas et al. 2009).

The last component in the context of forest-based health tourism is the supplier side represented by tourism businesses: their tourism products can be understood as service chains (Weiermair 2006). A typical tourist service chain consists of information, travel, accommodation, entertainment, and various activities such as hiking (Flagestad and Hope 2001). It is a characteristic for nature-based tourism products that natural resources such as the landscape are the centerpiece of the holiday experience: nature-based tourism may be defined as "a form of travel to natural areas where nature is a key motivation for the tourist" (Strasdas 2001). Different companies and organizations are involved in creating such tourism service chains. Three groups of stakeholders can be distinguished: first, companies and freelancers such as hotels and nature guides, respectively, second, tourist organizations representing a municipality being in charge of tourism infrastructure such as hiking trails, and, third, the destination management organization (DMO), which coordinates the other two groups of stakeholders and markets the touristic products.

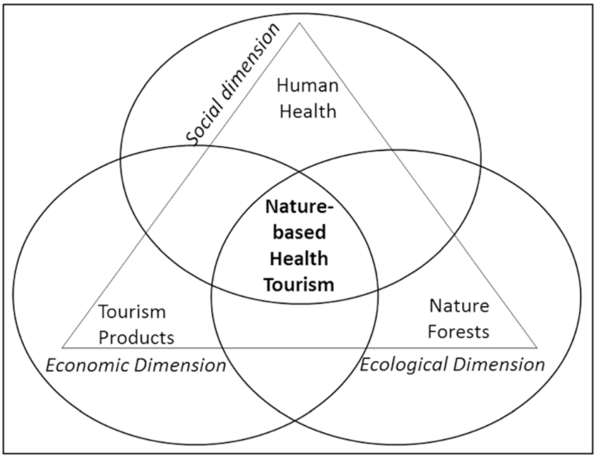
Summing up, forests positively affect human health on different levels. Businesses and municipalities participate in a network-based process creating tourism products. Thus, according to Kaspar (1996, p. 56), health tourism may be understood as "totality of the relationships and phenomena resulting from the change of location and residence of individuals to promote, stabilize and possibly restore physical, mental and social well-being through use of health care services." Forest-based health tourism lives up to these characteristics and therefore may be explained as tourism which contributes to physical, mental, and social well-being on the basis of forest resources which are used by individuals in a self-responsible and environmentally sensitive way.

2.2 Sustainability and Forest-Based Health Tourism

Due to an ever-growing number of international arrivals (UNWTO 2015), one of the main tasks of enhancing global sustainability is greening the tourism industry. The concept of sustainable tourism has therefore gained momentum. According to the World Tourism Organization, sustainable tourism can be defined as "tourism that takes full account of its current and future economic, social and environmental impacts, addressing the needs of visitors, the industry, the environment and host communities" (UNEAP and UNWTO 2005). This definition may be enriched by a practical frame of action, which was set up by the Helmholtz Association and which contains a set of 15 rules (Kopfmüller 2015; Kopfmüller et al. 2009; Schultz et al. 2008). These 15 rules define the integrative concept of sustainable development. Some of the rules are protection of human health, safeguarding access to basic social services, promotion of self-employment, equal access to nature for all individuals, and compensation of high income and wealth differentials (Kopfmüller 2015; Kopfmüller et al. 2009; Schultz et al. 2008). Coming back to the components of forest-based health tourism mentioned above (nature/forest, health, and tourism products), one could argue that many of the rules of the Helmholtz Association could be addressed by designing tourism products which rely more intensively on forest-based resources and which at the same time address human well-being. Graphically this interconnection of the three essential components may be depicted as in Fig. 1.

In detail, these interconnections may be illustrated by looking closer at some of the rules of sustainable development cited above: Firstly, forest-based health tourism helps enhancing human health. As stated above, woodlands contribute to processes which help people recover physically and mentally, but they also contribute to an

Fig. 1 Effects of forest-based health tourism on three dimensions of sustainability as derived from literature review



atmosphere which encourages social interaction. Therefore, forest-based products directly relate to all three dimensions of human health. By fostering social interaction, forest-based health tourism furthermore supports social cohesion. As stated, forests provide an environment where individuals meet dissociated from their social status. Social interaction is more inclusive. Secondly, forest-based health tourism may contribute to self-employment. As explicated, tourism products are based on a variety of stakeholders (businesses and municipalities). These stakeholders deliver the tourism product cooperatively. At the same time, tourism is an economy and thus obliges to income generation. Furthermore no other economy is characterized by such large numbers of small- and medium-sized enterprises (Zehrer 2009; Keller 2004). Start-ups are an essential element for tourism especially in green tourism (Lordkipanidze et al. 2005). This illustrates how forest-based tourism may promote income generation and self-employment. Thirdly, forest-based health programs may sensitize people for the needs and for the value of natural ecosystems. Studies on the so-called double dividend have shown that individual well-being which is based on natural resources is very often accompanied by an increased environmental awareness (Reid and Hunter 2013; Warber et al. 2013; Coles and Millman 2013).

2.3 Supply-Side Factors of Forest-Based Health Tourism

To set up forest-based tourism products which, as mentioned before, can promote sustainability, tourism stakeholders in enterprises as well as in tourist resorts or in destination management organizations have to fulfill different tasks (Schalbe and Peters 2012; Sainaghi 2006; Ritchie and Crouch 2003). According to the theory of core competencies, a competitive advantage is generated if businesses or municipalities master these tasks effectively. Their effectiveness depends on a unique set of special competencies and capabilities required to achieve an advantage over competitors (Pechlaner et al. 2014a, b; Barney 2002). According to Voigt and Pforr (2014), there are eight fields of competencies and resources which should be available to a successful health tourism destination: natural resources such as forest landscapes; cultural, historical, and spiritual resources; complementary offers in medical treatment; community mind-set and health-related lifestyles; human resources and competencies such as qualified nature guides; health-specific superstructures like hotels or resorts; health-related events; and a crossover of health programs in combination with other activities, for example, arts or cuisine. These tasks and competencies are shared by the three groups of stakeholders mentioned above.

Tourism businesses like hotels and restaurants or freelancers such as nature guides primarily need two skills: mature marketing skills and the ability of partaking in regional networks. Marketing skills primarily refer to product development in the field of nature tourism. A key factor here is profound knowledge of natural processes or of the specific nature in that particular region as well as knowledge about customer expectations (Bachinger and Rau 2016). Networking skills depend on the ability to identify opportunities for cooperation. That means to identify suitable partners, to establish solid relationships to these partners, and finally to enrich these business relationships with complementary resources (Teece 2007; Gulati et al. 2000). This raises the question to what extent service providers dispose of these skills and how far they are able to use them for creating forest-based health tourism products.

The task of the tourism resort or the tourism municipality is to coordinate the local service providers and businesses toward creating attractive tourism products. A cooperative effort is required since tourism products are made up of a service chain. In addition, their responsibilities often include management of the tourism info center as well as upkeep and organization of tourism infrastructure because of their public good character. Yet, these infrastructures contribute intensively to the attractiveness of the entire community or region, such as hiking trails and bicycle routes. Furthermore, aesthetically attractive forests contribute to the success of forest-based health services. Municipalities and especially their forestry branches thus have a vested interest in keeping forest infrastructure functional and attractive but also safe. Finally, municipalities provide information on forest infrastructure, trails, and routes in tourist brochures and on Internet platforms (Schalbe and Peters 2012; Sainaghi 2006; Ritchie and Crouch 2003).

Finally the DMO is in charge of managing two tasks. The first task relates to customers and involves improving the image of the tourist region. This may be done, for example, by creating so-called lighthouse projects—these are tourism products which shape the image of a particular region because they are marketed very intensively or because they offer unique quality or originality compared to other products. The second task is directed toward the network of tourism businesses. DMOs should be able to organize processes within these networks, which enable partners to interchange knowledge and resources. Furthermore DMOs should contribute to quality management and training of the tourism businesses and tourism communities, for example, by providing insights on latest research (Sainaghi 2006).

In the context of forest-based health tourism, it is relevant to know which business and community networks exist and to what extent these networks are managed strategically. This raises the question of how intensely forest-based tourism shapes the profile of the tourism region at hand. Finally, it should be examined whether the DMO conducts research on the issue of forest health either by their own or in cooperation with partners (Schalbe and Peters 2012; Sainaghi 2006; Ritchie and Crouch 2003).

Based on the three levels of the conceptual framework outlined above (forest-based health tourism, sustainability, and supply-side effects and success factors), it can be assumed that forest-based health tourism contributes to sustainable development. In this context it seems worthwhile to learn more about the preconditions which favor the creation of such products in order to possibly formulate recommendations for product development. The research question for the empirical study can therefore be formulated as follows: What supply-side factors can empirically be verified as precondition for the creation of products in the field of forest-based health tourism?

3 Research Design

3.1 Research Area: National Park Region Northern Black Forest

The Black Forest National Park is situated in the northern part of the midrange mountainous Black Forest region in the state of Baden-Württemberg in southwest Germany. The park administration as well as its legal protection status was only recently established on January 1, 2014. Its territory is divided in two separate areas with a total size of about 100 km^2, mostly covered with spruce, fir, and beech forests. While its primary goal is to protect the natural habitat and allow natural processes to occur within park boundaries, it creates opportunities for sustainable forms of tourism in the surrounding region. Adjacent municipalities have therefore formed a tourism marketing alliance called the “national park region.” The park itself and the national park region are also situated within a larger conservation area “Naturpark Schwarzwald Mitte/Nord,” covering the Central and Northern Black Forest.

3.2 Methodology

Eight semi-structured expert interviews were conducted during March 2016. Interviewees had been selected based on recommendations made by regional tourism experts during a workshop. Here, participants were asked to name stakeholders with exceptional knowledge or responsibilities in the field of forest-based health and tourism. The intention was to capture various different perspectives on the matter.

Hence, individuals were selected representing different branches including forestry, infrastructure and tourism administration, guided nature tours, landscape therapy, hotel and restaurant businesses, spiritual NGO, and fashion art. Central questions were laid out in a guideline provided to the interviewees in advance and addressed three main concerns: first, the importance of regional cooperation for the individual business; second, the role of the two aspects, forest and health, within the enterprise and in regard to the specific competencies involved; and, third, the question asked about what is associated with the term "forest-based experiences" and about unique features specific to the Black Forest to offer such experiences to tourists.

The interviews were audio-recorded, transcribed, and analyzed employing qualitative content analysis using MAXQDA[1] software. In accordance with Mayring (2014), a content-structuring approach was applied for the analysis. First, a mixed category system was deductively developed based on the theoretical frameworks described before. This was complemented by additional inductively developed categories. A code system (see graph) was applied to identify destination-specific resources in regard to their potential for the development of sustainable tourism products and services. Three main dimensions are addressed (environment and infrastructure, human resources and competencies, and innovation):

- The first dimension includes all conditions present in the region for businesses to build upon. Environmental determinants include four subcategories: "Business Environment" encompasses general conditions such as the local employment market or the political climate. "Natural Setting" includes all existing natural features such as forests, waterfalls, or spectacular valleys. "Regional Culture and History" refers to aspects of cultural heritage specific to the region. The code "Health Effects" was assigned to specific and non-specific health properties attributed to a place or an area. The category "Hardware" indicates infrastructural facilities, distinguishing between "Tourism Specific Infrastructure" and "Health Infrastructure."
- A second dimension "human resources and competencies" considers individual and collective knowledge as necessary enabling factors for the development and refinement of tourism products on the basis of determinant input factors. This dimension encompasses two business-related processes, differentiating between "Operational Processes" and "External Cooperation Operational Processes" which are based on various marketing skills and are characterized by two factors. First, expert knowledge was described. "Knowledge of a Place" indicates detailed geographic knowledge within the destination and about its natural features or attractions. "Knowledge about Nature" shows expertise of natural phenomena. Accordingly, "Knowledge about Culture and History" was coded separately. "Knowledge about Health Effects" may be manifested in regard to the physical, psychological, or social aspects of health. "Knowledge about Processing Resources" is specific to production processes using natural resources. Secondly,

[1]MAXQDA, software for qualitative data analysis, 1989–2016, VERBI Software—Consult—Sozialforschung GmbH, Berlin, Germany

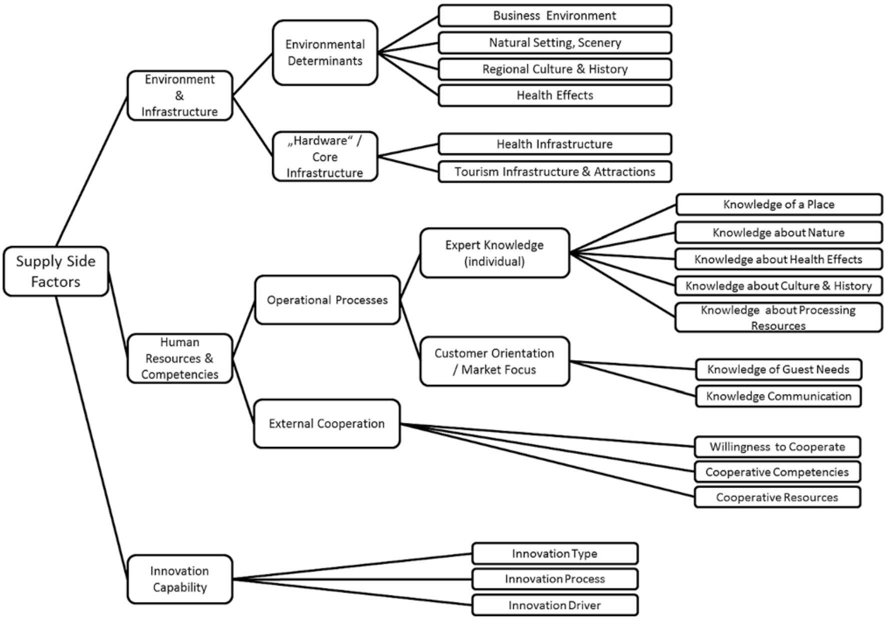


Fig. 2 System of categories for qualitative content analysis

the factor "Customer Orientation" refers to a business following market-driven approaches. A code "Knowledge about Guest Needs" was assigned whenever the interviewee showed awareness about customer needs. Another code "Knowledge Communication" was assigned once expert knowledge was actually transferred to a customer.

- The third dimension relates to three aspects of innovation. "Innovation Type" can be characterized as product, process, or organizational innovation. The "Innovation Process" is either incremental or radical depending on whether changes are made in small steps or game-changing agents. "Innovation Drivers" represent all circumstances that promoted an innovation.

Categories and codes are illustrated in Fig. 2.

4 Results

Contributions of forest-based health tourism to sustainability have been confirmed by a major part of respondents relating to its social, ecological, and economic dimensions (IB12; IB34; IC66; ID16; IF8; IG7). Forest-based health tourism is considered to promote regional value chains with positive consequences on both employment and general quality of life, relating to the economic and social aspects of sustainability. As one respondent put it, "we are embedded in a green oasis and that means really clean air. A wonderful climate that produces high quality of life" (IB12). Regional sustainability has been addressed not only in regard to integrating the timber chain in tourism infrastructure (IF10). The incorporation of regionally produced healthy food was also explicitly mentioned: "It's not only healthy to eat regional. . . .it also adds to the experience, people say: 'I have done something for the local farmers and for myself. I have a good product'" (IB105-107). Furthermore, education was considered an important tool to promote sustainability (IG2; IC3; IB34-38). Whereas, in some cases, education for sustainable development is a formal requirement, personal motives were also evident: "Raising awareness is a key point. For nature, for hiking, for being active, whatever it is. It will always be a mixture of many things. . . .One big aspect in forests is surely promoting health issues. [But] it is one thing to offer one-time experiences. Raising awareness is [what makes it] sustainable" (IB34-44). In order to understand how the positive effects on sustainability may be enhanced, the categories and dimensions mentioned above serve as framework of important supply-side factors for forest-based health tourism.

4.1 Environmental Determinants and Destination Infrastructure

Forest-based health tourism relies heavily on the quality of nature. Clean air and a healthy climate were the most frequently mentioned causes affecting physical health directly (IA45; IB12; IE67). One respondent highlighted that ". . .climate change is actually beneficial to us since we are surrounded by metropolitan areas where the heat is trapped in the summer. And within an hour you can be in a completely different world with completely different air" (IE67). Health benefits were also associated with forests promoting regeneration, a general sense of well-being, enjoyment, freedom, tranquility, and content in the absence of stress (IB10; IG25; IG87; IG19; IA47; IB18). In addition, health effects associated with different physical activities in forests were stated (IB18; IB42; IB99; IC15). One respondent also mentioned nature to influence the spiritual aspect of health: "it makes a difference where you meditate, whether in a big city or in nature. A big difference" (IH60). Additionally, forests were valued highly in terms of both their functional and aesthetic aspects (IA7; IA11; IA71; IB59; IG29; IE65). However two respondents emphasized that forests should always be regarded as part of the surrounding nature (IB53; IC3). The three most frequently mentioned non-forest natural features to describe Black Forest nature were scenic views, canyons, and water features (IA53; IA71; IB16; IB59; IG21; IG33; IG53; IG87; IE17).

Secondly, tourism products need attraction points and infrastructure. Attractions such as the national park, waterfalls, and an educational trail were mentioned (IA55; IB4; IE51; IF6). Within the category "Regional Culture and History," traditional craftsmanship (IA77), timber rafting (IB59), and charcoal production (IG33) were named, along with agricultural architecture (IA1; IA5) and the long tradition of taking a stroll in the Black Forest for recreation (IB4). The importance of certified premium-quality trails or trails in general was expressed multiple times (ID33; IE7; IF10). In addition, catered and non-catered lodges for hikers were valued highly (IE17; IG85). As one respondent put it, the majority of hikers appreciate “two or three hours followed by a nice stop for a bite to eat at a hiker’s lodge, that is the forest experience” (IE17).

Third, the larger political and/or financial environment may effect product development in forest-based health tourism. Several remarks were made concerning the macroeconomic business environment. Although, in a tourism context, the “field of forestry, the aspect of timber, aspects of timber utilization” (IG47) were considered highly relevant and compatible, respondents expressed frustration about the strict legal barriers on forest land (IF21). Financial support and public funding programs were appreciatively mentioned (IB68; IB78). Referring to the hotel and gastronomy business, one person also considered “recruiting staff is an obstacle, but the strict [wage] documentation requirements don’t make it any easier” (IA37).

4.2 Human Resources and Competencies

In order to design and realize forest-based health tourism products, businesses need to have suitable expertise. Competencies were demonstrated in regard to the region, effects of nature on human health, their business (especially customers), and cooperation with others. For one, a detailed geographic knowledge was expressed especially when commenting on the nearest most popular attractions. Two people explicitly were touched by the attractiveness to be found off the beaten track. “I like to send them to my neighbor for a schnaps tasting. Or to all the trails we got here, most of them are not officially signposted... But I know it is a challenge, we should have more of that” (ID33). Another person, specifically referring to the northern parts of the Black Forest, said: “For a lot of people, the woods are a little too dark around here. You can walk 50 kilometers and not see one village” (IC32). Expert knowledge about culture and history was displayed by three respondents. Two experts showed in-depth knowledge about the lumber process chain (IF;IG). However, another person criticized a lack of knowledge among hotel managers when it comes to nature in general: “Many hosts have no clue... Too few touch on nature and cultural landscapes and health. ...They believe that guests come automatically” (IB129-136).

Besides geographical knowledge, stakeholders’ knowledge about health is of special importance within health tourism. On the one hand, interviews exhibited knowledge on direct causal effects of forests on human health. They are mostly attributed to the clean air and climate of the Black Forest region, especially in contrast to the surrounding regions (IA45; IB12; IE19; IE25). Also, positive health effects due to physical activity, which was assumed to be inherently involved in a forest visit, were frequently put forward (IB12; IC15; IC17; IE16). Generally, no medically detailed explanation was presented, but causal links were taken for granted. In the same manner, physical and mental regeneration, recovery, and, more universally, a positive effect on people's sense of well-being were assumed to positively affect health (IA45; IB10; IB99; IG19; IG25; IG87; IH10). In regard to specific diagnoses, burnout prevention (IC66) and lower exposure to pollen (IE25) were stated.

Additionally, almost all interviewed persons extensively commented on their customer's knowledge (IA13; IB53; IC47; ID37; IE53; IF5; IG25). When talking about their particular product or service offered to guests, respondents often showed that communicating their expert knowledge was central to what they do.

> People think there are mostly fir trees in black forest, but they really are spruce. And then I explain how it came to that, and how forestry is involved. . ..People are always interested in hearing about that. And the fact that [spruce] plantations are prone to storm damage is essentially a consequence from history. Back then they had to plant all those spruces because they needed the timber for shipbuilding. That's why the natural landscape is the main thing. And that is our trump card. I just tell them go there and look at that sensational view down the valley. Wow! Your heart opens up, right? (IB57-59)

External cooperation and the importance of networking and communication skills were also expressed frequently. Some stakeholders were extremely well connected and involved in voluntary work for several associations and organizations (IB2-4; IE19). The forestry administration was the most frequently named institution when commenting on cooperative efforts (EB57; IB81; IF21; IE37). Cooperation with the forestry agency was considered especially important when projects involved planning and actual construction over forested land and legal issues had to be addressed. Furthermore, the cooperation with a medical research institute was mentioned in context with the process of obtaining certification as an allergy-friendly municipality (IE29). Comments concerning cooperative resources revealed that several people revert to their own personal networks: "You can't really call it cooperation. I just know who to call" (IA21).

4.3 Innovation Capability

Aspects of innovation are central to the question on how forest-based health tourism may gain importance in the portfolio of tourism products. The following examples represent product innovations, all of them of rather incremental in nature. Innovation 1 (IG) is based around a trail originally planned for outdoor education of children. The trail and connected picnic areas are now used by other groups as well, including walkers, local residents, families, dog owners, and a group of coronary heart patients. Here, the innovative element is the provision of multiple-use infrastructure. Respondent F described his innovative approach in the field of tourism infrastructure projects, which aims to promote building with regional timber: "Because the recreational value of our region's nature is a major motive for visitors to come here, we would not build a tower made of steel or concrete, because that contradicts our basic context. And tourists seeking recreation in terms of health, [they] should find aspects that are nature-oriented, regional, wooden made" (IF10). In another case (IE), the innovative element was created by enhancing existing tourist products with the unique health benefits of the environment. "Our climate is healthy. Our air quality is exceptionally good. We have to test constantly to prove it. And then we advertise with it: hiking in healthy climate... We have guided healthy walking tours and trails conforming to scientific standards" (IE19). Yet another product is based on technology as the innovative aspect. Here, a GPS-supported audio app guides tourists around a premium hiking trail. "You can take your smartphone, walk through our forest, install the app and then you hear something when you get to each stop... Thus, the forest experience is enhanced by an additional aspect which is hearing" (IE7-9). Furthermore, three cases of organizational innovations were mentioned in the interviews which are not explained in detail here.

When commenting about what factors favored an innovation, people generally referred to one of two innovation drivers. Either, the promotion and realization of an idea was considered a formal requirement that needed to be fulfilled, or a high degree of personal motivation and investment was noticeable. Formal requirements include, for instance, a hiking association's own obligation to promote trails (IB6), the statutory requirements for a forestry department to provide for education in forests (IG45), or fulfilling requirements to obtain a particular certification status (IE19). In one case, a district council ruled to preferably use regional fir timber in all municipal construction projects (IF12). Personal motivation, on the other hand, was expressed by several stakeholders. One respondent said: "I am really interested in doing something new. Something that has not been done before" (H78).

5 Discussion

This paper confirms the assumption that product innovations in the field of forest-based health tourism are suitable to promote sustainability. Various supply-sided factors are identified as key prerequisites for a successful development of innovative tourism products to promote economic, ecologic, and social sustainability. Regional cooperation enables businesses to combine and extend competencies required for the innovation process and to diversify their products and services. Largely based on regional inputs, these products have great potential to generate additional income and employment opportunities. The positive effects of forests on the physical, mental, and social aspects of human health may be integrated in tourism products. At the same time, they positively enhance quality of life for local residents. Furthermore, expert knowledge about natural resources has been identified as a key prerequisite. In accordance to the double-dividend theory, conveying knowledge about how people benefit from these valuable resources may increase environmental awareness and promote sustainability on a social and ecological dimension as well.

On a destination level, health benefits attributed to the clean air and relatively moderate climate in the Black Forest seem generally accepted as a fact. In addition to direct health effects, forests are considered an ideal setting for a range of physical activities and mental regeneration processes promoting health. The forest environment was frequently attributed with positive qualities such as tranquility, peace, and beauty, favoring a general sense of well-being. Also, human senses were considered to be stimulated by the unique scents of the forest, the green color, unique sounds, or tastes of forest herbs. Furthermore, the absence of stressors and distractions of modern life such as smog, noise, technology, work, or traffic was brought forward as a special quality. All these factors were considered as beneficial for human health.

Knowledge about forests and nature, about the location, about health benefits, or about culture and history is a valuable resource and can be used as a basis for tourism products. However, knowledge alone holds no customer value without an intermediate step: knowledge has to be translated into an appropriate format, a service, or a product which the customer can access. This process must consider individual customer needs and preferences to be transported appropriately. Thus, a good understanding of guest's needs and expectations is crucial. However, the skill "knowledge communication" cannot easily be learned and transferred. Several competencies on the supply side have been identified as separate prerequisites. In reality, a successful product always incorporates several factors which are closely linked through interdependent processes. The interviews suggest that knowledge cooperation is an integral part for the development of the particular products and, in most cases, extends into the daily business operation. Successful cooperation allows access to knowledge and competencies of others.

The interviews also show that environmental determinants such as the landscape in general including its mountains, forests, lakes, and rivers but also a region's unique cultural and historic heritage are a basic resource for products in the field of forest-based health tourism. Furthermore, existing tourism infrastructure such as accommodation, food, and transport features is often integrated. In a forest, trails, signs, lodge cabins, or picnic areas and benches are important factors. Similar to knowledge, access to existing infrastructure or planning of new infrastructure often requires cooperative efforts. In the context of forest-based health tourism, the forestry administration can be considered an elemental cooperative resource holding both valuable knowledge about the local forests and the official and legal responsibilities when it comes to permits or construction in a forest.

To conclude, the most important prerequisites are the existing environment including natural, cultural, and historic features, the availability and access to tourism and general infrastructure, expert knowledge, knowledge of guest needs, cooperative competencies and resources, and the ability to transform these inputs and communicate them to guests.

6 Management Implications

Prerequisites for the development of forest-based health products have been identified on different levels. Based on the findings, several management implications can be formulated. Health is a relevant secondary motive to many forest tourists involving different activities such as hikers, bikers, families, best-agers, wellness and spa tourists, and others. While some forest-based health effects work without active involvement, others may be based around certain exercises and may require a personal guide with expert knowledge. Thus, product development in the field of forest-based health tourism should consider individual guest's needs and expectations to generate adequate products.

The most fundamental resource is the natural environment. Conserving this valuable resource is therefore of great importance to all tourism stakeholders in the destination. It is argued that communicating the value of nature and its resources and demonstrating its benefits for each individual person achieve a double dividend: as the appreciation of nature increases, customers see added value when experiencing and learning about nature. At the same time, environmental awareness increases which is a basic condition for sustainability.

Furthermore, the development and operational manifestation of tourism products requires cooperative efforts. Developing tourism service chains that include several different regional businesses and services also generates economic value and creates additional employment opportunities in the region. It is suggested that also non-tourism core competencies add value to the tourism product and are suitable to maximize sustainability effects in the region. For instance, cooperation with the timber and construction industries has successfully contributed to health tourism products.

Finally, the inclusion of expert knowledge in the product development process should be maximized. Important for forest-based health products is knowledge about health effects, natural processes and ecosystems, the geography of the destination, and historic and cultural aspects but also knowledge about customer expectations. Furthermore, the generation and the transfer of knowledge between all stakeholders should be promoted. This calls for suitable formats that can accommodate and promote cooperation between stakeholders. For a successful cooperation, the forestry administration has been identified as a key partner on several levels. For once, district foresters hold extensive knowledge about the natural, geographic, and often cultural and historic aspects of a specific location. In addition, the forestry departments have extensive planning and legal approval capacities over forest ground. They are furthermore mandated to not only consider forest resources in terms of their value for timber but also value conservation and the values for humans such as health effects. Their responsibilities also include educating the public about sustainable development. Cooperations with the forestry department should aim to achieve diverse forest structures that increase attractiveness, promote mixed-species forests and old trees, allow scenic views, and include other elements and structures such as resting and picnic areas, signposts, cabins, or huts in the forest. The potential of cooperative efforts is great and offers win–win situations to both parties.

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Part II
Global Practices from Corporate Governance and Finance

Corporate Social Responsibility and the Value of a Firm

Yonghyup Oh

Abstract This chapter illustrates a conceptual method of valuing a firm that reflects corporate social responsibility. According to this method, a firm conforming more to environmental standards than others has ceteris paribus a higher firm value. This method combines the ethical aspects of a firm's activities and the taxation as public policy institution while respecting the cash value of a firm.

1 Introduction

Conventional cash flow valuation (Koller et al. 2005) calculates future cash flows of a firm and discounts them with rates best appropriate to the firm. This valuation uses accounting information of the firm together with a variety of forecasting methods in the building blocks to calculate the cash flows.

In the era where firms are confronted with sustainability values, this cash flow method does not distinguish firms who act more sustainability-conscious from those who are less so.

In this chapter we propose a way to distinguish firms in terms of sustainability-consciousness. We call this sustainability valuation. Illustration of our sustainability valuation method is the central theme of this chapter.

In Sect. 2 we discuss distinguishing features of this valuation. In Sects. 3 and 4, we illustrate our method of sustainability valuation. Concluding remarks follow.

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2 Features of Sustainability Valuation of a Firm

2.1 Sustainability Elements

Sustainability elements refer to the segment or portion in the unit of materials, goods, or services that is attributed to sustainability or environment-friendliness. Sustainability elements are embedded in raw materials, energy used, and processes in operational or nonoperational activities.

2.2 Money Value of Sustainability Elements of a Firm

The advantage of using sustainability elements is that the value of the unit in which sustainability elements are embedded is determined at the market value as trade occurs. The values of sustainability elements are within the value of the unit sold. Sustainability valuation of a firm therefore stays in the line with conventional cash flow valuation.[1]

As long as sustainability elements are identified, each of them can be assigned a money value. If it is part of a unit, then it is the money value of a portion of the unit. If it is a whole unit, it is the market value of the unit.

2.3 Role of Tax

Sustainable technology or environment-friendly management of a firm may not be cheaper than conventional ones and may bring less cash flows to the firm. In terms of cash flow, this should bring down the value of the firm, but it is not necessarily the case.

Sustainable valuation values positively sustainability elements. In order to endorse this, taxes may play an important role. In sustainability valuation, only sustainability elements may be liable to being tax deductible.[2]

In the following sections, we describe valuation principles of sustainability valuation.

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[1] This is a fundamental difference from environmental valuation of firm's activities which tries to value the environmental impacts freely.

[2] This is a spirit of taxation under sustainability principle.

Table 1 Sustainability elements by Environment Management Accounting (EMA), conventional cash flow valuation (CFV), and sustainability valuation (SV)

	EMA	CFV	SV
Accounting sustainability elements	Yes	No	Yes
Cash value of sustainability elements	Not restricted	None	Restricted as part of the whole unit
Taxation	Conventional	Conventional	Nonconventional

3 Accounting of Sustainability Elements

Sustainability elements refer to the accounting entries related to the use of sustainable materials and technologies in all operations of a firm. Each material and technology is assessed by the use of renewable energy, the extent of recycling, the degree of carbonization, and the degree of pollution, among others.

Whereas identification of sustainability elements can be helped by the practice of the Environment Management Accounting (EMA) (Bennett and James 1997), the accounting practice of sustainability elements is very different.

Entering these elements into accounting books takes one more step than the conventional accounting: sustainability elements are separated from the units they are attached. The value of the whole unit remains indifferent between conventional accounting and sustainability accounting (Table 1).

What suffices for sustainability valuation is to identify the attached values attributed to sustainability in each of existing accounting entries and new entries.

It is the proportion of sustainability elements for which the amount is tax deductible.[3]

4 Sustainability Valuation of a Firm

Sustainability valuation of a firm incorporates sustainability in the cash flows of a firm. The following example illustrates this:

Take a manufacturing firm. Sustainability elements are found in the cost side (C), and their values as a consequence are reflected in sales turnover (S), profits (P), and corporate tax (T), among others.

Cash flow is then calculated by:[4]

[3]Variations of this can be considered. For example, one may think of a minimum level of sustainability elements, only for which tax is not deductible.

[4]This is a simplification for the purpose of illustration.

$$\text{Cashflow(CF)} = S - C - T = S - C - \tau(S - C) \tag{1a}$$

All costs are tax deductible. τ is the corporate tax rate.

Suppose that the CF of Firm A is *larger* than that of B and both firms have same amount of cost.

$$S_A > S_B, C_A = C_B$$

The treatment of sustainability elements is done as only sustainability elements are tax deductible. Let σ be the portion of sustainability elements in total cost expressed in money term. Then

$$\text{Cashflow(CF)} = S - C - T = S - C - \tau(S - \sigma^* C) \tag{1b}$$

Now suppose that Firm A uses less sustainability elements than Firm B and nothing else changes.

$$\sigma_A < \sigma_B$$

Result 1 *The CFs of both Firm A and Firm B diminish compared with those under CCF, as long as* σ_A *and* σ_B *are not equal to 1.*

Result 2 *The CF of Firm A is smaller than that of Firm B, if*

$$(1 - \tau)(S_A - S_B) < \tau(\sigma_B - \sigma_A)C, \tag{2}$$

which is a likely event.

Result 3 *Total tax payment of a firm increases as long as* σ *is smaller than 1.*

5 Suggestions

This chapter describes main concepts of sustainability valuation. On accounting it identifies and measures the sustainability elements and makes them enter into the accounting system. These elements are separate entity but attached to existing items.

On taxation we have made clear that a shift toward sustainability supportive taxation triggers a change in real cash flows of a firm.

Firms that function better along the principles of circular economy (Webster 2015) will engage more intensively sustainability elements. They are liable to benefit more from this taxation.

It is noteworthy that sustainability valuation is still cash flow based. Lastly, but not the least, our method is compatible with the CSR principle.

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Corporate Social Responsibility and Financial Reporting

Separate Pasts and Common Future in Integrated Reporting

Solovey Tatiana

Abstract This chapter reviews the evaluation of definitions of financial, corporate social responsibility, and integrated reporting (IR) used over time to reveal points of understanding what quality of these reporting means. Management literature uses many terms to refer social and environmental reporting (e.g., corporate social responsibility reporting (CSRR), sustainability reporting (SR), social and environmental reporting (SER), and corporate accountability (CA)), but there is no clear distinction between these terms. First, the author summarizes definitions of CSRR, SR, SER, and CA to identify the definitional differences between the various types of reporting. Second, the author quantifies the articles published about financial, CSR, and integrated reporting in general management, accounting, and specialized journals to analyze the evaluation of reporting. Finally, the author analyzes differences in understanding what quality of reporting means and identifies opportunities to improve the quality with multi-stakeholder network.

The number of CSR, sustainability, and social and environmental reports is increasing worldwide as a result of the active position of stakeholders and investors directing their interest more and more on nonfinancial information. In the last 5 years, the number of nonfinancial reports has risen from 1860 reports in 2009 to 5233 reports in 2014 (Fig. 1).

Since 2017, these numbers are further increasing due to the EU Directive 2014/95/EU on nonfinancial and diversity information requiring respective reporting by large companies and groups.[1] According to the Directive, about 6000 large

[1]Offenlegung nicht-finanzieller Informationen, http://ec.europa.eu/finance/company-reporting/non-financial_reporting/index_en.htm

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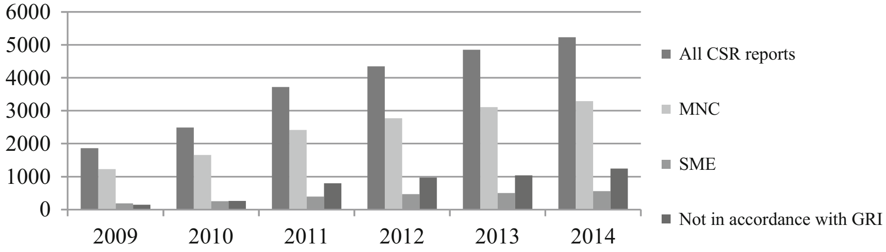

Fig. 1 Counts of corporate social responsibility reports. Source: GRI Sustainability Disclosure Database, Stand 17.11.2015, Own presentation

companies and corporations in the European Union must report about their strategies, risks, and outcomes in terms of environmental, social, and employee matters, respect for human rights, and their battle against corruption and bribery. This will give investors and other stakeholders a more complete picture of the corporate performance of the companies.

The Directive, however, leaves the company enough leeway here to disclose the relevant information in a way most suitable to them or in a separate report. The company can rely on appropriate international, European, or national guidelines of their choice [e.g., as the UN Global Compact (UNGC), Global Reporting Initiative (GRI), the OECD Guidelines for Multinational Enterprises, ISO 26000]. The variety of guidelines could bring the problems with comparability of reports and the need to create a system which could help to compare the reports of different companies. In 1999, in response to the variety of reporting systems of uniform standards of CSR reporting, the GRI was already modeled with this objective after the US financial reporting system (FASBI) was founded (Brown et al. 2009b; Nikolaeva and Bicho 2010). The GRI was targeted to “foster and develop a standardized approach for reporting to the demand for information about sustainability” and has become the world’s best known framework of voluntary CSR reporting (Brown et al. 2009b). This analysis attempts to discover the connection between standardization of reporting, quality, and comparability of reporting.

Before starting to analyze the evaluation of reporting, we need to recall the differences between the various definitions in researchers’ and scholars’ studies of CSR and corporate sustainability.

Corporate Social Responsibility (CSR)

Montiel (2008) has analyzed articles in scholars’ journals from 1970 to 2005, in order to understand where the differences between CSR and corporate sustainability (CS) are. According to Carroll’s (1979) finding, during this period, the most frequently quoted definition is that “the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time” (Montiel 2008; Aupperle et al. 1985; Murray and Montanari 1986; Tuzzolino and Armandi 1981).

Corporate Sustainability (CS)
As part of its terminology analysis, Montiel (2008) found that the World Commission on Environment and Development (WCED) for the first time described the term "sustainable development" in 1987 in the report "Our Common Future." WCED definition: "Sustainable development is development that meets today's needs without compromising the ability of future generations to meet their needs" (WCED 1987; Montiel 2008).

Later, after 1990 plunge in scientific articles, two different interpretations of CS emerge, one meaning only ecological sustainability (Montiel 2008; Shrivastava 1995; Starik and Rands 1995) and the other covering all three aspects: environmental, social, and economic (Bansal 2005; Gladwin and Kennelly 1995; Montiel 2008).

Montiel (2008) summarized the scientific opinions and explained that some scientists consider CS simply as an approach to CSR conceptualization (Garriga and Melé 2004) or vice versa. The analysis of journals 1970–2005 (Montiel 2008) shows us that the concepts and measures of CSR and CS converge, even though there are differences between the two concepts. As a result, Montiel suggests that we should come to a conclusion whether CSR and CS actually should be kept apart or, on the contrary, if a common concept for social and environmental issues is needed in the management area.

What does sustainability reporting in scholar studies mean? Does it include only ecological sustainability or the three aspects mentioned?

In this study, I conduct a literature review to identify the main CSRR-, SR-, SER-, and CA-related definitions and concept measurements that management and accountant scholars have presented to the general management and accountant audience. The objective of this review is to identify boundaries, differences, and similarities across CSRR, SR, SER, and CA research. In the last part of this chapter, I give some recommendations aimed to amend the quality and comparability of reporting.

1 Literature Review Approach

To review CSRR-, SR-, SER-, and CA-related definitions published in the main general management journals, I carried out a literature search in "top" academic journals, which are listed in the SCImago Journal and Country Rank (SJR) for 2014. In the field of business, management, and accounting, this rating includes *Academy of Management Journal*, *Academy of Management Review*, *Brookings Papers on Economic Activity*, *IMF Economic Review*, and *Journal of International Business Studies*, the five journals at the "top" of SJR ranking. I also included five journals from the field of accounting, *Journal of Finance*, *Review of Financial Studies*, *Journal of Financial Economics*, *Journal of Accounting and Economics*, and *Journal of Accounting Research*, to identify the boundaries between financial and CSR reporting and to observe the evaluation of integrated reporting.

In addition, I searched for CSRR-, SR-, SER-, and CA-related papers in three journals devoted to the social issues of management *Business Ethics Quarterly*, *Business and Society*, and *Journal of Business Ethics*, with also best ranking positions in SJR for 2014.

Using the literature search approach of Montiel (2008) in his corporate social responsibility and corporate sustainability review article, I analyze these journals to ensure that my journal selection is as specific as possible. Six of the chosen journals were analyzed in article of Montiel, too, but he didn't analyze the field of accounting with the consequence only 6 of our 13 journals were covered by his research.

I searched all of these journals electronically for the following keywords and/or words in abstract: *reporting*, *corporate social responsibility report/reporting*, *sustainability report/reporting*, *environmental and social report/reporting*, *corporate accountability*, *financial report/reporting*, *integrated report/reporting*, and *quality of report/reporting*. Including the keywords "reporting" and "quality of reporting" in the search was to ensure that all relevant articles in the fields of reporting and accountability are hit. I limited the search of titles and abstracts to those published from 1980 to 2014 in the general management and accounting journals.

In the three groups of journals "business, management, and accounting," "accounting," and "journals devoted to the social issues management," a number of relevant articles (109) were published. The Appendix includes a summary of the number of articles found by journal, decade, and keyword.

After researching the abstracts and conclusions of 34 articles relevant to my study, I created a database, using the structure of Montiel's research. In the database, I collected seven pieces of information about each article: year of publication, name of the author or authors, origin of the author or authors, whether the article was empirical or not, research questions, concept definition and measurement, and some references to quality of reporting.

2 Descriptive Statistics

The literature analysis revealed some interesting statistical trends about reporting and quality. More than half of the 109 articles pertained to reporting quality (56), on the second position are CA-related articles (18), and the third position is shared by SR (11) and SER (12).

In general, management journals published more papers in CSR or corporate sustainability stream, without specific focus on reporting. Only 6% of the found 109 articles were published in general management journals (Fig. 2).

As expected, most of the reporting quality-related articles were published in accounting journals, *Journal of Accounting Research* (71% of reporting quality-related articles) and *Journal of Accounting Research* (20% of reporting quality-related articles). Several conclusions can be drawn from this publication record (Fig. 3). The number of articles about reporting quality has rapidly grown (1 article in 1980–1989, 2 articles in 1990–1999, 22 articles in 2000–2009, and 30 articles

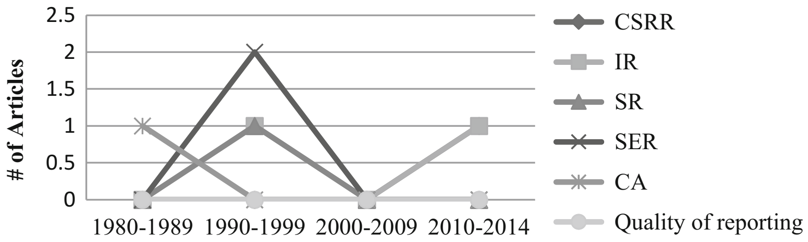

Fig. 2 Counts in general management journals. *CSRR* corporate social responsibility reporting, *IR* integrated reporting, *SR* sustainability reporting, *SER* social and environmental reporting, *CA* corporate accountability

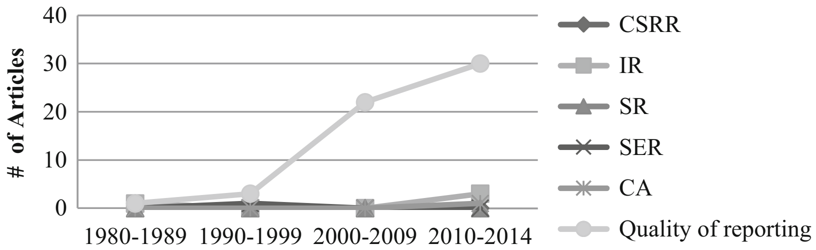

Fig. 3 Counts in general accounting journals. *CSRR* corporate social responsibility reporting; *IR* integrated reporting, *SR* sustainability reporting, *SER* social and environmental reporting, *CA* corporate accountability

in 2010–2014). First of all, the financial crisis 2008 has pushed more interest toward quality of reporting; many studies in the last years show us how sensible the question of reporting quality is. Study examples: Centre for Research on Multinational Corporations (SOMO) and the European Federation of Public Service Unions (EPSU)[2] in 2012 issued a study "Electricity companies less transparent than claimed—Multiple discrepancies found in sustainability reports" showing that there are systematic, widespread, and significant discrepancies between what the companies claim they are reporting and the actual reported information; study at Vienna University[3] (2012) shows us how 131 companies from the Forbes list 250 reported on human rights and labor indicators in SR. The sobering results regarding the labor indicators: 86% of companies claim that they report, but only 11% do it; similar in the area of human rights—62% of companies claim that they report, but only 20% do it; the German Global Compact Network and sneep e.V.[4]

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[2]SOMO/EPSU (12/2012) Electricity companies less transparent than claimed—multiple discrepancies found in sustainability reports, http://www.epsu.org/a/9190

[3]Vienna University Study 12/2012, CSR-reporting.blogspot.nl http://csr-reporting.blogspot.de/2012/11/false-claims-in-sustainability-reports.html

[4]http://www.globalcompact.de/wAssets/docs/Reporting/fortschrittsberichterstattung_von_KMUs_im_DGCN.pdf?tid_1=All

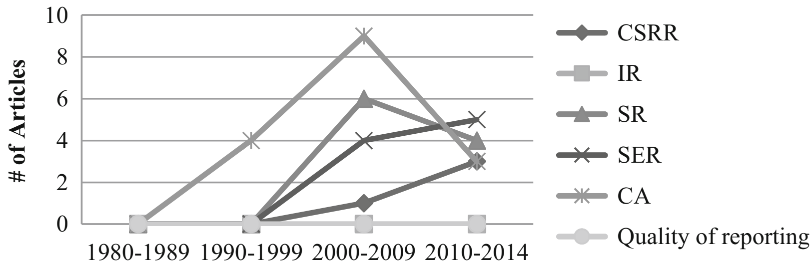

Fig. 4 Counts in journals devoted to the social issues of management. *CSRR* corporate social responsibility reporting, *IR* integrated reporting, *SR* sustainability reporting, *SER* social and environmental reporting, *CA* corporate accountability

issued a study about quality of reporting by 122 small and medium enterprises participating in the German Global Compact Network reflecting the strong differences in scale and depth of reporting quality depending on company size, many reports being cursorily.

IR becomes the second place in accounting journals, but the number of articles is only four. But trend is the growing number of scholar publication in 2010–2014 about advantages and disadvantages of IR (66% of articles about IR published in 2010–2014). The selected accounting journals published only three articles about CSRR, CA, and SER. But another accounting journal that are not on the top of SJR ranking published interesting articles about the relationships between financial reporting and CSRR, IR (Chiang et al. 2015; Rodolfo 2012).

Most of the relevant articles about CSRR, CA, SER, and SR were published in social issue journals, 18 articles (38% of all articles found) in *Business Ethics Quarterly* and 15 articles (32%) in *Journal of Business Ethics* (Fig. 4). Trend is also the same; the number of articles about CSRR, CA, SER, and SR rapidly grows since 2000. Only in social issues journals since 2000 more than 74% of all found articles about these reporting arts were published.

To understand the historical trends in the publication of selected reporting types, it is interesting to see the evolution of publications during the period from 1980 to 2014. Figure 5 represents the number of articles on CSRR, IR, SR, SER, and CA and quality of reporting published since 1980 in selected journals.

CSRR, SER, CA, and SR types of reporting with no clear distinction in practice and in scholar researches, but with some different key points (only environmental and social focus by SER, IR, and CA combination of financial and nonfinancial information, etc.). Some scholars use the grouped notion environmental, social, and governance (ESG) reporting (Albareda and Waddock 2016). The number of articles about all reporting types analyzed increased since 2000; articles about IR appeared more after 2010. The last period analyzed is only 4 years (2010–2014) but also shows that interest of scientific researches increased measurably since 2000.

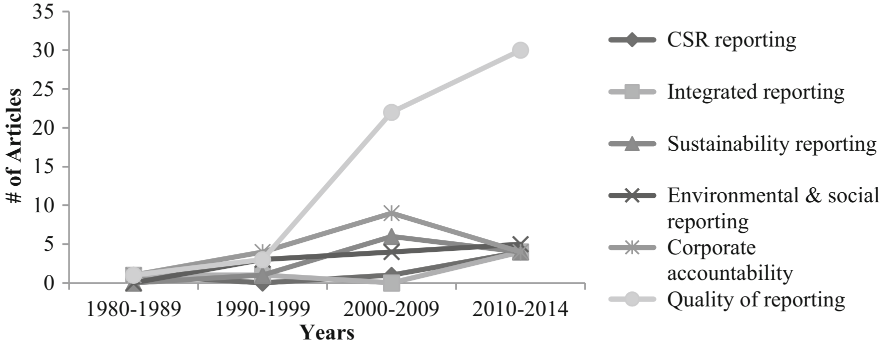

Fig. 5 Counts in selected journals

3 Definition and Concepts

After screening the articles in general management, accounting, and specialized journals, I analyzed the CSRR, IR, SR, SER, and CA definitions and/or attributes that appeared in the top management journals (Table 1).

The analysis of the definitions and attributes of CSRR, CA, SER, and SR revealed that the differences between the various types of reporting are unclear.

In CSRR definitions, attributes like "element of the communication in terms of corporate citizenship and sustainability matters" (Huerta 2012) or "are issued to meet the needs of a wider network of stakeholders" (Tschopp and Huefner 2015) are used. Here, obviously, the importance of communication with different stakeholders is in the foreground.

In CA definitions, I found aspects like the necessity of combining the financial and nonfinancial information (Gray et al. 1981; Lys et al. 2015), in consideration to the interests of shareholders and stakeholders (Painter-Morland 2007).

IR is expected to bring "more transparency and openness, not only to investors but the wider public too" (Tilley 2012) and must be "an accounting-sustainability hybrid practice" (Bebbington and Thomson 2007; Thomson et al. 2014), but "the stated objectives of IR are diverse, "unintegrated," and arguably "unintegratable" (Thomson et al. 2014).

SR is given the same characteristic as CSRR; SR have been serving a fundamental communication tool between organizations and their stakeholders, focused on environmental and social performance (Junior et al. 2014), but also sustainability encompasses "a broad range of corporate values and concerns including reputation, transparency, social impact, ethical sourcing, profitably and civil society" (Crawford and Scaletta 2006).

Hess (2007) presented SER as step for achieving corporate accountability by pursuing two goals of SER: organizational transparency and stakeholder engagement.

Table 1 Corporate social responsibility reporting, corporate accountability, integrated reporting, sustainability reporting, social and environmental reporting, and quality of reporting: definition and attributes

References	Definition and/or attributes
CSRR	
Chen and Bouvain (2009)	The Global Compact membership is having an effect on CSRR but only in certain areas, related to the environment and workers, and businesses from different countries vary significantly in the extent to which they promote CSR and the CSR issues that they choose to emphasize
Huerta (2012)	CSRR is the core element of the communication in terms of corporate citizenship and sustainability matters; it represents the facts and documentation regarding social performance; in other words, it is the most basic tool for researches and stakeholders to analyze the documented relationship between a corporation's financial and social performances
Tschopp and Huefner (2015)	CSR reporting is still in its infancy. CSR reports differ in that they are issued to meet the needs of a wider network of stakeholders, including employees, customers, suppliers, shareholders, management, governments, non-governmental organizations, media, and the general public
Wood (1991)	Corporate social performance—configuration of the principles of social responsibility, processes of social responsiveness and policies, programs, and observable outcomes as they relate to the firm's societal relationships
CA	
Behnam and MacLean (2011)	International accountability standards "denote a common idea that demands a reorientation in the place and role of corporations within society" (Deva 2006) and identify the indicators of social performance and methods to measure and audit this performance along certain indicators (Norman and MacDonald 2004)
Gray et al. (1981)	All demonstrate the political sensitivity and significance of multinational corporation (MNC) accountability and of questions concerning financial and nonfinancial disclosure. The development of such political pressures has been spurred by both the relative lack of comparability of corporate reporting in an international context and the apparent deficiencies in the information usually provided The actual level of accountability achieved is a constantly shifting compromise between the perception of user needs on the one hand and the view taken about the interests of the corporate enterprise as a whole on the other hand
Lys et al. (2015)	CA is synonym of CSRR. The positive association between CSR expenditures and financial performance is

(continued)

Table 1 (continued)

References	Definition and/or attributes
	more likely due to the signaling value of CSR expenditures rather than positive returns on those investments. CSR performance correlated with financial performance is also relevant to the ongoing debate on potential disclosure regulation for the content and creditability of CA reporting
Painter-Morland (2007)	Accountability, both with respect to individuals and organizations, is less a matter of "accounting for" a set of concrete assets, than a question of being accountable to a set of internal and external stakeholders, or in terms of the tacit sense of moral propriety that develops among business associates and colleagues over time Paper of Painter-Morland will attempt to redefine accountability as a kind of contingent responsiveness to emergent stakeholder concerns and interests
IR	
Tilley (2012)	At time when societal trust is at an all-time low in corporate institutions, companies need to rally to the call of transparency and openness, not only to investors but the wider public too. Management accountants can add insight to IR by increasing the alignment between internal and external reporting, creating robust and value-driven data while linking up with key stakeholders to ensure the inclusion of forward-looking strategic objectives
International Integrated Reporting Committee (IIRC) Form (2010)	Sir David Tweedie, Chairman of the International Accounting Standards Board, said, "The case for globally consistent financial reporting standards is well understood and accepted. It is appropriate to apply the same global approach to other aspects of corporate reporting. This initiative represents an important step on that journey." Executive Board Chairman of the Prince's Accounting for Sustainability Project and Ian Ball: "All of us have a stake in a sustainable society. While integrated reporting alone cannot ensure sustainability it is a powerful mechanism to help us all make better decisions about the sources we consume and the lives we lead"
Thomson (2015)	The IR could be considered to be an accounting-sustainability hybrid practice (Bebbington and Thomson 2007; Thomson et al. 2014) that builds on the strengths of accounting, such as robust quantitative evidence gathering, relevance, materiality, reliability, comparability, and assurability, to translate the sustainability discourse into a "language" understandable to organizational decision-makers. The IR shares more characteristics with conventional management accounting practices such as the balanced scorecard (Kaplan and Norton 1992) and strategy mapping than to

(continued)

Table 1 (continued)

References	Definition and/or attributes
	accounting-sustainability practices intended to embed sustainability into everyday business practices. The stated objectives of IR are diverse, "unintegrated," and arguably "unintegratable"
SR	
Mori Junior et al. (2014)	"...SR have been serving as a fundamental communication tool between organizations and their stakeholders, focused on environmental and social performance," "To enhance credibility and reliability of SR, some organizations voluntarily include external independent assurance in their SR." "...SR have provided a vital tool for organizations to provide transparent communication with their stakeholders"
Pineno (2013)	The concept is also used synonymously with citizenship reporting, social reporting, triple bottom-line reporting, and other terms that encompass the economic, environmental, and social/cultural aspects of an organizations performance and planning. For public and private agencies, sustainability reporting can be considered at three levels: organization, internal; policy outcomes, external; and contextual or spatial outcomes, regional. Although sustainability reports lack reporting standards analogous to Generally Accepted Accounting Principles (GAAP), efforts to establish standards for sustainability reporting are ongoing. The intention of sustainability encompasses a broad range of corporate values and concerns including reputation, transparency, social impact, ethical sourcing, profitably, and civil society (Crawford and Scaletta 2006)
SER	
Hess (2007)	The growing interest in corporate environmental and social reporting for achieving corporate accountability is in step with the new governance model of regulation. Supporters of social reporting consider it a necessary mechanism in enabling stakeholder democracy in corporate governance, which is consistent with the collaborative, participatory, and decentralized approach of new governance regulation As a governance mechanism, social reporting has two goals: organizational transparency (the "right to know") and stakeholder engagement
Bolívar (2009)	Stakeholders will come to expect a greater and greater level of transparency; therefore, not only is environmental performance relevant for companies, but so also is the communication of environmental performance to stakeholders. This way, the disclosure of environmental reporting is a function of the companies' environmental performances and their environmental disclosure

(continued)

Table 1 (continued)

References	Definition and/or attributes
	policies, especially for the case of environmental liabilities (Freedman and Stagliano 1995; Price Waterhouse 1992)
Quality of reporting	
Chaney et al. (2011)	Firms with higher financial reporting quality are less likely to deviate from their predicted level of investment
Chiang et al. (2015)	Two scholar directions: • Scholars discovered that corporations invested in CSR to camouflage earning manipulations, resulting in a negative relationship between CSR and the quality of financial reports (Prior et al. 2008) • Certain scholars indicated that CSR affected the quality of financial reports in various ways depending on proxy variables (Chih et al. 2008) According to Chiang et al. (2015), the empirical results indicated that CSR reduced the manipulation of discretionary accruals and increased the quality of financial reports
Core et al. (2011)	Firms with higher reporting quality have a lower sensitivity of investment to changes in collateral; also firms with higher reporting quality have a lower sensitivity of financing to collateral changes
Garret et al. (2014)	Study investigates the relationship between a comprehensive measure of trust and financial reporting quality using three different proxies: accrual quality, misstatements, and internal control material weaknesses. With all three measures, it was founded that trust is positively associated with financial reporting quality. Trust has a greater influence on financial reporting quality when trust is consistent at the upper and lower levels of the organization
Tschopp and Huefner (2015)	In developing countries, the demand for CSR reports relative to financial reports may be more prevalent from non-investor stakeholders Similar to early CSR reports, early financial disclosures provided little value to users and were not comparable to other reports. Companies were reluctant to report negative information. Until comparable and consistent standards were developed, the quality of financial reporting was low

After analyzing the definitions, we could frame some points:

- In all types of reporting, dialog with stakeholder is important.
- CA and IR are supposed to face financial with nonfinancial information.
- CSRR and SR focus on environmental and social performance, but SR includes also a broad range of corporate values.

- SER could be a step toward CA, but in scholar researches, it is a separate reporting type with goals such as organizational transparency and stakeholder engagement.

4 Trust, Information Production, Reporting Quality, and Nets

Multiple studies (SOMO and EPSU 2012; study at Vienna University 2012; German Global Compact Network and sneep. e.V.) show us that quality of CSRR, SR, and SER is unsatisfactory; the reasons might vary, and one of the reasons may be a generous amount of standards in ESG reporting. There are three most widely recognized CSR reporting standards, G4 (GRI), AccountAbility's AA 1000 Series, and the UNGC Communication on Progress (COP), but there are also hundreds of domestic CSR reporting guidelines, principles, regulations, and standards and several other global initiatives (Tschopp and Huefner 2015). The variety of guidelines and standards brings along problems with comparability of the reports and the need to create a system which could help to compare the reports across countries, branches, and companies.

What kind of system could create a comparable ESGR and build stakeholders' trust in information in these reports? In this chapter, I use the following definition of ESG reporting quality in line with the definition of financial reporting quality: ESG reporting quality (ESGRQ)—to be the extent to which ESG reporting conveys information about the firms' ESG position that is complete, neutral, and free from errors.

What does trust in ESG reporting mean? How could trust and ESGRQ be connected?

Garrett et al. (2012) notice that one channel through which trust may influence reporting quality is the production of accurate information. Similar to scholar research of Garret et al. (2014) about financial reporting and trust, we could suggest that ESG statements incorporate information gathered from all levels of the organization, and if employees lack trust in management, they may manipulate the underlying components of the ESG statement to provide a more favorable impression of their own performance (Mayer and Gavin 2005; Garrett et al. 2012). On the other hand, employees who do trust management may feel less of a need to "cover their backs" (Mayer and Gavin 2005; Garrett et al. 2012). Trust may also impact the sharing of information within the organization (Garret et al. 2014). Communication between colleagues, subordinates, and superiors, when trust exists, could exclude the distorting of information shared (Roberts and O'Reilly 1974; Garrett et al. 2012).

Trust between employees and management is important for financial reporting quality and ESGRQ, because both reporting types must reflect positive and negative facts, and without trust within the organization, negative facts are possibly not brought to the attention of the management. Corruption and environment with human or labor rights issues must be reflected in ESGR, but a system of anonymous hotlines, mail boxes, or telephone lines for employees or other stakeholders should be available giving the opportunity to inform about negative facts.

Eck (2010) in his book *Transparent and Trustworthiness* adverts that greenwashing and hiding of negative facts could be a bang for company reputation: the reason is the active position of all stakeholders. As examples for achieving more trust of stakeholders in an online regime, such companies as Noa Bank and Fidor Bank use social media, and they communicate with stakeholders in Facebook and Twitter. It is very important for trust building of stakeholders to publish current information and agenda on the company website. The leader of Sevenload and United Prototype says that nobody is expecting transparency in production secrets, but stakeholders do expect transparency about human rights, strategy, labor rights, and other social activities (Eck, p. 50). Publication of important information just in time could be basic for long-term trust capital.

How could publication of ESG information just in time be achieved while providing opportunity for online dialog with stakeholders at the same time?

For our research, the most important is to find the opportunity to use the collaboration opportunities of networks of different CSR initiatives to build a system which could help to make ESGR comparable and conforming with international CSR reporting initiatives, including a function for online stakeholder communication.

Albareda and Waddock (2016) give one example of such convergence. The UNGC and GRI are working with the International Integrated Reporting Council and the International Organization for Standardization (ISO26000) on common reporting guidelines for economic, financial, social, and environmental reporting. In this context, it is also important to understand what makes networked governance systems efficient, effective, and legitimate and how third-party verification and control, better reporting, and stakeholder engagement can be improved. The whole network approach might be a way to better solve the paradoxes and tensions inherent in the processes of multi-stakeholder dialogs.

Some type of network convergence could be used as basis for a multi-stakeholder network that can aggregate regulations of international CSR reporting standards and offer templates for ESGR. Such templates may well contribute to comparable ESGR and also provide an opportunity to building an online dialog with stakeholders.

5 Conclusion

In this chapter, I raise questions that will help to better define boundaries between CSRR, SER, CA, and SR types of reporting: What does sustainability reporting in scholar studies mean? Does it include only ecological sustainability or the three aspects mentioned? What does trust in ESG reporting mean? How could trust and ESGRQ be connected?

CSRR, SER, CA, and SR are the types of reporting with no clear distinction in practice and in scholar researches, but with some different key points (only environmental and social main focus by SER, IR, and CA combination of financial and nonfinancial information, etc.). The number of articles about all reporting types analyzed increased since 2000; articles about IR appeared more frequently after 2010. Montiel (2008) gives the example of interchangeable definition for all reporting, aggregating companies' social and environmental initiatives. In the GRI database, companies have used titles as varying as "Corporate Responsibility Report," "Environmental Sustainability Report," "Sustainability Report," "Environmental and Social Responsibility Report," etc.

Heuser's example (2016) highlights the significance of trust in CSRR and sustainability ratings; his example is the Volkswagen case. Heuser's statement is that the basis of the problem is the asymmetrically distributed information between the company and the auditors. Volkswagen possesses internal information and is in the position to decide whether and how to present it in reports. The reason is obvious, poor corporate or CSR news or facts put pressure on the share price. This example is also the trust question; trust in CSRR is at a fairly poor level today. In this chapter, I give some examples about internal trust in a company and how it could affect the ESGRQ. Trust between employees and management is important for financial reporting quality and ESGRQ, because both reporting types must reflect positive and negative facts, and without trust within the organization, negative facts are possibly not brought to the attention of the management. The timely publication of important information could be crucial for long-term trust capital.

As an approach for achieving a better quality of ESGR, we suggest to use the collaboration opportunities of networks of different CSR initiatives to build a system which could help to make ESGR comparable while conforming with international CSR reporting initiatives and to include a function for online stakeholder communication. Access by multi-stakeholder networks for ESGR would be an important decision for a company to take because the information must be up to date and could be controlled by many stakeholders. Templates in networks could press the company not to keep silent when negative facts in social and environmental area spread out rapidly due to the communication processes taking place online.

Appendix

Count of articles with declared keywords in managements journals

Specialized CSR, accounting, and management journals	Time period	Keywords						
		CSR reporting	Integrated reporting	Sustainability reporting	Environmental and social reporting	Corporate accountability	Quality of reporting	Total
Academy of Management Journal	1980–1999	0	0	0	0	0	0	0
	2000–2014	0	0	0	0	0	0	0
Academy of Management Review	1980–1999	0	0	0	0	0	0	0
	2000–2014	0	0	0	0	0	0	0
Brookings Papers on Economic Activity	1980–1999	0	0	0	0	0	0	0
	2000–2014	0	0	0	0	0	0	0
IMF Economic Review	1980–1999	0	0	0	0	0	0	0
	2000–2014	0	0	0	0	0	0	0
Journal of International Business Studies	1980–1999	0	1	1	2	1	0	5
	2000–2014	1	1	0	0	0	0	2
Journal of Finance	1980–1999	0	0	0	0	0	0	0
	2000–2014	0	0	0	0	0	0	0
Review of Financial Studies	1980–1999	0	0	0	1	0	0	1
	2000–2014	0	0	0	0	0	1	1
Journal of Financial Economics	1980–1999	1	0	0	0	0	0	1
	2000–2014	0	3	0	0	1	0	4
Journal of Accounting and Economics	1980–1999	0	1	0	0	0	4	5
	2000–2014	0	0	0	0	0	40	40
Journal of Accounting Research	1980–1999	0	0	0	0	0	0	0
	2000–2014	0	0	0	0	0	11	11

(continued)

Specialized CSR, accounting, and management journals	Time period	Keywords						
		CSR reporting	Integrated reporting	Sustainability reporting	Environmental and social reporting	Corporate accountability	Quality of reporting	Total
Business Ethics Quarterly	1980–1999	0	0	0	0	4	0	4
	2000–2014	0	0	5	1	12	0	18
Business and Society	1980–1999	0	0	0	0	0	0	0
	2000–2014	0	0	1	1	0	0	2
Journal of Business Ethics	1980–1999	0	0	0	0	0	0	0
	2000–2014	4	0	4	7	0	0	15
Total		6	6	11	12	18	56	109

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CSR Policies and Financial Risks Under Stakeholders' Aggressive Actions

Evelina Bendoraitienė and Valdonė Darškuvienė

Abstract The chapter focuses on several major concerns in modern stakeholder management literature through relating CSR policies and business risk, including financial, credit, reputation and strategic risks, with stakeholder behaviour. CSR is perceived as a tool to combine the requirements of various stakeholder groups, which leads to the positive impact on companies' performance. Positive impact is perceived as employee loyalty, good reputation and financial and credit risk reduction. In many cases it is argued that stakeholders react positively to CSR policies and it leads to potential positive effect–cost reductions or reputation gain. In spite of important insights gained from past research on changing stakeholders' behaviour, increasing negative pressures and aggressive actions (including strikes, protest, boycotts and legal actions) in particular, their links to CSR policies and their effects on financial risks remain underexplored.

We argue that company's financial risks depend upon the capacity to manage CSR policies under stakeholder aggressive actions. Empirical random effect panel data regression model to assess the impact of CSR on financial risk, including mediating stakeholders' behaviour effect, was developed and tested for a cross-sectional data panel of 1047 European listed companies. CSR was measured by Bloomberg ESG—environmental, social and governance—indicator, while financial risk was measured by downside beta. In order to assess the aggressive stakeholders' actions, quantitative content analysis was used.

The empirical research results show that the stakeholders' aggressive actions are more intense in case of high CSR level. By adding a temporal dimension, the influence on CSR-level dynamic change on the financial risk, under aggressive stakeholders' actions, was tested, assessing whether the decreased level of CSR increases company financial risk, under stakeholders' aggressive actions. The chapter

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concludes that changes in CSR level effect the changes in the intensity of the stakeholders' aggressive actions, which effect financial risk. It was observed that the decrease in CSR level causes the increase of stakeholders' aggressive actions and its influence on financial risk.

1 Introduction

With the accelerating globalization, companies are facing growing pressures from the community, government, trade unions, employees, suppliers and other stakeholders, which form background for forming companies' social responsibility policies and practices. Under the severe competition and economic fluctuations, companies' continued existence depends on their ability to distinguish themselves from competitors and build a solid reputation to attract a wider customer base and to gain social acceptance. The improvement of companies' financial performance can no longer be seen in isolation from stakeholders' interests and their expression in companies' environment. More and more frequently, the companies should take responsibility for their impact on the society and environment.

Corporate social responsibility policies and their implementation give businesses many advantages but also pose risks and sources of instability. Growing interdependencies between companies, their stakeholders and hidden contingencies underline the growing need for businesses to expand, forming closer relationships with stakeholders. Companies' development without creating additional risks is a relevant and important issue of today. Therefore, the assessment of influence of corporate social responsibility (hereafter CSR) on financial risk is important both in theoretical and practical terms.

The need for CSR policy assessment arises from the ambiguity of CSR and corporate financial performance interactions. The question for a new approach to CSR and its interaction with the corporate performance dependent on the stakeholders' behaviour is rising. It is undergoing constant and endless debates on the role of business for taking its responsibility and dealing with major global challenges such as climate change, poverty and corruption. On one hand, business is seen as a major clue to solve these problems ("Green Economy" Congress of Rio, 2012). On the other hand, economic development is a source of problems when it comes to market failures (2008–2009 financial crisis). In this context, it must be noted that historically enormous progress has been achieved in protecting the public interest from damaging the economy. One such example is the Montreal Agreement (1993), which resulted in a successful fight against the use of ozone-depleting substances around the world. Large pharmaceutical companies sell drugs to treat HIV in developing countries at an affordable price, and finally the Baltic Petroleum oil company paid the full amount for the oil spill in the Gulf of Mexico in 2010. These examples confirm that with the emergence of the public interest, the public becomes no longer a silent observer, but carries out powerful monitoring of business activities. Public interest appears through the moral codes of ethics, customer preferences, regulatory provisions or litigation.

CSR influence on financial risks is a relevant issue to managers and investors. It is pertinent to managers, seeking to reduce the potential instability of business, in order to determine whether an investment in CSR can increase or decrease the company's future performance stability. Finally, given the turmoil in financial markets in 2000–2002 caused by DOT.com bubble and the real estate recession, as well as systemic crisis in 2008–2009, when in a few months most stock indexes fell all around the world and a large part of companies' market value was lost, the assessment of possible causes on the financial risk becomes extremely important and relevant. In this environment, it is evident that the risk aversion for an average investor increases, which is to be avoided, and more attention is being focused on minimizing risk than receiving high returns on investments. Therefore, the assessment of negative risk results becomes relevant.

Despite the currently increasing interest in CSR as well as increased discussions on changing stakeholders' behaviour towards companies, conceptualization and assessment of CSR influence on companies' financial performance remains a complex and unresolved research issue. Modern stakeholder management literature relates CSR policies and business risk, including financial, credit, reputation and strategic risks, to stakeholder behaviour. CSR is perceived as a tool to combine the requirements of various stakeholder groups, which leads to the positive impact on companies' performance. Positive impact is perceived as employee loyalty, good reputation and financial and credit risk reduction. In many cases it is argued that stakeholders react positively to CSR policies and it leads to potential positive effect—cost reductions or reputation gain. In spite of important insights gained from past research on changing stakeholders' behaviour, increasing negative pressures and aggressive actions (including strikes, protest, boycotts and legal actions) in particular, their links to CSR policies and their effects on financial risks remain underexplored.

Empirical studies suggest that CSR policy and fulfilment of stakeholders' needs are nonnegotiable assets that bring benefits to the company, leaving aside the potential CSR policy effect on financial risk, depending on the aggressive stakeholders' actions. In many cases, stakeholder behaviour is being evaluated separately, from CSR, assuming that risk arising from stakeholder groups is independent from CSR policy and its implementation.

The chapter raises *research question*—what impact CSR policy has on the financial risk and how it has to be assessed, taking into account aggressive stakeholders' actions.

The object of the research paper is CSR influence on financial risk.

The Methods of the Research To assess the CSR influence on financial risk, taking into account aggressive stakeholders' actions, random effect panel data regression analysis is performed. CSR is measured by Bloomberg ESG—environmental, social and governance—indicator, while financial risk is measured by downside beta. Aggressive stakeholders' actions (i.e. media publications corresponding keywords, strikes, protests, boycotts, legal actions) are measured using content analysis for the period of 2010–2013 for each sample year and for each of the total sample of 1047 European listed companies.

The research is limited to the assessment of stakeholder's behaviour based on aggressive stakeholder actions (boycotts, strikes, protests, legal action). In order to assess CSR influence on financial risk, based on stakeholders' aggressive actions, the empirical study is conducted without using lagged data. The measurement of financial risk is based on market risk calculation methods—downside beta measurement.

The chapter contributes to modern stakeholder management research providing argumentation that company's financial risks depend upon capacity to manage CSR policies under stakeholder aggressive actions.

2 Background

Analysis of theoretical and empirical studies shows that a variety of different approaches to CSR exists in the scientific literature. Scholarly research shows that CSR concepts are different in scope and depth. There are several reasons for differences in CSR concepts: Firstly, CSR is an "essentially contested concept" (Crane and Matten 2004, pp. 433–434). Secondly, CSR is an umbrella term which coincides with other synonyms investigating business–public relations (Matten and Crane 2005), such as ethics, corporate citizenship, environmental responsibility, green marketing, business ethics, socially responsible investment, diversity management, human rights, responsible supply chain management, corporate philanthropy and charity (Amaeshi and Adi 2006). Thirdly, CSR is a dynamic phenomenon (Carroll 1999)—the concept that changes over time. CSR concept differs due to the fact that scientists are studying CSR in different fields of science or they have different conceptual perceptions (Carroll 1999; Garriga and Mele 2004; Waddock 2004). Often CSR is being analysed in marketing (Maignan and Ferrell 2003), management (Aguinis and Glavas 2012), operations management (Brammer et al. 2011) or economic, financial sciences (Oikonomou et al. 2012; Salama et al. 2009).

The scientific literature has identified a number of approaches (descriptive, normative, instrumental, strategic) to CSR, which leads to methodological approaches to the CSR phenomenon analyses. The current chapter is based on the descriptive approach to CSR assuming that companies implement CSR in order to achieve social, economic and environmental objectives, in regard to various stakeholder groups.

To summarize the prevailing approaches to CSR content in the scientific literature, the lack of unified CSR content perception was identified. In most cases, studies are based on the four-dimensional concept of CSR relating it to economic, legal, ethical and philanthropic responsibilities, which manifest in the form of various business initiatives. Thus the concept of CSR is a dynamic phenomenon, and its formation is dependent on internal and external factors of the company. In this context, CSR is a voluntary corporate action intended to implement economic, legal, ethical and philanthropic responsibilities of the company, which manifest in the form of economic, environmental and social initiatives and are dependent on the company's internal and external factors.

Narrow and broad approaches to stakeholder notion conceptualize different stakeholders' groups. Most research studies are based on the broad stakeholder approach, stemming from the stakeholder theory, where stakeholders are perceived as any group or individuals that can affect or be affected by the objectives of the company. In a narrow sense, stakeholders are recognized as those groups or individuals that have legal rights to the company, regardless of the relational stakeholders and corporate aspects.

The relevance of the stakeholders in developing and executing CSR policy is based on the assumption that in today's world organization is perceived as the totality of the surrounding stakeholders and factors influencing it. Thus it can be assumed that stakeholders' behaviour in relation with the company depends on the stakeholders' direct or indirect relations with the company and the attributes of legal rights and power.

The scientific literature emphasizes the relevance of stakeholders and their role in the companies' environment (Helmig et al. 2013; Eesley and Lenox 2005; Huijstee and Glasbergen 2010; Ten et al. 2010; Zietsma and Winn 2008; Henriques and Sharma 2005; Hendry 2005; Frooman and Murrell 2005; Tsai et al. 2005; Frooman 1999), highlighting their needs and behaviour (Eesley and Lenox 2005; Vasi and King 2012; King and Soule 2007).

Most research on CSR and its influence on companies' financial performance (Orlitzky and Benjamin 2001; Margolis and Walsh 2003), value and risk (Oikonomou et al. 2012; Bouslah et al. 2013; Salama et al. 2011) are based on stakeholders' theory. In this context, CSR is perceived as a tool to combine the requirements of various stakeholder groups, which leads to the positive impact on companies' performance. Positive results here are identified as employee loyalty (Lou Bhattacharya 2009), good reputation (Tsoutsoura 2004; Testa 2008) and financial (Louche et al. 2010) and credit (Bouslah et al. 2013) risk reduction. It is argued that stakeholders react positively to CSR and it leads to potential positive effect—cost reductions or reputation gain (Rowley and Moldoveanu 2003; Vasi and King 2012).

The possible negative stakeholders' effect on business outcome—negative deviations of stock returns (King and Soule 2007; Eesley and Lenox 2005; Doh and Guay 2006) or decline in bond yields (Bouslah et al. 2013)—is not widely analysed. Based on the previous researches, stakeholder behaviour is divided into passive and aggressive (Eesley and Lenox 2005). Strikes, protests, boycotts and legal actions are attributed to aggressive stakeholder behaviour, while passive behaviour is represented by letter writing, collaboration processes and voting rights. It should be noted that the aggressive behaviour of stakeholders is much more influential and has a greater impact on company results than passive stakeholder behaviour (Eesley and Lenox 2005). Such stakeholders' behavioural expression has the potential to increase company's operational costs, costs for public relations or legal fees directly.

Boycotts, strikes and protests attract extra attention from regulators and have a negative impact on companies' reputation, their ability to attract and retain customers, employees and shareholders. In general this is related with higher risks.

Empirical studies on CSR and its influence on company's risk (financial, credit, strategic, reputation loss) are within the following areas:

- CSR is perceived as a risk management mechanism (Louche et al. 2010; Godfrey et al. 2009; Tsoutsoura 2004; Testa 2008; Kytle and Ruggie 2005).
- CSR is perceived as a separate company risk, with the specific sources (Tsoutsoura 2004; Heugens and Dentchev 2007).
- The assessment of direct CSR influence on financial risk (Spicer 1978; Aupperle and Pham 1989; Aupperle et al. 1985; Lou and Bhattacharya 2009; Salama et al. 2009; Oikonomou et al. 2012; Dufrense and Savaria 2004).
- Interrelations of corporate social performance and financial risk (Orlitzky and Benjamin 2001).

Though some empirical studies show that CSR has a direct influence on companies' financial risk (Hillman and Keim 2001), other studies indicate the reverse relationship (Brammer et al. 2006; Salama et al. 2011) or no connection between these two phenomena (Renneboog et al. 2008; Bauer et al. 2009; Humphrey et al. 2012; Kim 2010). Conflicting results of the empirical research are determined partially by different models of financial risk (systematic, non-systematic, downside risk), CSR indicators (KLD Domini, SAM, Dow&Jones Index), chosen assumptions and model limitations.

Empirical studies on CSR influence on financial risk are mainly based on CSR assessment methodologies performed by CSR rating agencies or databases: KLD Domini, SAM, DJSI, etc. Also, assessment of influence of CSR is based on diverse estimates of financial risk: systemic (Lou and Bhattacharya 2009; Salama et al. 2011), nonsystemic (Dufrense and Savaria 2004; Lee and Faff 2009; Mishra and Modi 2012; Bouslah et al. 2013), total (Kim 2010, 2012) and downside risk (Oikonomou et al. 2012). The CSR influence on downside risk is studied the least. The financial risk measured through the downside risk (stock returns tolerances on the negative side) still lacks attention, so there is a need to assess the CSR influence on negative financial risk.

As the analysis of previous research show ambiguous results of the impact of CSR on financial risks, stakeholder behaviour evaluation in the study may help determine how the implementation of corporate social responsibility can provide financial benefits or, on the contrary, cause financial losses (Branco and Rodrigues 2006). This research is based on the insights of M. L. Barnett (2007), H. Servaes and A. Tamyo (2013) and S. Mishra and D. Suan (2010) that the impact of CSR on business financial performance depends on the CSR relations with company's stakeholders. Empirical analyses have shown that in the models dealing with CSR level and corporate performance dependence, it is necessary to involve stakeholder mediating effect, which explains how companies' implemented social responsibility increases (decreases) the value of the company, increases (decreases) the profitability of positive (negative) impact on stock prices and stock returns and increases (reduces) the financial risk.

Empirical studies demonstrate that improvement in company environmental activities may affect the profitability due to increased operational efficiency, customer and employee satisfaction and so on (Schreck 2011), so we can say that works indirectly. Organic products can be better valued by customers and thus increase sales revenue. Otherwise, the increased investment in environmental projects may be negatively assessed by the community and increase the likelihood of boycotts and create additional media attention, which ultimately adversely affect the performance of the company and the distribution of stock returns. When stakeholders lose confidence in the company's activities, the company loses its core business support structure and customer support (Lee 2008). Customers no longer purchase products or begin legal proceedings, shareholders sell their shares, employees stop working or work less, and environmental organizations start boycotts, strikes or protests (Wood and Jones 1995). All this directly affects the performance of the company. Due to rising employees, customer protests, strikes or boycotts, investors lose confidence in the company and have a negative view of the company's future cash flows, and it directly affects stock prices (Doh and Guay 2006), and it increases the company's financial risk due to negative stock return volatility.

Therefore, it can be assumed that satisfied stakeholders positively influence the performance of the company and, in this case, the financial risk decreases. However, when stakeholders are unhappy, it underestimates the company's efforts in the context of social responsibility or rather negative view of the company's relevant actions, in which case the stakeholders within aggressive behaviour increase or negatively affect the company's financial risk. CSR impact on financial risks based on possible aggressive behaviour of stakeholders is under-researched.

While analysing the stakeholder impact on businesses, it can be seen that some of the companies with respect to experience face more negative stakeholder behaviour with potentially negative consequences. Therefore, it is important to understand what companies are increasingly under pressure by stakeholders and how it affects the company's financial risk. Stakeholder pressure is understood as stakeholders' opportunity and ability to influence the company to implement useful organizational solutions (Helmig et al. 2013; Eesley and Lenox 2005).

Companies implement CSR in their activities, which is manifested through various social initiatives that causes reactions to various stakeholder groups, and depending on their raised expectations and needs fulfilment, stakeholders' actions may be passive and aggressive and have either positive or negative effect on companies' financial performance and risk (credit, financial). In those cases, when stakeholders' needs are not satisfied, stakeholders express their dissatisfaction with the current situation, and in order to change the company's actions, stakeholders use appropriate tactics and actions (strikes, protests, boycotts, legal actions). Depending on the stakeholders' behaviour, the stock market responds, because according to the efficient market hypothesis all information is concentrated in the stock price. The investors are reacting to the published information in adopting the decisions on investment: sell existing shares and/or invest in a company that is experiencing the problems with the reputation. CSR implemented in companies' activities has no direct influence on company's financial indicators or investor decisions, but depending on how stakeholders respond to perceived information with regard to CSR effects and how it's published by the media affects the company's financial risk.

Although recent research has highlighted the importance of stakeholders' behaviour in the assessment of CSR influence on companies' risks (credit, financial), the assessment of stakeholder behaviour occurring during strikes, protests or adverse media attention, influencing credit and financial risks (Doh and Guay 2006), is being performed assuming that the risks are independent from CSR. It is assumed that stakeholder's behaviour influence on financial risk is completely independent on CSR. Insights on the potential indirect impact of CSR on financial performance is being argued by previous research (Schreck 2011; Barnett 2007; Servaes and Tamyo 2013; Mishra and Suan 2010), although empirical studies assessing the CSR influence on financial risks based on various stakeholder actions are still insufficient. The lack of research assessing CSR influence on financial risk, based on the aggressive stakeholders' actions, is being identified, assuming that stakeholders respond to dynamic changes of CSR level and possible stakeholders' aggressive actions increase companies' financial risk. In this sense, it is appropriate to examine the conditions under which CSR can increase financial benefits or, conversely, cause financial losses.

To summarize, empirical studies show that a greater effect on company's financial risk is performed by the aggressive stakeholders' actions. It should also be stressed that the aggressive stakeholders' actions occur in both primary and secondary stakeholders' behaviour. Empirical studies indicate that the stakeholder groups that lack power (secondary stakeholders) and have less impact on corporate decision-making have the power to indirectly influence the primary stakeholders, through the media or by changing public opinion in regard to the company. The current chapter assumes that stakeholder's aggressive actions are the main factors affecting the CSR influence on financial risk. The assessment of CSR influence on financial risk is carried out by including both primary and secondary stakeholders' aggressive actions (strikes, protest, boycotts and legal actions) and possible media effect on the changes in public opinion and primary stakeholders approach to the company. The assumption is made that the investors' as a primary stakeholder group behaviour towards the company can have a direct influence on the company's financial risk and/or have direct economic impact on the company's financial performance.

3 Methodology

The chapter proposes *the assessment of CSR and the changes of its level influencing financial risk, including mediating effect of stakeholders' aggressive actions.* Previous studies show the assessment of direct CSR influence on financial risk, leaving aside the possible indirect CSR effect on financial risk and dependent on the stakeholders' actions. Some empirical studies concentrate on the assessment of stakeholders' influence on company's value, reputation and risk (credit, financial), although excluding CSR aspect, in other studies—stakeholders and CSR interfaces are determined, excluding the possible impact on business outcomes (risk, value, reputation). This leads to propose an integrated assessment combining all three phenomena in a single model, integrating stakeholders' aggressive actions as the mediating effect on the CSR influence on financial risk is observed.

The study was determined by the inconclusive previous research results on CSR influence on companies' financial risk. The differences between the results of the previous researches are based on different financial risk evaluation methods, e.g. systematic and unsystematic market risk; negative financial risk measured by downside beta; total market risk, measured by standard deviation; and the disparities of CSR assessment methodologies. The selection of downside risk measure as financial risk in this study is determined by a number of arguments. Firstly, the traditional financial risk measurement models based on the estimates of BETA assume that the distribution of stock returns is symmetrical (e.g. in the case of a normal distribution). However, most of the return's distribution is asymmetric (DeFusco et al. 1996)—either the negative price fluctuations have a positive impact on the prevailing risks or vice versa. Secondly, portfolio unsystematic risk can be eliminated through diversification. Thirdly, based on loss aversion utility theory, "losses and disadvantages have a greater impact on investors' choice than the benefits and advantages" (Tversky and Kahneman 1991, p. 1039). Therefore, investors are more sensitive to adverse risk and therefore may require a higher return on investment to the company's shares.

The indirect CSR influence on financial risk depends on the mediating effect of stakeholders' aggressive actions and moderating factors (company size, the level of company innovation and visibility, economic sector, country's social activity). CSR influence on company's financial risk, taking into account stakeholder aggressive actions, is expressed in the following econometric equation:

$$\text{Financial Risk} = \alpha_0 + \beta_1 \text{ESG} + \beta_{n+1} \text{ESGxY} + C_n$$

In the Model

The *dependent variable* in the model is the *financial risk*, *independent—CSR*. Financial risk in the model is measured by downside beta. Financial risk is determined by three different models, comparing the rate of return to the average market return, risk-free rate and 0.

The mediating effect of stakeholders' aggressive actions is expressed by the linkage of the variables = ESGxY and shows how the indirect influence of CSR on the financial risk (including aggressive stakeholders' actions) is different from the case when the direct CSR impact on financial risk is examined. In order to assess the CSR effect on financial risk, the study involved only socially responsible companies defined in the Bloomberg database. The ESG factor involving social, environmental and governance elements was used to measure the CSR level of the company. A quantitative content analysis was used to assess the aggressive stakeholders' actions within the textual form of data from the Bloomberg database.

The empirical study of CSR (measured by ESG indicator) influence on financial risk (measured by downside beta), based on aggressive stakeholders' actions (strikes, protests, boycotts, legal actions), was carried out by using the data of period 2010–2013 in the European region. Thus, taking into account the specificities of the variables and assuming that the analysed cross-sectional data is not homogeneous, the generalized econometric model of random effects was developed, in order to assess the CSR influence on financial risk, taking into account aggressive stakeholders' actions:

$$\begin{aligned} \mathrm{BETA}_{t,i} = {} & \alpha_0 + \delta_n \mathrm{td\_YEAR}_t + \beta_1 \mathrm{ESG}_{t,i} + \beta_2 \mathrm{ESGxY\_1\_10}_{t,i} \\ & + \beta_3 \mathrm{ESGxY\_11\_50}_{t,i} + \beta_4 \mathrm{ESG\_}Y\mathrm{\_51\_100}_{t,i} + \beta_5 \mathrm{ESG\_Y\_101}_{t,i} \\ & + \mathrm{c}_1 \ln\left(\mathrm{Size}_{t,i}\right) + \mathrm{c}_2 \mathrm{book\_to\_mktval}_{t,i} + \mathrm{c}_3 \mathrm{tobinq}_{t,i} + \mathrm{c}_4 \mathrm{leverage}_{t,i} \\ & + \gamma_1 \mathrm{cd\_Country} + \lambda_1 \mathrm{sd\_Industry} + \mathrm{v}_{\mathrm{t,i}} \end{aligned}$$

where:

- The *dependent variable* is the financial risk (downside beta) (*BETA*).
- α_0—constant.
- Explained variables represent 3 years (δ1td_2011; δ2td_2012; δ3td_2013).
- Coefficient β_1 shows the direct CSR influence on financial risk when stakeholders' aggressive actions are not evaluated, i.e. checking whether there is a direct CSR influence on the financial risk.
- Coefficient β_2 shows that the CSR influence on financial risk, when the intensity of stakeholders' aggressive actions is low (1–10 articles per year), is different from the case when the direct CSR influence on financial risk is examined (β_1).
- Coefficient β_3 shows how the CSR influence on financial risk, when the intensity of stakeholders' aggressive actions is observed, is different from the case when the direct CSR influence on financial risk is examined (β_1).
- Control variables: market capitalization (ln ($cap_{t\ i}$)), book to market value ratio (*book_to_mktval*), company's profitability (*tobinq*), company's level of debt (*leverage*), liquidity (*liquidity*).
- Explained variables: γ_1*cd_country*—reflect the effect of the country.
- Explained variable reflecting the effect of economic sector—$\lambda_1 sd\_industry_i$.
- $v_{t,i}$—integral error.
- $u_{t,i}$—idiosyncratic, time-variable error.

The following hypotheses were raised and tested:

H^1 CSR influence on financial risk is indirect and dependent on the stakeholders' aggressive actions.

H^2 Financial risk increases under aggressive stakeholders' actions, when the CSR level is low.

H^3 The decreased level of CSR increases company financial risk under aggressive stakeholders' actions.

As the coefficient β_1 shows the direct CSR influence on financial risk when the stakeholders' aggressive actions are not assessed, this factor should be statistically insignificant, implying that CSR influence on the financial risk is indirect. The coefficients β_2, β_3, β_4 and β_5 show how CSR (ESG) influence on financial risk, based on the stakeholders' aggressive actions (different groups of stakeholder aggressive actions levels), is different from the case when the stakeholders' aggressive actions are not evaluated (β_1). Therefore, these coefficients should be statistically significant. This would mean that CSR influence on financial risk is dependent on the stakeholders' aggressive actions.

4 Results

CSR influence on financial risk based on stakeholders' aggressive actions was studied for listed European companies that are socially responsible. Their social responsibility policy was assessed based on the Bloomberg database ESG index. The study was carried out by using balanced panel data. The study sample was reduced from the study eliminating companies with a missing total ESG index or its individual components for separate years. Thus, the study excluded countries such as Slovakia, Bulgaria and Ukraine. In general, the majority of companies operating in Eastern Europe were not included in the empirical study. This can be explained by the fact that corporate social responsibility policy is more widely developed and executed in Western European than in Eastern European companies.

When testing hypothesis H^1 that CSR influence on financial risk is indirect and dependent on the stakeholders' aggressive actions, the results showed that the coefficient β_1 is insignificant ($p = 0.20541$; 0.12211; 0.2737; 0.15852) and the coefficients β_2, β_3, β_4 and β_5—showing the indirect CSR effect on financial risk—are statistically significant ($p < 0.0001$), in all stakeholder aggressive action groups, and these coefficients are increasing according to the intensity of the stakeholders' actions (Table 1).

The results of hypothesis H^1 revealed that CSR influence on financial risk is indirect and dependent on stakeholders' aggressive actions and this influence is increasing due to the intensity of stakeholders' aggressive actions. H^1 was confirmed.

To test hypothesis H2—whether the stakeholders' aggressive actions increase financial risk when the CSR level is low—the sample of the research was divided into low level of CSR sample (when the CSR level was lower than the mean) and high level of the CSR (when the level of the CSR was higher than the mean).

The results showed that the coefficient β3 does not differ significantly from the coefficient (β_1) which is neither high nor low level of CSR influence the financial risk taking into account stakeholders' aggressive behaviour (there is no direct effect). The result once again confirmed that the CSR level has no direct impact on the financial risk but is dependent on the stakeholders' behaviour. The coefficient β_2 and β_4 values are significantly different from the reference group (β_1), because these factors indicate the level of impact of CSR financial risks taking into account stakeholders' aggressive behaviour. For the hypothesis approval, it was expected

Table 1 Results of testing direct CSR influence on financial risk under stakeholders' aggressive actions

	1a Model		1b Model		1c Model		1d Model	
	Beta (Euribor)		Beta (Euribor) + liquidity		Beta (0)		Beta (0) + liquidity	
	Coef.	*p*-value	Coef.	*p*-value	Coef.	*p*-value	Coef.	*p*-value
β_1ESG	0.0017	0.20541	0.0023	0.12211	0.0017	0.2737	0.0024	0.15852
$\beta_2$esgXr1_10	0.0053	$<0.00001^{***}$	0.0048	$<0.00001^{***}$	0.0059	$<0.00001^{***}$	0.0054	$<0.00001^{***}$
$\beta_3$esgXr11_50	0.0068	$<0.00001^{***}$	0.0055	0.00007^{***}	0.0079	$<0.00001^{***}$	0.0063	0.00007^{***}
$\beta_4$esgXr51_100	0.0082	0.00032^{***}	0.0063	0.0141^{**}	0.0094	0.00028^{***}	0.0070	0.01640^{**}
$\beta_5$esgXr101	0.0136	$<0.00001^{***}$	0.0082	0.0075^{***}	0.0159	$<0.00001^{***}$	0.0093	0.00727^{***}

, * indicate statistically significant at the 5% and 1% levels, respectively that the coefficient β_4 value should be greater than β_2, as there are companies with lower ESG than the average. This would suggest that in the presence of a low level of corporate social responsibility, financial risk increases aggressive behaviour of stakeholders. However, according to the results, the financial risk is increasing in enterprises with high level of corporate social responsibility, and this difference is statistically significant (Table 2). The results showed that the stakeholders' aggressive actions are more intense in case of a high level of CSR. Thus hypothesis H^2 was rejected.

Furthermore, the influence of CSR dynamic change on the financial risk, based on aggressive stakeholders' actions (hypothesis H^3), was tested, i.e. whether the decreased level of CSR increases company financial risk, based on aggressive stakeholders' actions. The results showed that in a third group (β_3), i.e. when the CSR level decreases and no stakeholder aggressive actions are included (esg_down_no_react), the influence on financial risks is not statistically significant from the first base group (β_1)—CSR value increases, and interest groups' aggressive behaviour is observed. Thus when there is no change in the level of CSR stakeholders' aggressive behaviour, CSR does not affect the financial risk significantly. When testing hypothesis $\beta_1 = \beta_3$, in all cases, the hypothesis was confirmed (see Table 3).

The empirical results lead to conclusion that the changes in CSR level affect the changes in the intensity of the stakeholders' aggressive actions, which affect the financial risk. It was observed that the decrease in the level of CSR causes the increase of stakeholders' aggressive actions and it influences financial risk. Thus hypothesis H^3 was confirmed.

5 Conclusions

Empirical studies of CSR influence on company's risk (financial, credit, strategic, reputation loss) are performed in several revealed directions:

- CSR is perceived as a risk management mechanism (Louche et al. 2010; Godfrey et al. 2009; Tsoutsoura 2004; Testa 2008; Kytle and Ruggie 2005).
- CSR is perceived as a separate company risk (Tsoutsoura 2004; Heugens and Dentchev 2007).
- The assessment of direct CSR influence on financial risk (Spicer 1978; Aupperle and Pham 1989; Aupperle et al. 1985; Lou and Bhattacharya 2009; Salama et al. 2009; Oikonomou et al. 2012; Dufrense and Savaria 2004).
- Assessment of interrelations of corporate social performance and financial risk (Orlitzky and Benjamin 2001).

The analysis of empirical research revealed mixed results of the CSR influence on financial risk: CSR has a direct impact on financial risk (Hillman and Keim 2001), CSR has an indirect impact (Brammer et al. 2006; Salama et al. 2011), and there are no relations between these two phenomena (Renneboog et al. 2008; Bauer et al.

Table 2 Results of testing if financial risk increases under stakeholders' aggressive actions when the CSR level is low

	Beta (Euribor)		Beta (Euribor) + liquidity		Beta (0)		Beta (0) + liquidity	
Financial risk	Coef.	*p*-value	Coef.	*p*-value	Coef.	*p*-value	Coef.	*p*-value
High level of CSR, stakeholders' aggressive actions included	0.1615	0.0006***	0.1474	0.0047***	0.1890	0.0005***	0.1704	0.0043***
Low level of CSR, stakeholders' aggressive actions excluded	−0.2153	1.24e-07***	−0.1800	5.64e-05***	−0.2306	6.88e-07***	−0.1901	0.0002***

*** indicate statistically significant at the 1% level

Table 3 Results of testing if the decreased level of CSR increases company financial risk under aggressive stakeholders' actions

	$b_1 - b_3 = 0$	
	Test statistic F	p-value
2a Model	0.408982	0.522534
2b Model	0.037307	0.846855
2c Model	0.602568	0.846855
2d Model	0.168937	0.681093

2009; Humphrey et al. 2012; Kim 2010). Conflicting results of the empirical research are determined partially by different models of financial risk (systematic, non-systematic, downside risk), CSR indicators (KLD Domini, SAM, Dow&Jones Index), chosen assumptions and model limitations.

Previous research allows to state that stakeholder behaviour can be divided into passive and aggressive and that a greater effect on company's financial risk is performed by the aggressive stakeholders' actions. It should also be stressed that the aggressive stakeholders' actions occur in both primary and secondary stakeholders' behaviour. Empirical studies show that the stakeholder groups that lack power (secondary stakeholders) and have less impact on corporate decision-making have the power to indirectly influence the primary stakeholders, through the media or by changing public opinion in regard to the company.

Although the empirical studies emphasize the relevance of the integrated approach to the assessment of the CSR influence on the financial risk, there is lack of the research investigating the possible CSR effect on financial risk, measured by downside beta, taking into account stakeholders' behaviour.

The empirical study of CSR (measured by Bloomberg ESG indicator) influence on financial risk (measured by downside beta), taking into account aggressive stakeholders' actions, which included strikes, protests, boycotts and legal actions, was carried out by using the data of period 2010–2013 in the European region.

The performed empirical study allowed to show that for listed European companies, CSR influence on financial risk is indirect and depends on stakeholders' actions. Contrary to studies of other researches, CSR influence on the financial risk was assessed by including mediating stakeholders' behaviour effect, which shows that CSR influence on financial risk is dependent on stakeholders' behaviour.

The empirical results allow to state that changes in CSR level affect the changes in the intensity of the stakeholders' aggressive actions, which affect the financial risk. It was observed that the decrease in the level of CSR causes the increase of stakeholders' aggressive actions and it influences financial risk.

The CSR influence on financial risk, taking into account stakeholders' aggressive actions, is lower in Eastern European countries in comparison with the other European countries.

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Factors Affecting the Level of Corporate Governance Disclosure by Companies Listed on the Stock Exchange of Thailand

Senee Puangyanee and Krisakorn Duangsawang

Abstract This research aimed to study the factors that affected the level of corporate governance disclosure by 360 companies listed on the Stock Exchange of Thailand, through statistical analysis of the level of disclosure of information in each company's annual report (form 56-1), annual financial statement, and notes accompanying the financial statement. Descriptive statistics (including average standard errors) and inferential statistics were used to analyze the data for statistical correlations.

The hypothesis testing in this study found that the size of the organization affected the level of corporate governance disclosure by resource, service, and technology industry companies listed on the Stock Exchange of Thailand; and that the age of the organization affected the level of disclosure by companies in the manufacturing and service industries. However, the ownership structure did not affect the level of disclosure in any of the industries that were studied.

This chapter discusses the results of this study regarding factors affecting the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand and summarizes the findings for development of disclosure policy changes to ensure transparency and establish mechanisms for good governance that stakeholders or investors can apply for decisions on investment.

1 Introduction

The Stock Exchange of Thailand (SET) is continuously encouraging companies listed on the exchange to practice good governance, and in 2012 it improved corporate governance for listed companies with modification of traditional practices in five categories—(1) the rights of shareholders, (2) equal treatment of shareholders,

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(3) the role of stakeholders, (4) disclosure and transparency, and (5) the responsibility of boards of directors—to be consistent with ASEAN Corporate Governance Scorecard (ASEAN CG Scorecard) regulations, a tool that measures the level of corporate governance of listed companies in the ASEAN countries (The Stock Exchange of Thailand 2013).

Corporate governance is a system for operation and internal control with guidelines on the roles and responsibilities of all stakeholders involved with an organization: the board of directors, employees, and shareholders (The Stock Exchange of Thailand 2006). When a company has conducted fundraising, the appointment of directors to manage the business results in the necessity to practice good governance to ensure that the operation will be conducted for the long-term benefit of shareholders and will bring about sustainable growth of the company. National Corporate Governance (2013), along with correct information disclosure by the company and transparent operation, gives the company a good image in the eyes of everyone involved, including recognition and confidence from investors, which will result in more investors being interested in investing, leading to increased securities prices and reductions in company costs. Additionally, when more investors come to invest, the company will be more expansive. Corporate governance and good administration are intended to establish a system of regulations and incentives to effectively manage the interests of executives and owners. Thailand began to recognize the principles of corporate administration (also known as corporate governance) in 1997 and established a National Corporate Governance Committee in 2002 as a result of the economic crisis in 1997, during which Thailand was severely affected by the unusual financial situation (Silipaporn Srijunpret 2009).

Researchers have found the issue of corporate governance disclosure to be of significant interest. Each company is required to disclose information on corporate governance in order to be listed on the Stock Exchange of Thailand. However, it has been found that there have been different levels of disclosure. Suntiya Tunjunpong (2014) conducted a study on the influence of corporate governance on taxation planning by companies listed on the Stock Exchange of Thailand, using information in the financial reports and annual reports of companies in the year 2011. It was found that the practices of corporate governance and appropriate disclosure resulted in reductions in the burden of time and money spent on tax planning in seven industries. Supana Sukanantasak (2014) conducted a study on the relationship, in terms of cause and effect, between corporate governance mechanisms and the quality of earnings of companies listed on the Stock Exchange of Thailand between 2010 and 2012, by measuring the level of corporate governance and stabilization of earnings. It was found that good governance mechanisms in terms of transparency that have high disclosure level will get resulted in higher profits quality. On the basis of a review of past research studies, the researchers in this study were interested in studying differences in the level of corporate governance disclosure and their effects on the operating results of companies listed on the Stock Exchange of Thailand, with categorization by industry, by studying factors affecting the level of corporate governance disclosure and the issues of size, industry, age, ownership structure, and operating results of the organizations.

2 Objectives

The objectives of this research on the influence of good practices in corporate governance disclosure that affected the operating results of companies listed on the Stock Exchange of Thailand were as follows:

1. To perform a comparison of variables affecting good practices in corporate governance disclosure by companies listed on the Stock Exchange of Thailand
2. To study the relationships of variables affecting good practices in corporate governance disclosure by companies listed on the Stock Exchange of Thailand

3 Conceptual Framework

For the conceptual framework of this research, the researchers aimed to study factors affecting the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand. The researchers conducted a literature review of international and domestic research studies to evaluate levels of disclosure for this study (which were divided into three levels: high, medium, and low) as follows:

1. Independent variables: the return on equity (ROE) of each industry according to the nature, size, age, and ownership structure of companies listed on the Stock Exchange of Thailand
2. Dependent variable: the level of corporate governance disclosure (Fig. 1).

4 Hypotheses

The three hypotheses listed below were tested in this research on the relationships among factors affecting good levels of corporate governance disclosure by companies listed on the Stock Exchange of Thailand.

Hypothesis 1 The size of the organization affects the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand.

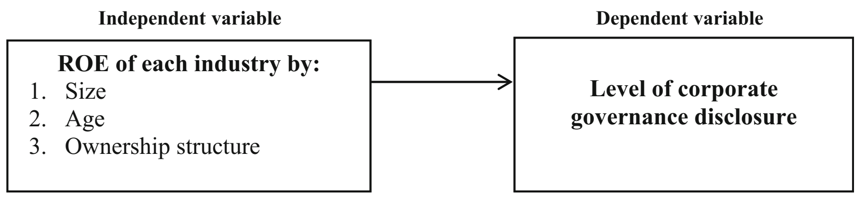

Fig. 1 Conceptual framework of research

Hypothesis 2 The age of the organization affects the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand.

Hypothesis 3 The ownership structure of the organization affects the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand.

5 Methodology

The researchers set the population used in this study as being seven industry groups of companies listed on the Stock Exchange of Thailand, excluding industrial and financial organizations (as of February 9, 2015) (The Stock Exchange of Thailand 2015). It was found that only 360 companies fulfilled the selection criteria and were appropriate to be included in this study on the level of corporate governance disclosure. The researchers used information on corporate governance disclosed in each company's annual report (form 56-1), annual financial statement, and notes accompanying the financial statement for the 2013 fiscal year for empirical research, and collected data from secondary sources to document information regarding corporate governance disclosure in order to calculate the level of disclosure to be used as an indicator of the level of good corporate governance disclosure. The researchers collected and analyzed the data during the months of August to November, 2016.

When the data collection was completed the researchers proceeded with the process of determining the statistics that were appropriate and consistent with the statistical data to meet the objectives for analysis by statistical methods in two parts:

1. *Descriptive Statistics*

   These statistics were used to assess the preliminary nature of the data for each variable: means, frequency distributions, and each variable's information distribution.
2. *Inferential Statistics*

   2.1 Correlation analysis was conducted to measure the relationship between two or more variables that were related or not related in any manner and to determine how much they were related. Independent variables were examined to see if they were related to each other in two steps: the first was a correlation matrix and the second was the tolerance to find the variance inflation factor (VIF) to be consistent and appropriate for use in further analysis.

   2.2 Analysis by multiple linear regression was used to measure the relationship among three or more variables, with one being the dependent variable with a value that could be predicted. The other two remaining variables would be independent variables by considering the regression coefficient of each independent variable to indicate whether any of the independent variables are correlated with the dependent variable and able to forecast the variable to be studied when we know independent variable that are consistent with:

(1) The independent variable is ROE of each industry by the nature, size, age, and ownership structure of companies listed on the Stock Exchange of Thailand.
(2) The dependent variable was the level of good corporate governance disclosure.

6 Results

There were two objectives in this research on factors affecting the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand: (1) to compare variables affecting good practices in corporate governance disclosure by companies listed on the Stock Exchange of Thailand, and (2) to study the relationship of variables affecting good practices in corporate governance disclosure by companies listed on the Stock Exchange of Thailand. The researchers developed a conceptual framework for research on corporate governance disclosures that affected the operating results of companies listed on the Stock Exchange of Thailand, based on the concepts of Lee (2011), Memili (2011), and the Securities and Exchange Commission (SEC) of Thailand, and the revision of the research framework conducted by Nutthawan Sirithanon (2007), Narongrit Charnsuwan (2007), and Supana Sukanantasak (2014) in synthesizing concepts and literary theories. Factors that affect the level of good corporate governance information that affects the return on equity ratio can be measured from (1) the operational age, (2) the shareholding structure, (3) Registered capital that are related to the performance factors of the company in view of the rate of return for shareholders to measure the performance of various companies.

1. *Statistics on disclosure factors that affected the governance of companies in various industries listed on the Stock Exchange of Thailand*: Differences were found among the seven industry groups listed on the Stock Exchange of Thailand with regard to disclosures in the annual report (form 56-1), annual financial statement, and notes accompanying the financial statement. With regard to the factor of age, the overall age of the industry groups was more than 21 years; with regard to the factor of registered capital, the overall capital of the industry groups was over THB 201 million; and with regard to the factor of ownership structure, companies with only Thai shareholders and companies with both Thai and foreign shareholders were equal, at 180 companies (50%) each.
2. *Analysis of basic statistics on companies listed on the Stock Exchange of Thailand*: From this analysis, categorized by industry group, with regard to the ROE ratio in the seven industry groups for the operating results for the year 2013, it was found that the ROE ratio in the technology group was higher than those in the other industry groups, with an average score of 16.07, followed by resources

(score 13.70), agriculture and food (score 11.98), services (score 9.65), consumer goods (score 7.29), manufacturing (score 5.81), and property and construction (2.29).

3. *Analysis of level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand*: The levels of corporate governance disclosure in the different industry groups, ranked from highest to lowest, were as follows: resources (score 0.432), property and construction (score 0.410), services (score 0.390), consumer goods (score 0.371), agriculture and food (score 0.347), manufacturing (score 0.251), and technology (score 0.237).
4. *Analysis to prove hypotheses*: From the hypothesis-testing results it could be concluded that the organizational size affected corporate governance disclosure by companies listed on the Stock Exchange of Thailand in the manufacturing, resources, service, and technology industries. The organizational age also affected the level of corporate governance disclosure. In the manufacturing and service industries, the ownership structure did not affect the level of corporate governance disclosure. The hypothesis-testing results are summarized in Tables 1, 2, and 3.

Hypothesis 1 The size of the organization affects the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand.

The relationship between the independent variables and the dependent variables was tested, with a *P* value significance level set at 0.05, to prove or disprove the hypothesis that the size of the organization affected the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand in at least one industry. From the testing of this hypothesis, it could be concluded that the size of the organization did affect the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand in three industries: resources, services, and technology. The size of the organization could be used to analyze the level of corporate governance disclosure by management in these three industries (= 1.000), followed by manufacturing (R^2 = 0.061), agriculture and food (R^2 = 0.019), real estate and construction (R^2 = 0.061), and consumer goods (R^2 = 0.048) (Table 1).

Hypothesis 2 The age of the organization affects the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand.

The relationship between the independent variables and the dependent variable was tested, with a *P* value significance level set at 0.05, to prove or disprove the hypothesis that the age of the organization affected the corporate governance disclosure by companies listed on the Stock Exchange of Thailand in at least one industry. From the testing of this hypothesis, it could be concluded that the age of the organization did affect the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand in the following industries: technology (R^2 = 0.653), followed by resources (R^2 = 0.569), manufacturing (R^2 = 0.469), and real estate and construction (R^2 = 0.600) (Table 2).

Table 1 Multiple regression analysis for hypothesis 1: The size of the organization the level of corporate governnance disclosure by companies listed on the Stock Exchange of Thailand

	Level of corporate governance disclosure		
Registered capital	Regression coefficient	Standard errors	P value
Agriculture and food			
THB 20 million or less	–	–	–
THB 21–200 million	1.258	1.537	0.235
THB 201 million or more	−0.291	−0.893	0.452
$R = 0.770$, $R^2 = 0.322$, SE = 0.08586, $F = 0.260$			
Consumer goods			
THB 20 million or less	–	–	–
THB 21–200 million	0.467	0.431	0.137
THB 201 million or more	0.007	0.009	0.974
$R = 0.434$, $R^2 = 0.053$, SE = 0.10332, $F = 0.286$			
Manufacturing			
THB 20 million or less	–	–	–
THB 21–200 million	−0.687	−0.369	0.128
THB 201 million or more	0.511	0.579	0.040
$R = 0.587$, $R^2 = 0.659$, SE = 0.13566, $F = 0.010$			
Resources			
THB 20 million or less	–	–	–
THB 21–200 million	–	–	–
THB 201 million or more	1.000	0.000	0.000
$R = 1.000$, $R^2 = 1.000$, SE = 0.00000, $F = <0.000$			
Real estate and construction			
THB 20 million or less	–	–	–
THB 21–200 million	–	–	–
THB 201 million or more	0.409	0.412	0.000
$R = 0.412$, $R^2 = 0.159$, SE = 0.18321, $F = <0.000$			
Technology			
THB 20 million or less	–	–	–
THB 21–200 million	–	–	–
THB 201 million or more	1.000	0.000	0.000
$R = 1.000$, $R^2 = 1.000$, SE = 0.00000, $F = <0.000$			

Hypothesis 3 The ownership structure of the organization affects the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand.

The relationship between the independent variables and the dependent variables was tested, with a P value significance level set at 0.05, to prove or disprove the hypothesis that the ownership structure of the organization affected the corporate governance disclosure by listed companies on the Stock Exchange of Thailand in at least one industry. The research showed that the ownership structure did not affect the level of corporate governance disclosure by companies listed on the Stock

Table 2 Multiple regression analysis for hypothesis 2: The age of the organization the level of corporate governnance disclosure by companies listed on the Stock Exchange of Thailand

Age	Level of corporate governance disclosure		
	Regression coefficient	Standard error	P value
Agriculture and food			
1–10 years	−0.704	−0.690	0.589
11–20 years	2.675	7.567	0.358
21 years or more	−2.248	−7.360	0.356
$R = 0.902$, $R^2 = 0.256$, SE = 0.09730, $F = 0.531$			
Consumer goods			
1–10 years	–	–	–
11–20 years	−0.337	−0.298	0.590
21 years or more	0.414	0.403	0.476
$R = 0.560$, $R^2 = -0.143$, SE = 0.16338, $F = 0.568$			
Manufacturing			
1–10 years	−0.661	−0.650	0.017
11–20 years	1.631	1.057	0.001
21 years or more	−0.551	−0.269	0.108
$R = 762$, $R^2 = 0.469$, SE = 0.19900, $F = 0.004$			
Resources			
1–10 years	0.397	0.546	0.121
11–20 years	0.201	0.203	0.532
21 years or more	–	–	–
$R = 763$, $R^2 = 0.569$, SE = 0.19560, $F = 0.004$			
Services			
1–10 years	0.151	0.149	0.527
11–20 years	−0.161	−0.170	0.046
21 years or more	0.086	0.071	0.758
$R = 217$, $R^2 = -0.103$, SE = 0.27652, $F = 0.816$			
Real estate and construction			
1–10 years	0.118	0.124	0.600
11–20 years	0.242	0.213	0.356
21 years or more	0.190	0.156	0.512
$R = 302$, $R^2 = -0.060$, SE = 0.20228, $F = 0.621$			
Technology			
1–10 years	−0.451	−0.334	0.266
11–20 years	0.561	0.602	0.124
21 years or more	−0.201	−0.280	0.391
$R = 909$, $R^2 = 0.653$, SE = 0.12991, $F = 0.116$			

Exchange of Thailand in any of the industries; thus, it was concluded that hypothesis 3 could be rejected (Table 3).

Table 3 Multiple regression analysis for hypothesis 3: The ownership structure of the organization the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand

Ownership structure	Level of corporate governance disclosure		
	Regression coefficient	Standard error	*P* value
Agriculture and food			
Fully owned by Thai shareholders	−0.132	−0.133	0.655
Partly owned by foreign shareholders	0.034	0.015	0.959
$R = 0.139$, $R^2 = -0.019$, SE $= 0.29751$, $F = 0.881$			
Consumer goods			
Fully owned by Thai shareholders	−0.136	−0.123	0.732
Partly owned by foreign shareholders	−0.270	−0.369	0.313
$R = 0.302$, $R^2 = -0.048$, SE $= 0.10881$, $F = 0.536$			
Manufacturing			
Fully owned by Thai shareholders	0.287	0.194	0.291
Partly owned by foreign shareholders	0.311	0.281	0.131
$R = 0.355$, $R^2 = 0.061$, SE $= 0.24748$, $F = 0.162$			
Resources			
Fully owned by Thai shareholders	0.383	0.561	0.120
Partly owned by foreign shareholders	0.446	0.432	0.216
$R = 0.553$, $R^2 = 0.132$, SE $= 0.17415$, $F = 0.232$			
Services			
Fully owned by Thai shareholders	0.116	0.122	0.530
Partly owned by foreign shareholders	0.91	0.084	0.664
$R = 0.156$, $R^2 = 0.048$, SE $= 0.25715$, $F = 0.717$			
Real estate and construction			
Fully owned by Thai shareholders	−0.030	0.032	0.860
Partly owned by foreign shareholders	−0.021	0.020	0.912
$R = 0.040$, $R^2 = -0.061$, SE $= 0.19001$, $F = 0.975$			
Technology			
Fully owned by Thai shareholders	−0.172	−0.158	0.534
Partly owned by foreign shareholders	0.349	0.243	0.342
$R = 0.284$, $R^2 = -0.042$, SE $= 0.26437$, $F = 0.533$			

7 Discussion

The results of this research on factors affecting the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand can be interpreted as discussed below.

The size of the organization affected the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand in the following industries: resources, services, and technology. This finding was consistent with findings reported by Camfferman and Cooke (2002), who analyzed disclosure in the annual reports of listed UK and Dutch companies and found that a small organizational size affected the reporting of corporate social responsibility. These findings differed from those of a study on disclosure of corporate social responsibility (an issue that covers information on corporate governance) done in Thailand by Nathawan Nutthawan Sirithanan in 2007 to study factors affecting the level of disclosure by companies listed on the Stock Exchange of Thailand, which found that the size of the organization did not affect the level of corporate governance disclosure. The issues of corporate governance were studied individually and specifically, and it was found that good governance correlated with the level of corporate governance disclosure.

The age of the organization affected the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand in the manufacturing and service industries. This finding was in line with those of research conducted by Alsaeed (2006) on the relationship between organizational structure and the level of disclosure in Saudi Arabia, and a study conducted by Chotiyarn Hitapong (2006) on the relationship between the characteristics of the organization and the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand, which found that organizational age did affect the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand.

The hypothesis on the effect of the organization's ownership structure on the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand was rejected; in other words, the ownership structure did not affect the level of corporate governance disclosure by companies listed on the Stock Exchange of Thailand. This finding was consistent with those of a study conducted by Phatcharee Sarakul (2011) on the relationship between the characteristics of an organization and disclosure of corporate social responsibility by companies listed on the Stock Exchange of Thailand, and another study, conducted by Adelopo (2010), on voluntary corporate governance disclosure by companies listed on the Stock Exchange of Nigeria. It was found that the ownership structure did not affect the level of corporate governance disclosure.

8 Study Limitations

The data used in this study were derived only from information revealed in each organization's annual report (form 56-1), annual financial statement, and notes accompanying the financial statement.

The independent variables analyzed in this study were derived only from data in each organization's financial statement disclosed to the Stock Exchange of Thailand in 2013.

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Corporate Governance in People's Credit Banks in Indonesia: A Challenge for a Better Future

Yafet Yosafet Wilben Rissy

Abstract The formulation of corporate governance standards in People's Credit Banks (PCBs) has taken a long time. In its development, after the 1997 Indonesian financial crisis, from 1998 to 2014, a number of acts and regulations that directly or indirectly govern corporate governance standards in PCBs were promulgated by Indonesian authorities. Nevertheless, the standards in PCBs are still poor. Just recently, in March and December 2015, the Indonesian Financial Services Authority (IFSA) issued two more main regulations concerning corporate governance standards in PCBs. As a result, the standards have become more complex and need to be further studied.

This research critically examines the formulation of corporate governance standards in PCBs in Indonesian current legal arrangements by investigating existing corporate governance standards that have been promulgated and which of these are not yet applied in PCBs, their soundness, and the current gaps in corporate governance standards in PCBs.

Applying a doctrinal legal research method, it is evident that some corporate governance regimes have been enacted and applied in PCBs. These regimes include board leadership and effectiveness, compliance function, internal and external audit,

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business plan, financial and nonfinancial transparency, risk management and internal control systems, maximum legal lending limits, and conflict of interest settlement.

Arguably existing standards in PCBs are sound enough, and they have been developed from poor and simple standards to sound and multifaceted ones. However, there are weaknesses that exist in the current standards such as no explanation of the independent commissioners' selection process and its criteria and who will take the lead in resolving conflict of interest. The regulations are also silent on the disclosures of compliance function report, business plan report, significant assets and transactions alteration reports, high average credit interest rate risk and high non-performing loan risk. Other shortcomings are potential conflicts of interest within the board of commissioners since they have to deal with their own remuneration; there is a degree of tolerance to infringements of the maximum legal limits and the lack of provision on the importance of an internal control system to design fraud risk procedures to prevent internal fraud.

This research revealed that some corporate governance standards have been promulgated, but not yet applied in PCBs. These standards mostly deal with the fulfilment of minimum numbers of commissioners, directors, and independent commissioners, the formation of committees and units, and the appointment of executive officials needed by PCBs corporate structure to function effectively.

This research also found that there are some gaps in the standards in PCBs that have not yet been promulgated in Indonesian current legal arrangements such as stakeholders and their rights, protecting minority shareholders and the roles of employees. To create a sounder corporate governance environment, PCBs need to improve their implementation of corporate governance standards and to strictly comply with the standards that have not yet been applied. The Indonesian Financial Services Authority (IFSA) should further structure more regulations to overcome the existing standards' drawbacks. These steps are critical to prevent unfair business practices and to protect PCBs customers and other stakeholders' interest across Indonesia.

1 Introduction

Massive market liberalization and poor corporate governance were the main issues that significantly contributed to the 1997 financial crisis in Asia, which included Indonesia.[1] Mishkin (1999) points out that the financial crisis in Asia was caused by

[1]The crises are marked by the closure of 16 banks in November 1997 by Bank Indonesia. The closures of banks continued in April 1998, and seven banks were closed. Still in April 1998 another seven banks were taken over by the Government but due to the poor financial performance,; three of them were liquidated. In September 1988 the Indonesian Government merged four state-owned banks into a new bank named Bank Mandiri. Meanwhile, at same year, another 128 private national banks were required to take part in a programme called bank restructuring conducted by the Indonesian Banks Restructuring Agency (IBRA). The result of the programme was 74 banks were permitted to continue their operation without recapitalization, 9 banks were agreed to continue

extreme liberalization of financial and capital markets. Another cause of the Asian crisis, as depicted by Dickinson and Mullineux (2001), Nam and Nam (2004), and Mitton (2002) was unsound corporate governance. In Indonesia, good corporate governance in the banking sector was neglected in the policy known as *Deregulasi Paket Oktober* 1988 or *Pakto* 1988 (the World Bank 2005; Kameyama et al. 2005). This policy was not followed up by a sound rule on banking supervision and monitoring (Pangestu 2003). As a result, banking governance principles are quite inadequate (William 2003; Kameyama et al. 2005). Furthermore, Basel Committee (2006), Iu and Batten (2001), and Tabalujan (2001, 2002) state that the main cause of the crisis in Indonesia was the failure to apply good corporate governance (GCG) principles. McGee (2008) also discovered that corporate structure weaknesses were a problem in banking and companies systems.[2]

In response to the 1997 financial crisis, one critical breakthrough taken by the Indonesian authority that has to be recognized is the amendment of the Banking Law in 1998 (*Undang-Undang Perbankan*), which then stimulated the Indonesian Central Bank (Bank Indonesia) to establish new regimes on corporate governance in general banks. As a result, the corporate governance standards in the general banks sector were well regulated. Bank Indonesia strongly urged all general banks to strictly implement the standards.[3] Another significant step was the establishment of the National Policy Committee on Corporate Governance in 1999, which aimed at establishing a code of good corporate governance. In the same year, the committee issued a code of GCG guidelines.[4] This momentum significantly contributed to the later development and improvement of corporate governance in Indonesia.

The establishment of sound corporate governance standards in PCBs is critical to prevent unfair business practices and to protect the interest of thousands of PCBs customers. However, unlike in general banks where corporate governance is well

their operation with recapitalization, 7 banks were taken over by IBRA, and 38 banks were liquidated (Kameyama et al. 2005).

[2]Other systemic problems are corruption and weaknesses of state-manage capitalism. See Radelet and Sachs (2000) and Claessens and Fan (2002). Meanwhile, Sadguna (2005) documents poor quality management, imbalance ownership structure, lack of effective control measures and consistency in law enforcement processes. Other disadvantages as pointed out by Clarke and Rama (2009) are the small amount of families who control national corporate asset.

[3]See Bank Indonesia Regulation Number 8/4/PBI/2006 concerning The Implementation of Good Corporate Governance for General Banks. See also Bank Indonesia Regulation Number 8/14/PBI/2006 concerning The Amendment of Bank Indonesia Regulation Number 8/4/PBI/2006 concerning The Implementation of Good Corporate Governance for General Banks. See also Bank Indonesia Circular Letter Number 15/15/DPNP dated 29 April 2013 concerning the Implementation of Good Corporate Governance for General Banks.

[4]For more details, see Coordinator Minister of Economic and Industrial Decree Number: KEP.31/M.EKUIN/06/2000 concerning The Establishment of National Policy Committee on Corporate Governance. See also Coordinator Minister of Economic and Industrial Decree number: KEP/31/M.EKUIN/08/1999 concerning The Establishment of National Policy Committee on Corporate Governance. See also Coordinator Minister of Economic Decree Number: KEP/49/M.Ekon/11/2004 concerning The Establishment of National Policy Committee on Governance.

structured, the corporate governance standards in PCBs are still being developed. The formation of sound corporate governance standards in PCBs has taken a long time. In its development, from 1998 to 2014, Bank Indonesia and the IFSA promulgated a number of regulations that directly or indirectly govern corporate governance standards. Nevertheless, during this time the corporate governance standards in PCBs were still poor and simple and lack the committees, units, and functions needed. Just recently, in March and December 2015, the IFSA finally issued two more main regulations on corporate governance[5] and risk management[6] in which the missing committees, units, and functions needed in PCBs were addressed. Meanwhile, the corporate board structure, organs, criteria, procedures, and responsibilities still refer to some main sources of laws such as the Company Law 2007,[7] the Banking Law 1998,[8] the Regional Enterprise Law 1962,[9] the Cooperative Law 2012,[10] the IFSA PCBs Regulation 2014, and the Minister of Home Affairs Managing of Local Government Owned PCBs Regulation 2006.[11]

Although there have been numerous acts, regulations, decrees, and circular letters on corporate governance established by Bank Indonesia, the IFSA, and the Minister of Home Affairs, some key questions remain. What are the existing corporate governance standards in Indonesian current legal arrangements that have been promulgated, and which of these standards have not yet been applied in PCBs? Are these standards sound enough? What are the gaps in the standards in PCBs in Indonesian current legal arrangements? All of these questions will be addressed in this research paper.

2 Literature Review

2.1 Previous Research on the Corporate Governance in Indonesia

According to Tabalujan (2001, 2002), Patrick (2001), Kameyana et al. (2005), and the World Bank and International Monetary Fund (2005), Indonesian general banks

[5]See The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[6]See The Indonesian Financial Services Authority Regulation Number 13/POJK.03/2015 concerning The Implementation of Risk Management in People's Credit Banks.

[7]See Law Number 40 of 2007 concerning Limited Liability Companies.

[8]See Law Number 10 of 1998 concerning The Amendment of Law Number 2 of 1992 concerning Banking.

[9]See Law Number 5 of 1962 concerning Regional Enterprise.

[10]See Law Number 17 of 2012 concerning Cooperatives.

[11]See Minister of Home Affairs Regulation Number 22 of 2006 concerning The Managing of Local Government Owned People's Credit Banks.

have relatively good policies and rules on corporate governance standards. They found that regulatory frameworks on corporate governance standards have been considerably well developed and they generally comply with the Organization for Economic Co-operation and Development's (OECD) corporate governance principles. The problem, however, is the implementation of the principles and, in particular, complying with corporate governance principles. Research into several companies conducted by Ministry of Finance of Republic of Indonesia (*Departemen Keuangan Republik Indonesia* 2006) and Kamal (2010) show similar findings in terms of the soundness of corporate governance and compliance with the OECD's corporate governance principles. Further research in the general banks and corporations should focus on corporate governance practice, policy implementation, and corporate governance arrangements (Claessens and Fan 2002; Tabalujan 2001; Kameyama et al. 2005; the World Bank and International Monetary Fund 2005; Gillespie 2012; Rosser 2003).

While corporate governance research has been conducted in the general banks and firms, this is not the case for PCBs. The studies on PCBs conducted by Deutsche Gesellschaft Technische Zusammenarbeit (2003), the World Bank (2005), and Meagher et al. (2006) did not focus on corporate governance. Rather, they centred on PCBs' regulatory frameworks and their supervision by Bank Indonesia and other related financial institutions. Therefore, research that focuses on the existing corporate governance standards, the gaps in the standards, and their soundness remains critical and could provide invaluable information to the industry.

2.2 PCBs: Goals, Products, Legal Entities, and Their Growth

Pursuant to Articles 5 (1) and 1 (3, 4) of the Banking Law 1998, there are two sorts of banks recognized: general banks and PCBs. General banks and PCBs are conventionally run or are based on Sariah principles. The difference, however, is that general banks provide payment transaction services, while PCBs do not provide payment transaction services. Bank Indonesia and the IFSA state that PCBs are established to serve small-scale businesses and people in rural areas, to open more accessibility to banking services, and to boost economic growth and prosperity.[12]

PCBs' main products or services comprise three aspects: loans, savings, and deposits. PCBs are not allowed to get involved in a payment system, joint venture, insurance businesses, giro savings, or checking accounts, a type of saving that can

[12]See consideration letter b of Bank Indonesia Regulation Number 8/26/PBI/2006 concerning People's Credit Banks. See also considerations of The Indonesian Financial Services Authority Regulation Number 20/PJOK.03/2014 concerning People's Credit Banks.

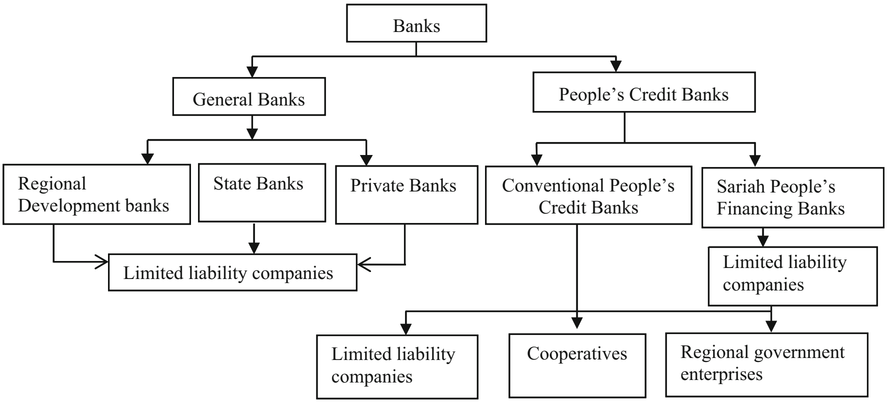

Fig. 1 Legal entities of general banks and PCBs

only be withdrawn via a bill of exchange like a cheque, and they can only engage in doing exchange rate trade with the permission of Bank Indonesia (now the IFSA).[13]

As legal entities of PCBs are limited liability companies (*perseroan terbatas*), cooperatives (*koperasi*), and regional government enterprises (*perusahaan daerah*).[14] All Sariah People's Financing Banks (SPFBs)[15] and all general banks are limited liability companies.[16] The legal entity status of the general banks and PCBs can be seen in Fig. 1.

PCBs' size is quite significant. As of December 2013, there are 1634 PCBs across Indonesia (Bank Indonesia Statistic 2013). However, from 2006 to April 2014, 59 PCBs licences were revoked by Bank Indonesia (Indonesian Deposit Insurance Corporation (the IDIC) Statistic 2014).[17] It is speculated that poor corporate governance contributed to some of these failures.[18]

[13]See Articles 13 and 14 of Law Number 10 of 1998 concerning The Amendment of Law Number 2 of 1992 concerning Banking.

[14]See Article 2 of Bank Indonesia Regulation Number 8/26/PBI/2006 concerning People's Credit Banks.

[15]See Bank Indonesia Regulation Number 11/23/PBI/2009 concerning Sariah People's Financing Banks.

[16]See Law Number 10 of 1998 concerning the Amendment of Law Number 2 of 1992 concerning Banking. See also Law Number 40 of 2007 concerning Limited Liability Companies.

[17]PCBs' licence revoked by Bank Indonesia per year as follows: 2006, 16 PCBs; 2007, 5 PCBs; 2008, 4 PCBs; 2009, 6 PCBs; 2010, 10 PCBs; 2011, 15 PCBs; 2012, 1 PCB; 2013, 9 PCBs; and by April 2014, 3 PCBs. The data has been processed by the author. See http://www.lps.go.id/web/guest/bank-yang-dilikuidasi, accessed 19 August 2014.

[18]See the explanation of Director of Litigation Group of the IDIC, Arif Budiman, Kontan online, 12 March 2015, LPS: 54 BPR terindikasi melakukan pidana, http://keuangan.kontan.co.id/news/lps-54-bpr-terindikasi-melakukan-pidana, accessed 19 February 2015. See also the explanation of Director Executive of Banks Claim and Resolution of the IDIC, Salusra Satria, Kontan online, 19 Oktober 2015, OJK: Banyak BPR tutup karena "ulah" pengurus, http://keuangan.kontan.co.id/news/ojk-banyak-bpr-tutup-karena-ulah-pengurus, accessed 25 October 2015.

PCBs' main businesses performance is also positive. According to the Indonesian Banking Statistic (2015), total credit distributed increased dramatically from 41.144 trillion Rupiah (US$3.1 billion)[19] in 2011 to 74.807 trillion Rupiah (US$5.6 billion) in 2015. Thus, it rose to 33,633 trillion Rupiah (US$2.5 billion) during the last 5 years. The total fund collected at the same period also significantly increased from 44.836 trillion Rupiah (US$3.4 billion) to 81.908 trillion Rupiah (US$6.2 billion). At the same period, PCBs' total assets also increased considerably from 55.799 trillion Rupiah (US$4.2 billion) to 101.713 trillion Rupiah (US$7.6 billion).

2.3 PCBs: The Rights to Supervise, Regulate, and License

Bank Indonesia previously had the right to supervise and to issue any regulations regarding banks based on the Bank Indonesia Law 2004.[20] The rights are to license, to regulate, to supervise, and to impose sanctions. From 31 December 2013, all these rights have been transferred to the IFSA, an independent institution free from any interference from other parties, which has functions, duties, and rights to regulate, supervise, inspect, and investigate based on the law.[21]

Article 4 of the IFSA Law 2012[22] stipulates that the IFSA aims to ensure that all activities in the financial services sector can be held in a safe, fair, just, transparent, and accountable system, to realize a stable and sustainable financial system and protect consumers' and society's interests. Pursuant to Articles 1 (3), 5, and 6 of the IFSA Law 2012,[23] the main function of the IFSA is to run an integrated regulatory and supervisory system for all activities in the financial services sectors which cover the capital market, insurance, pension fund, financial institutions, and other financial services institutions.

Since 1 January 2015, PCBs can only be established and conduct business activities if licensed by the IFSA, with both a principal licence and an operating licence. Before that, they were licensed by Bank Indonesia. PCBs can only be established by Indonesian citizens, must be an Indonesian legal entity and be wholly owned by Indonesian citizens and/or regional governments.[24]

PCBs' licence is subject to revocation by the IFSA. This right is a discretionary power that can only be used when a bank, according to IFSA's assessment, is not prudent (Gazali and Usman 2010). Article 47 (1, 2) of the Banking Law 1998[25] rules

[19]The current exchange rate is US$1 = Rp 13.300.

[20]See Law Number 3 of 2004 concerning The Amendment of Law of 1999 concerning Bank Indonesia (Indonesian Central Bank).

[21]See Article 1 (1) of Law Number 21 of 2011 concerning Financial Services Authority.

[22]See Law Number 21 of 2011 concerning Financial Services Authority.

[23]See Law Number 21 of 2011 concerning Financial Services Authority.

[24]See Articles 3, 4 (1) and 7 of The Indonesian Financial Services Authority Regulation Number 20/PJOK.03/2014 concerning People's Credit Banks.

[25]See Law Number 10 of 1998 concerning The Amendment of Law Number 2 of 1992 concerning Banking.

that if a bank faces imprudent conditions that endanger its business, the IFSA will take any necessary measures to make the bank sound again. The measures include asking shareholders to add more capital fund; demanding shareholders to replace BOCs and/or directors, credit or financing write off, and merger or consolidation; requiring the bank to be sold to third parties; requesting the bank management to be taken over, partly or wholly, by third parties; and demanding the bank to sell its assets or obligations to third parties. However, if these efforts fail, and the IFSA considers the bank as an unsound bank that endangers the banking system, the bank's licence will be revoked and further be liquidated by the IDIC.[26]

2.4 Corporate Governance and Its Standards

While there are various definitions of corporate governance, in this research, the researcher will focus on some definitions that relate it to a set of conduct, legal norms, and operational guides in governing enterprises and their management, procedures, and structure.

Claessens (2003) mentions two categories of corporate governance. First, corporate governance deals with companies' real behaviour such as "performance, efficiency, growth, financial structure, and treatment of shareholders, and other stakeholders". Second, it relates to the legal sources where corporations are functioning, such as the legal and the judicial systems and financial and labour markets.

Farrar (2001) insists that corporate governance refers to the control of corporations and to the system of accountability by those in control. It refers to a firm's legislation, accountability, self-regulation, best practice, and business ethics. On the definition of control, the Cadbury Committee (1992) defines corporate governance as "the system by which companies are directed and controlled". A similar definition is given by Macey (2010) when he describes corporate governance as "all the devices, institutions, and mechanism by which corporations are governed". Meanwhile, the OECD (2004) defines corporate governance as "a set of relationships between a company's management, its board, its shareholders, and other stakeholders".

There are also various thoughts on what constitutes corporate governance standards. However, there is a convergence of views in determining what constitutes corporate governance standards, among countries and some international organizations. For the purpose of this study, to evaluate the soundness of the standards in PCBs, the standards that will be used are those as underlined by the United Kingdom Corporate Governance Code of 2016 (the 2016 UK CGC),[27] which represent

[26] See Bank Indonesia Director Decree Number 32/54/KEP/DIR, dated 14 May 1999 concerning License Revoking Procedures and Liquidation of People's Credit Banks.

[27] The 2016 UK CGC is the latest version of the corporate governance code in the UK which is based mainly on the standards that have been constructed by several committees and task forces for corporate governance in the UK. The formulation of corporate governance standards in the UK started when a committee chaired by Sir Adrian Cadbury (the Cadbury Committee) was established

one-tier board structure, the Dutch Corporate Governance Code of 2008 (the 2008 Dutch CGC),[28] which represents two-tier board structure, Principles of Corporate

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in 1992. The Cadbury Committee later issued a report, known as the Cadbury Report 1992. See The Cadbury Committee (1992) Report on the committee on the financial aspect of corporate governance, http://www.ecgi.org/codes/documents/cadbury.pdf. Accessed 10 October 2015. The Cadbury Report was later followed up by the Rutteman Committee in 1994 specifically on the issue of internal control and revised by the Hampel Committee in 1998 with respect to the Cadbury Committee's recommendations on corporate governance. Based on the Cadbury Report, the Greenbury Report, and the Hampel Report, the UK Combined Code was first issued in 1998 (The 1998 UK Combined Code). See The Greenbury Committee (1995). Directors' remuneration: report of a study group, http://www.ecgi.org/codes/documents/greenbury.pdf. Accessed 12 April 2015. See also The Hampel Committee (1998). Committee on corporate governance, http://www.ecgi.org/codes/documents/hampel.pdf. Accessed 9 April 2015. In 1999, a committee chaired by Paul Turnbull (Turnbull Committee) was established to work on the internal control issue. The Turnbull Committee published a report (1999). See The Turnbull Committee (1999). Internal control: guidance for directors on the combined code, http://www.ecgi.org/codes/documents/turnbul.pdf. Accessed 12 April 2015. The report on the internal control produced by the Turnbull Committee later revised by Financial Reporting Council in 2005. See Financial Reporting Council (2005). Internal control revised guidance for directors on the combined code, https://www.frc.org.uk/getattachment/5e4d12e4-a94f-4186-9d6f-19e17aeb5351/Turnbull-guidance-October-2005.aspx. Accessed 19 April 2015. The 1998 Combined Code, with regard to the role and the effectiveness of non-executive director, later revised by the Higgs Committee 2002. The Higgs Committee produced a report in January 2003. See The Higgs Committee (2003). Review of the role and effectiveness of non-executive directors, http://www.ecgi.org/codes/documents/higgsreport.pdf. Accessed 20 April 2015. The 1998 Combined Code, in terms of audit committees, was also revised by the Smith Committee which published a report in January 2003. See The Smith Committee (2003). Audit committees combined code guidance, http://www.ecgi.org/codes/documents/ac_report.pdf. Accessed 18 April 2015. Still in 2003, Tyson Task Force reviewed the Higgs Report which resulted in the publication of the Tyson Report in June 2003. See The Tyson Committee (2003). The recruitment and development of non-executive directors, http://facultyresearch.london.edu/docs/TysonReport.pdf. Accessed 15 April 2015. After a series of reviews and consultations, the UK Financial Services Authority and the London Stock Exchange, in June 2008, finally produced a new combined code. See Financial Reporting Council (2008). The combined code on corporate governance, https://frc.org.uk/Our-Work/Publications/Corporate-Governance/The-Combined-Code-on-Corporate-Goverance.aspx, accessed 10 April 2015. The New Combined Code was revised in 2010. This was for the first time the new combined code renamed as the UK Corporate Governance Code. See Financial Reporting Council (2010). Revisions to the UK corporate governance code (formerly the combined code), https://frc.org.uk/getattachment/675640ed-23ff-42a5-a157-09dc4da7ef51/May-2010-Report-on-Code-Consultation.aspx, accessed 21 May 2015. The 2010 UK Corporate Governance was revised in 2014 with regard to information provided by companies which affect longer-term viability of companies. The document was just recently again corrected with regard to the audit issue in order to comply with the European Commission Audit Statutory in April 2016. See Financial Reporting Council (2014). The UK corporate governance code, https://www.frc.org.uk/Our-Work/Publications/Corporate-Governance/The-UK-Approach-to-Corporate-Governance-(1).pdf, accessed 17 April 2015. See also Financial Reporting Council (2016). The UK corporate governance code, http://finansial.bisnis.com/read/20151007/90/480102/ojk-lakukan-capacity-building-sdm-bpr-untuk-tekan-npl, accessed 15 November 2015.

[28]In the Netherlands, the discussion on corporate governance was initiated by the first Dutch Corporate Governance Committee (Peters Committee) in 1997. The Peters Committee produced a report entitled corporate governance in the Netherlands: recommendations for sound management, effective supervision, and accountability which contains of 40 recommendations. See Corporate Governance Committee (1997). Corporate governance in the Netherlands: recommendations

Governance of the G20/Organization for Economic Cooperation and Development of 2015 (the 2015 G20/OECD PCG), Guidance On Good Practices, and Corporate Governance Disclosure Principles from the United Nations Conference for Trade and Development of 2006 (the 2006 UNCTAD GGPCGD), which represent international organizations views on corporate governance.

The 2016 UK CGC establishes the approach to the compliance with the code, main and supporting principles, and code provisions to deal with five important matters of the board, leadership, effectiveness, accountability, remuneration, and relation with other shareholders, to ensure that good corporate governance becomes the cornerstone of enterprises.

In the United Kingdom, comply or explain is used as an approach with regard to the compliance with the code. The code is a flexible rule. If corporate governance can be achieved by other means or if the company does not comply with the code, it is important that the company explains it for the shareholders. In response to such explanation, shareholders are encouraged to have an attitude that endorses the "comply or explain" procedure and be mindful of the goal of good corporate governance. Companies and shareholders have the same responsibility to ensure that "comply or explain" remains an effective solution as compared to a rules-based system (Comply or explain section of the 2016 UK CGC).

The main principles, with regard to board leadership, extend the importance of having an effective board leadership that is responsible for the long-term achievement of the enterprise. It is suggested that there should be a vivid "division of responsibilities at the head of the enterprise between the running of the board and the executive responsibility for the running of the company's business". Furthermore, "the chairman is responsible for leadership of the board and ensuring its effectiveness on all aspects of its role". In a unitary board, it is also advised that "non-executive directors should constructively challenge and help develop proposals on strategy" (The Main Principles, Section A of the 2016 UK CGC).

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for sound management, effective supervision, and accountability, http://www.ecgi.org/codes/documents/nl-peters_report.pdf, accessed 19 April 2015. As stated by J. Van Bekkum et al, "the 40 recommendations of the Peters Committee herald a fundamental overhaul of Dutch corporate law to restore the position of shareholders through the combination of changes in 2014 to Book 2 of the Dutch Civil Code (DCC), containing the companies act, a Corporate Governance Code issued by the Tabaksblat Committee in 2003, and case law of the enterprise Chamber of Amsterdam Court of Appeal (the Enterprise Chamber)". See van Bekkum et al. (2010). Later, a Corporate Governance Committee chaired by Morris Tabaksblat (the Tabaksblat Committee) reviewed the Peters Committee report which resulted in issuing the Dutch Corporate Governance Code in 2003. See Corporate Governance Committee 2003b. The Dutch corporate governance code 2003, http://www.commissiecorporategovernance.nl/download/?id=647, accessed 27 April 2015. Five years later, in 2008, the 2003 Code was replaced by the Dutch Corporate Governance Code 2008. The 2008 Code was produced by a Corporate Governance Monitoring Committee led by Jean Frijns (the Frijns Committee). See Corporate Governance Code Monitoring Committee (2008). The Dutch corporate governance code: principles of good corporate governance and best practice provisions, http://www.commissiecorporategovernance.nl/download/?id=606, accessed 27 April 2015.

The principles in conjunction with board effectiveness recommend that "the board and its committees should have the appropriate balance of skills, experience, independence and knowledge of the company to enable them to discharge their respective duties and responsibilities effectively". It is suggested that new directors should be appointed based on "a formal, rigorous and transparent procedure", directors "should be able to allocate sufficient time to the company to discharge their responsibilities effectively", and directors should be trained before joining the board, regularly updated and refreshed in their skills and knowledge. It is important that the board is "supplied in a timely manner with information in a form and of a quality appropriate to enable it to discharge its duties". Furthermore, the board is also encouraged to undertake "a formal and rigorous annual evaluation of its own performance and that of its committees and individual directors". In addition, "all directors should be submitted for re-election at regular intervals, subject to continued satisfactory performance" (The Main Principles, Section B of the 2016 UK CGC). The board also should found a nomination committee whose members consist of independent executive directors. The nomination committee leads the appointments of members of the board (Code of Provisions B.2.1. of the 2016 UK CGC).

The principles with regard to board accountability suggest that:

> the board should present a fair, balanced and understandable assessment of the company's position and prospects..., determine the nature and extent of the principal risks it is willing to take in achieving its strategic objectives..., maintain sound risk management and internal control systems..., establish formal and transparent arrangements for considering how they should apply the corporate reporting, risk management and internal control principles and for maintaining an appropriate relationship with the company's auditors (The Main Principles, Section C of the 2016 UK CGC).

The board also should establish an audit committee led by a non-executive director or independent director and ensure that sound risk management and internal control principles are soundly applied (Main Principles C.2., C.3., Code Provisions C.3.1. of the 2016 UK CGC).

The principles in relation to board remuneration endorse that executive directors' remuneration design should endorse the long-term achievement of the company. It is proposed that "performance-related elements should be transparent, stretching and rigorously applied" and "there should be a formal and transparent procedure for developing policy on executive remuneration and for fixing the remuneration packages of individual directors. No director should be involved in deciding his or her own remuneration" (The Main Principles, Section D of the 2016 UK CGC).

The principles to deal with the board relations with shareholders suggest that the board should have "a dialogue with shareholders based on the mutual understanding of objectives. The board as a whole has responsibility for ensuring that a satisfactory dialogue with shareholders takes place...", and "the board should use general meetings to communicate with investors and to encourage their participation" (The Main Principles, Section E of the 2016 UK CGC).

The 2008 Dutch CGC sets up principles and best practice provisions in conjunction with compliance with and enforcement of the code, the management board (MB), the supervisory board (SB), the shareholders and the general meeting of shareholders, and the audit of the financial reporting and the position of the internal audit function and the external auditor.

The principles of compliance and enforcement of the code, among other things, are that SB and MB are in charge to ensure that the corporate governance structure complies with the code and is accountable in the compliance issues to the general meeting and gives sound reasons for any non-application of the provisions (comply or if not, explain approach). Meanwhile, when assessing the corporate governance structure, shareholders are encouraged to avoid adopting a "box-ticking approach" and prioritise a dialogue with the boards when they object to the company's clarification (Principles and best practice provisions of the 2008 Dutch CGC: I).

The principles in association with the MB deal with the MB role and procedure, remuneration, and conflict of interest. With regard to the MB role and procedure, among other things, the principles are that the MB is responsible for managing the company to achieve the company's goals, "the strategy and associated risk profile, the development of results and corporate social responsibility issues that are relevant to the enterprise". In discharging its duties, the MB is accountable to the SB and the general meeting. In conjunction with the MB remuneration, the principles are that level and composition of the remuneration shall be qualified to hire and retain professional managers and the structure of the remuneration shall be simple and transparent. The SB determines the MB individual members' remuneration on a proposal offered by the remuneration committee as required by the remuneration policy decided by the general meeting. The SB report on the MB remunerations should be disclosed in a transparent, clear, and understandable way. With regard to conflict of interest, the principle is that conflict of interest between the company and MB shall be avoided. The SB approval is needed when entering into transactions under which members of MB would have conflicts of interest (Principles and best practice provisions of the 2008 Dutch CGC: II).

The principles in conjunction with the SB deal with the SB role and procedure, independence, expertise and composition, chairman and the company secretary, composition and the role of three key committees, remuneration, conflict of interest, and one-tier management structure. The duties of the SB, among other things, are to supervise the policies of the MB, the general affairs of the company and the affiliated enterprise and assist the management board by offering advice. The SB composition shall enable them to act critically and independently of one another, the management board, and any particular interests. The SB members should have a capability to assess the company general policy and the specific expertise required to convey their duties. The SB composition should enable them to carry out its duties properly and be diverse in both gender and age. Furthermore, the SB chairman shall ensure that the SB and its committees work appropriately, and act on behalf of the SB as the main contact for the MB and shareholders, and the general meeting is held regularly and orderly. The chairman of the company is assisted by a company secretary. If the SB composes of more than four members, it shall appoint from among its members an audit committee, a remuneration committee, and a selection and appointment committee. The function of the committees is to prepare the decision-making of the SB with regard to issues relevant to each committee. Conflict of interest principles within the SB are generally the same as those applied for the MB members. With regard to the SB remuneration, the principles are that the remuneration is determined by the general meeting and their remuneration does not rely on the company's results. In addition, when a company applies one-tier management, it is important to ensure that executive directors who are responsible for managing the company on a daily basis can function properly and non-executive directors are sure to execute the duties independently (Principles and best practice provisions of the 2008 Dutch CGC: III).

The principles with regard to the shareholders and the general meeting of shareholders deal with, among other things, the powers, provision of information to and logistics of the general meeting, and responsibility of shareholders. In principle, shareholders' participation in the general meeting is critical to support the implementation of good corporate governance, and the MB and the SB shall "provide the general meeting in good time with all information that it requires for the exercise of its powers". With regard to the responsibility of shareholders, it is suggested that institutional shareholders, in their actions, shall secure the ultimate interests of beneficiaries or investors and companies where they invest. Shareholders are also, with the principle of reasonableness and fairness, responsible to the company and its organs and their fellow shareholders and willing to build a dialogue with these parties (Principles and best practice provisions of the 2008 Dutch CGC: IV).

The principles in conjunction with the financial reporting audit, the internal audit function and external audit, among other things, are that the MB is "responsible for the quality and completeness of publicly disclosed financial reports. The supervisory board shall ensure that the management board fulfils this responsibility". The general meeting appoints an external auditor nominated by the SB, while both the audit committee and the MB advise the SB. The SB, based on the recommendation of the audit committee and after having a consultation with the MB, approves the external auditor remuneration and "instructions to the external auditor to provide non-audit services". The external auditor shall also attend the SB meeting where the financial statements are to be approved and report simultaneously its findings on the financial statement audit to the SB and the MB (Principles and best practice provisions of the 2008 Dutch CGC: V).

The 2015 G20/OECD PCG[29] underlines central principles on corporate governance in six main areas including:

[29]The 2015 G20/OECD PCG is the newest version on principles of corporate governance issued by the OECD. For the first time, the OECD issued its principles on corporate governance in 1999. See OECD (1999). OECD principles on corporate governance, http://www.oecd.org/officialdocuments/publicdisplaydocumentpdf/?cote=C/MIN%2899%296&docLanguage=En, accessed 11 April 2015. The 1999 document was revised in 2004. See OECD (2004). http://www.oecd.org/corporate/ca/corporategovernanceprinciples/31557724.pdf, accessed 11 April 2015. The 2004 document was revised again in 2015. See G20/OECD (2015). Principles of corporate governance, http://www.oecd.org/daf/ca/Corporate-Governance-Principles-ENG.pdf, accessed 10 October 2015. In the 2015 PCG, two chapters in the 2004 PCG, Chapter II and Chapter III, are unified into Chapter II of the 2015 PCG. However, there is a new chapter added to the 2015 PCG—Chapter III: Institutional investors, stock markets, and other intermediaries.

(1) Ensuring the basis for an effective corporate governance framework where the principles are that the corporate governance structure should endorse transparent and fair markets, resource allocation efficiency, and consistency with the rule of law and support effective supervision and enforcement.
(2) The rights and equitable treatment of shareholders and key ownership functions where the principles are that shareholders' rights exercise is protected and facilitated; all shareholders are treated equally, including minority and foreign shareholders; and the opportunity for all shareholders to get an effective compensation when their rights are violated.
(3) Institutional investors, stock markets, and other intermediaries where the principles are that the corporate governance structure should offer sound incentives for the investment chain and help stock markets to function in a way that contributes to good corporate governance.
(4) Stakeholders' roles in corporate governance where the principles are that stakeholders' rights are acknowledged by the law or other mutual agreements and companies and stakeholders are corporate actively to create wealth, jobs, and sound financial sustainability.
(5) Disclosure and transparency where the principles are that "timely and accurate disclosure is made on all material matters regarding the corporation, including the financial situation, performance, ownership, and governance of the company".
(6) Board responsibilities where the principles are that company strategic guidelines, effective management supervision by the board, and accountability of the board to the company and shareholders are recognized (The 2015 G20/OECD PCG).

The 2006 UNCTAD GGPCGD highlights five main themes of corporate governance standards to be disclosed in order to stimulate investment and promote awareness to comply with international best practices of corporate governance and "specific legal requirements and local traditions". The first standard requires companies to have financial disclosure. Firms are encouraged to reveal their financial and operating results, the responsibilities of the board in dealing with financial communications, and related parties' significant transactions (The 2006 UNCTAD GGPCGD: I).

The second standard obliges a company to have nonfinancial disclosure. Enterprises should divulge their goals, ownership and shareholder rights, alterations in controls and transactions, significant assets, the structure and policies of governance, board and key executives members, material issues regarding stakeholders, environmental and social stewardship, risk factors of foreseeable material, external auditors independence, and internal audit function (The 2006 UNCTAD GGPCGD: II).

The third standard mirrors that enterprises should disclose GMS procedures, including voting processes at an annual GMS and any relevant information needed by shareholders to participate efficiently in such meetings. Firms are also encouraged to notify the agenda and propose resolutions in a timely fashion, and they should be provided in national or international languages, and the GMS results should be communicated to all shareholders as quickly as possible (The 2006 UNCTAD GGPCGD: III).

The fourth standard recommends that enterprises should have disclosure's timing and means. Enterprises need to disclose any material issues relating to the companies' corporate governance in a timely fashion, clear, succinct, accurate, and directed by the "substance over form" principle (The 2006 UNCTAD GGPCGD: IV).

The fifth standard suggests that enterprises should have compliance best practices and are advised to comply with national code (if any) or international good practices. However, if not, explain (comply or explain rule) (The 2006 UNCTAD GGPCGD: V).

3 Methodology and Sources of Data

This research applied doctrinal legal research methodology. According to the Pearce Committee (1987), which accepted the Australian Law Dean's definition on doctrinal legal research, doctrinal legal research is a research approach which offers a systematic explanation towards a particular legal category governed by the rules, provides rules relationship analysis, explicates difficulty areas, and, possibly, predicts future developments. Dobinson and Johns (2007) state that doctrinal legal research can be classified as qualitative method since it is "a process of selecting and weighing materials taking into account hierarchy and authority as well as understanding social context and interpretation".

It is important to underline that the doctrinal legal research process has two stages. Hutchinson and Duncan (2012) mention that, first, a researcher tries to decide the substance of the law and its principles. At this stage, a researcher should first discover the laws in the areas of the study and analyse them. Second, a researcher attempts to depict intelligibly the discussion and analysis of the content of the law and its doctrines and "demonstrates the extent of the research that has been taken place and on which the argumentations are based".

In this research, based on Hutchinson and Duncan's (2012) ideas, primary documents of law such as laws/statutes/acts; government regulations and decrees in the banking field; Bank Indonesia and the IFSA regulations, decrees, and circular letters; the Ministry of Home Affairs regulations; and other related institutions' regulations which deal with PCBs will be the main sources of the research. The data will then to be classified and described further with more detail about corporate governance standards as they apply in PCBs. These various documents of law will then be analysed to determine the essence and parameters of the laws on corporate governance principles in PCBs.

4 Findings and Analysis

4.1 The Existing Corporate Governance Standards That Have Been Promulgated in Indonesian Current Legal Arrangements and Applied in PCBs

This research found that some corporate governance regimes have been promulgated in Indonesian current legal arrangements and applied in PCBs. These regimes include board leadership and effectiveness, compliance function, internal and external audit, business plan, financial and nonfinancial transparency, risk management and internal control systems, maximum legal lending limits (3L rule), and conflict of interest settlement.

4.1.1 Board Leadership and Effectiveness

PCBs Board Structure: Model and Organs

The PCBs' board structure operates a simple two-tier model. Tricker (2011) called it the continental European two-tier model. This model generally has such organs as GMS, board of commissioners (BOCs), and board of directors (BODs).

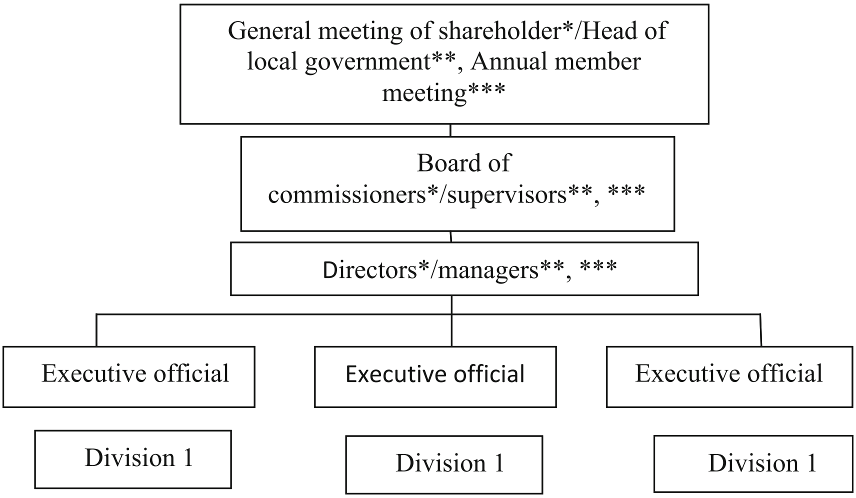
A PCB structured as a limited liability companies (LLC) legal entity has three organs. They are the GMS, the *direksi*,[30] and the BOCs. A PCB which is a regional government enterprise legal entity or a cooperative legal entity has the same corporate structure. Even if the organs have different names, their functions are quite the same as those in an LLC PCB.[31] In a regional government enterprise, the head of local government is the ultimate shareholder. The organs comprise the head of local government as GMS, board of supervisors, and managers. The head of local government can appoint other regional governance officials to represent him/her in the GMS.[32] Meanwhile, in a cooperative PCB, the organs consist of the annual member meeting, board of supervisors, and managers.[33] A simple two-tier model of corporate structure of PCBs can be seen in Fig. 2.

[30]*Direksi* literally means "direction". There is no explanation on why the term *direksi*, not BODs, is used, in Indonesian current legal arrangements. It is only defined that the *direksi* is an organ of company which consists of directors.

[31]See Article 1 (10, 11) of The Indonesian Financial Services Authority Regulation Number 20/PJOK.03/2014 concerning People's Credit Banks. See also Article 18 of Law Number 5 of 1962 concerning Regional Enterprise and Articles 11 and 12 of Minister of Home Affairs Regulation Number 22 of 2006 concerning The Managing of Local Government Owned People's Credit Banks.

[32]See Article 16 of Minister of Home Affairs Regulation Number 22 of 2006 concerning The Managing of Local Government Owned People's Credit Banks.

[33]See Articles 1 (5, 6, 7) 32, 50, 52, 53, 58, 59, 60, and 61 of Law Number 17 of 2012 concerning Cooperatives.



*. LLC PCBs
**. Regional Government Enterprise PCBs
***. Cooperative PCBs

Fig. 2 A simple two-tier model of corporate structure of the LLC, Regional Government Enterprise and Cooperative of PCBs. Single asterisk, LLC PCBs; double asterisk, Regional Government Enterprise PCBs; triple asterisk, Cooperative PCBs

Directors and BOCs: Criteria, Composition, and Duties

There are some prerequisites to be elected as a member of BOCs and directors. To be elected, a person should have both knowledge and experience in the field of banking, display integrity, and have a good financial reputation. Directors also must have an approval certificate from the Profession Certification Institution. They also must have passed a fit and proper person test conducted by the IFSA. They are appointed and terminated by a GMS, but before undertaking their duties and responsibilities, members of BOCs and directors must be approved by the IFSA.[34]

Directors in PCBs have other special obligations and responsibilities. They are fully responsible for managing PCBs based on their duties in accordance with PCBs' articles of association and relevant promulgated acts or regulations. Directors are also obliged to implement the corporate governance standards in PCBs and to follow up the internal and external audit findings and recommendations from BOCs, the

[34]See Articles 24 (1, 2) and 31 (1) of The Indonesian Financial Services Authority Regulation Number 20/PJOK.03/2014 concerning People's Credit Banks, Article 7 (2) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks, and Article 4 of The Indonesian Financial Services Authority Regulation Number 44 /POJK.03/2015 concerning Work Competencies Certification for Members of Directors and BOCs of PCBs and Sariah Financing People's Banks.

IFSA, and/or other relevant authorities monitoring results.[35] In executing their duties, directors are responsible to the BOCs and the GMS.

Directors must disclose their shares in PCBs or other companies and their family or financial relationship with other directors or commissioners and shareholders[36] to promote transparency and corporate governance implementation. Directors are also forbidden to utilize PCBs for personal or family interests purposes and to receive any personal benefits from PCBs except remuneration and facilities as decided by the GMS or allowed by relevant laws, and they must disclose them in the corporate governance implementation report (the duty not to gain advantage by improper use of position).[37]

In accordance with Articles 166 and 63 (3) of the Company Law 2007,[38] the BOCs supervise and advise the directors. The BOCs are also responsible to supervise the company. Other duties of the BOCs are establishing and maintaining minutes of the BOCs' meetings, reporting to the company any shares owned by the directors or their family, and reporting to the company on their supervisory duty towards GMS. In PCBs, BOCs have other responsibilities. They are to make sure that corporate governance is implemented in all PCBs' activities and to direct, control, and evaluate PCBs' strategic policies.[39]

BOCs are obliged to ensure that directors further any findings and recommendations from the internal and external audit, the BOCs, and the IFSA.[40] BOCs are also asked to report to the IFSA any infringements towards financial and banking laws and any conditions or predictions that can endanger PCBs' business within at least 10 work days after these violations and conditions are found.[41] BOCs are also required to hold meetings at least once every 3 months to discuss and decide issues related to the PCBs' business plan, its realization, and strategic issues and policies.[42]

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[35] See Articles 10, 11, and 12 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[36] See Article 22 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[37] See Article 23 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[38] Law Number 40 of 2007 concerning Limited Liability Companies.

[39] See Article 29 (1, 3) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[40] See Article 30 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[41] See Article 31 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[42] See Article 35 (1, 2) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

Based on their core capital and in order to ensure that PCBs' organs function effectively, large and medium PCBs[43] must have at least three directors and three commissioners or the equivalent number of directors.[44] Small PCBs must have at least two commissioners or the equivalent number of directors and two directors.[45] Large PCBs[46] must have at least 50% independent commissioner of the total number of commissioners, and medium PCBs[47] must have at least one independent commissioner. Meanwhile, small PCBs are not obliged to have independent commissioners. Directors are led by a president director (*direktur utama*) and a BOC is chaired by a president commissioner (*komisaris utama*).[48]

At this point, it is clear that the introduction of independent commissioners in PCBs is the latest additional standard in relation to the composition of BOCs of PCBs. As LLC and Cooperative PCBs have been long characterized as family business centred, the introduction of independent commissioners is a good strategy to avoid the concentration of power upon family members in the management and the abuse of power by the organs. In reality, members of BOCs and directors are generally the controller's shareholders or the owners' family members. They are appointed to hold these organs to secure their family business interest. Mismanagement by these organs is suspected to be the contributing factor of the closures of some PCBs.[49]

The introduction of independent commissioners for regional enterprise PCBs is also a suitable approach to prevent the board and management from dealing with fund allocation that benefits local government officials and to avoid unnecessary

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[43]The regulation does not use the terms large, medium, and small PCBs. The author intentionally uses these terms to differentiate PCBs based on their core capital in order to have minimum directors, commissioners, and independent commissioners.

[44]Their core capital is at least Rp 50.000.000.000 (fifty billion Rupiah) or US$3.759.398; see Articles 4 (1) and 24 (1) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[45]Their core capital is less than Rp 50.000.000.000 (fifty billion Rupiah) or US$3.759.398. See Articles 4 (2) and 24 (2) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[46]Their core capital is at least Rp 80.000.000.000 (eighty billion Rupiah) or US$6.015.038; see Article 25 (1) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[47]Their core capital is from at least Rp 50.000.000.000 (fifty billion Rupiah) or US$3.759.398 to less than Rp 80.000.000.000 (eighty billion Rupiah) or US$6.015.038; see Article 25 (2) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[48]See Articles 22 (1) and 28 (1) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[49]See Kontan online, 19 Oktober 2015, OJK: Banyak BPR tutup karena "ulah" pengurus, http://keuangan.kontan.co.id/news/ojk-banyak-bpr-tutup-karena-ulah-pengurus, accessed 25 October 2015.

political donations, fraud, and corruption. It is expected that this new standard can overcome these issues.

The problems, however, that remain unanswered with regard to the introduction of independent commissioners in PCBs are who will be responsible for independent commissioners selection process and what criteria will be used in the selection. It is only explained that shareholders can appoint their representative to be the member of BOCs.[50] It is stipulated that former PCBs' directors or executive officials that have a relation to PCBs can only be a member of independent commissioner after finishing 1 year of cooling off.[51] It is also clear that by definition, independent commissioners must have no financial management, no share ownership correlation within PCBs, or no other family relation to controller shareholders, directors, BOCs, and executive officials in PCBs.[52] Nevertheless, there are no provisions on the selection process of independent commissioners and that their appointment must be based on meritocracy principle and must be free from any conflicts of interest from related parties. These issues need to be further structured. Apart of these issues, directors and BOCs' criteria, composition, and duty standards are sound enough.

General Meeting of Shareholders: Procedures and Duties

The GMS consists of two types: annual GMS and extraordinary GMS. An annual GMS must be held within 6 months from the end of the company's financial year, and for the sake of companies' interest, extraordinary GMS can be held any time.[53]

Pursuant to Article 82 of the Company Law 2007,[54] 14 days before GMS is held, an invitation from the president director must be circulated to all commissioners and shareholders. The invitation must be clear on the date, place, and agendas to be addressed. The invitation can be done by sending a written letter or by announcing it via newspaper. Article 91 of the Company Law 2007[55] also stipulates that shareholders can also make decisions out of the agendas prepared in the GMS during the meetings but all shareholders must sign and approve the decisions. All the decisions and the processes must be recorded in the GMS minutes of meeting.

The duties of the GMS in an LLC PCB and a Regional Enterprise PCB or the annual meeting member for a Cooperative PCB are much the same. Among other

[50]See the general explanation of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[51]See Article 25 (3) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[52]See Article 1 (5) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[53]See Article 78 of Law Number 40 of 2007 concerning Limited Liability Companies.

[54]See Law Number 40 of 2007 concerning Limited Liability Companies.

[55]See Law Number 40 of 2007 concerning Limited Liability Companies.

matters, the GMS approves the PCBs' business plan proposed by directors, the appointment and termination of directors and BOCs' members, and the amount of salary and other remuneration of directors and commissioners, including independent commissioners.[56] The GMS also approves the annual reports, which consists of financial and nonfinancial disclosures and the appointment of a public accountant and a public accountant office.[57] The GMS procedures and duties are sound enough.

Committees, Units, and Functions: Structures and Responsibilities

Based on their core capital, directors at medium and large PCBs[58] must establish at least a risk management unit, compliance unit, internal audit, and risk management committee.[59] Small PCBs must appoint executive officials[60] to implement risk management function, compliance function, and internal audit function.[61] It is also ruled that BOCs at large PCBs must found audit committee and a risk management observer.[62] Meanwhile, the formation by the PCBs of remunerations and nominations committees is not a must,[63] it is a voluntary approach.

Audit committees are vital for BOCs of PCBs to function effectively. Audit committees are established to help BOCs' duties and responsibilities surrounding

[56]See Articles 94 (1), 105 (1), 106 (1), 111 (1), and 64 (3) of Law Number 40 of 2007 concerning Limited Liability Companies.

[57]See Articles 1 (10) and 44 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[58]Their core capital is at least Rp 50.000.000.000 (fifty billion Rupiah) or US$3.759.398. See Articles 4 (2) and 24 (2) The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[59]Their core capital is at least Rp 50.000.000.000 (fifty billion Rupiah) or US$3.759.398; see Articles 13 (1 a) and 52 (2) and 59 (1) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[60]The executive officials are those who are directly responsible to directors or those who influence The PCBs' policies and operations: The chairpersons of branch offices, heads of divisions and departments, and managers; see Articles 1 (12) of The Indonesian Financial Services Authority Regulation Number 20/PJOK.03/2014 concerning People's Credit Banks.

[61]The core capital is less than Rp 50.000.000.000 (fifty billion Rupiah) or US$3.759.398; see Articles 13 (1 b) and 52 (3) and 59 (2) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[62]The core capital is at least Rp 80.000.000.000 (eighty billion Rupiah) or US$6.015.038; see Article 32 (1) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[63]See Article 32 (2) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

internal and external audit. The audit committee's duties are to monitor, evaluate, and observe audit planning and its implementation and results.[64]

In order to give some advice to BOCs, audit committees observe and evaluate internal audit duties' implementation, the compliance of audit implementation by a public accountant with audit standards, and the compliance of the financial report with accountancy standard applied in PCBs. The audit committees also assess directors' actions to further the findings revealed by the internal audit, public accountant, BOCs, and the IFSA. The audit committees are also obliged to advise BOCs in relation to the appointment of a public accountant and a public accountant office and later to seek the approval from the GMS. Meanwhile, the risk observer committee is a committee that is designed for helping BOCs regarding risk management implementation.[65] These audit committees' protocols are sound enough.

The nominations and remunerations committees' responsibilities are also critical for BOCs of PCBs to effectively carry out their duties. However, the committees' formation is not mandatorily driven but, rather, voluntarily driven. It is regulated that the committees are founded to assist BOCs' duties and responsibilities by providing essential evaluations and recommendations in dealing with remunerations and nominations matters. When a PCB decides to create these committees, BOCs must take into account the committees' recommendations with regard to the replacement or the appointment of new directors and BOCs' members before seeking the GMS' approval. The committees consist of at least one independent commissioner, one director, and one executive official. The head of remunerations and nominations committees is an independent commissioner, and a director is forbidden to hold this position.[66]

Unfortunately, there is no further explanation on why these committees are not mandatory. It is the GMS duty to approve directors' and BOCs' appointment, termination and salary, and other remunerations. If a PCB decides not to found these committees, BOCs are responsible for drafting directors and BOCs remunerations. At this point, a conflict of interest exists when BOCs have to deal with their own remuneration. Considering the fact that the committees' functions are highly indispensable, they should be a mandatary obligation for large PCBs to found them.

As explained, it is clear that there have been some significant improvements added regarding PCBs' corporate board organs, committees, units, and functions, their procedures, structures, and obligations. It is expected that through these well-structured standards, PCBs' corporate structure will work effectively. Conversely, the significant problem with these standards relates to the affordability of PCBs, in

[64]See Article 1 (10) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[65]See Article 44 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[66]See Articles 1 (11), 32, 7, 42, and 47 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

terms of both skilled human resources and funds, to institute the organs, committees, units, and functions.

4.1.2 Compliance Function and Internal and External Audit

PCBs must comply with all the IFSA regulations and other relevant promulgated acts or regulations. In order to ensure compliance, PCBs must have a compliance director and an executive official for implementing compliance function. These two officers are not allowed to have other jobs as a president director. They must not be responsible for collecting and distributing funds, must understand banking law and all relevant regulations issued by the IFSA, and must be independent in conducting their duties.[67]

PCBs must also have an internal audit[68] unit and an executive official for implementing internal audit functions. In executing their duties, they are directly responsible to the president director. They can assist the president director and BOCs of PCBs in supervising PCBs' operational audit planning, audit implementation, or audit results. They can also provide analysis and evaluation in financial and accountancy fields, identify possibilities of improving efficiency of the usage of resources and funds, and offer objective perspective to all examined activities in all levels of management.[69]

PCBs must report annually to the IFSA on compliance function implementation and the report must be signed by PCBs' compliance director and president director.[70] Nevertheless, the regulation is silent on whether or not the report can be disclosed to the public or more importantly to PCBs' customers. It is suggested this clause needs to be further structured. Apart from this aspect, the compliance function and internal

[67]See Articles 51, 52, and 55 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[68]Prior to the promulgation of new standards on internal audit by The IFSA in March 2015, an internal audit in PCBs focuses on an effort to prevent and eradicate money laundering and terrorism funding. The internal audit program is a must and is part of risk management for PCBs. The internal audit can be implemented through an active supervision by BOCs and directors, having written policies and procedures, internal control, and trained and skilled human resources on these issues. See Articles 1 (9), 2 (1), and 3 (1, 2) of Bank Indonesia Regulation Number 12/20/PBI/2010 concerning The Implementation of Internal Audit Function In Applying Anti-Money Laundering and Terrorism Funding Prevention Program for People's Credit Banks and Sariah People's Financing Banks.

[69]See Articles 58, 59, 60, and 61 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[70]See Articles 70 (1) 71 (1) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

audit standards that were recently required in March 2015 in PCBs are well structured. However, their effectiveness can be further examined.

External audit is essential in PCBs to support GCG implementation. All PCBs are obliged to appoint a public accountant and a public accountant office registered at the IFSA office to implement external audit functions and to audit PCBs' annual financial reports. If a PCB already has an audit committee, the appointment of a public accountant must first be approved by the GMS.[71] The standard on the implementation of external audit function has been applied in PCBs since 2010 as part of PCBs' financial transparency standard. These standards are sound enough.

4.1.3 Business Plan

PCBs are required to have a business plan which covers a long-term strategic plan and an annual business plan. The plan must be reported to the IFSA and must be complied with the existing regulation on PCBs' business plan.[72] According to Bank Indonesia Director PCBs Business Plan and Its Implementation Decree 1998[73] (Otoritas Jasa Keuangan 2014), PCBs are required to develop and report a business plan annually that covers fund-collecting plan and credit distribution plan: capital, investment, and consumption; balance sheets projection and profit loss estimation; human resources development plan; and any efforts aimed at improving the bank's performance, such as non-performing loan (NPL) settlement, avoiding loss, and fulfilment of capital deficit.

This report is prepared by the directors and must be approved by the BOCs. The directors are required to implement the plan, and the BOCs are required to supervise it (Otoritas Jasa Keuangan 2014). This standard has been implemented in PCBs since 1998.[74] Nevertheless, the regulation is silent on whether or not the report can be disclosed to the public or more importantly to PCBs' customers. The customers should be well informed on PCBs' business plan to assess the viability and profitability of the plan before deciding to participate in PCBs' main businesses: credit and saving schemes. It is suggested that this clause needs to be further amended to require this disclosure.

[71] See Article 62 (1, 2) of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[72] See Article 65 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[73] See also Bank Indonesia Director Decree Number 31/60/KEP/DIR/1998 concerning Business Plan and Its Implementation Report.

[74] One year after the 1997 Indonesian financial crisis.

4.1.4 Financial and Nonfinancial Transparency

The financial and nonfinancial transparency of PCBs is an important aspect that must be achieved to promote GCG. PCBs are required to disclose their financial condition and to declare their financial report in two types of reports: the annual report and the financial report publication. The PCBs' annual financial report must be complied with the financial accountancy standard applied in PCBs.[75]

The annual report consists of five aspects:

First, a nonfinancial report, which covers general information on the structure (management), ownership, PCBs' business progress, management strategies and policies, and management report. The weakness of the current nonfinancial report is that it does not include report on the alteration of significant assets. This issue needs to be further addressed.

Second, an annual financial report which covers: balance sheets, profit loss report, equity changes report, cash flow report and notes, including information on commitments and contingencies.

Third, an audit conducted by a public accountant where they state their public opinions and suggestions.

Fourth, all transparency aspects required in the financial report publication.

Fifth, all disclosure aspects required by financial accountancy standard applied in PCBs.[76]

The only drawback of this standard is that it does not contain related parties and significant transactions in PCBs. This issue needs to be further organized.

PCBs are obliged to publish their financial report via local media or make accessible to the public. They also are required to present evidence that they have published the report or a copy of the report that they put on the announcement board.[77] The annual report and the financial report publication standards are well designed, and they have been executed in PCBs since 2013.

The newest additional standard in relation to the transparency aspect is that PCBs need to be transparent with their products and services information.[78] Unfortunately, there is no further explanation on when and how this issue will be addressed by

[75]See Articles 2 (1) and 5 (5) Bank Indonesia Regulation Number 15/3/PBI/2013 concerning Financial Condition Transparency in People's Credit Banks and Article 66 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks. See also Bank Indonesia Circular Number 11/37/DKBU dated 31 December 2009 concerning Financial Accountancy Standard for People's Credit Banks.

[76]See Article 3 (1) of Bank Indonesia Regulation Number 15/3/PBI/2013 concerning Financial Condition Transparency of People's Credit Banks.

[77]See Article 13 of Bank Indonesia Regulation Number 15/3/PBI/2013 concerning Financial Condition Transparency of People's Credit Banks.

[78]See Article 67 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

PCBs. This will be a significant challenge for PCBs since PCBs generally lack of staff that are skilled in financial and information technology resources that would deal with this matter.

4.1.5 Maximum Legal Lending Limits (3L Rule)

The 3L rule in PCBs is a mandatory regulation stipulated by the Banking Law 1998. It strictly states that banks are prohibited from violating the 3L rule as promulgated by Bank Indonesia (now the IFSA). The violation of the 3L rule by the shareholders can lead to severe punishment: a jail term of 7–15 years and a fine of between Rp 10,000,000 and Rp 200,000,000,000.[79]

In PCBs, the 3L rule is defined as the highest percentage of fund realization towards the PCBs' capital, which includes credit and PCBs' savings in other banks. It is a violation of the 3L rule if the percentage of fund realization is higher than it should be. The fund can be provided to two parties: related[80] and unrelated parties. The fund provided to the related parties is 10% at maximum from paid-up capital[81] and must be approved by the BOCs.[82]

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[79]See Article 50 A of Law Number 10 of 1998 concerning The Amendment of Law Number 2 of 1992 concerning Banking. The fine is from US$769 to US$15.038.

[80]The related parties are:

(a) A 10% shareholder or more towards paid-up capital
(b) The directors
(c) Parties who have family relationship up to the second degree, horizontally or vertically with the parties in letters a, b, and d
(d) Executive officials
(e) Non-bank companies owned by the parties in letters a, b, and c, for which the whole or individual ownership is more than or equal to 25% from companies paid-up capital
(f) Other PCBs owned by parties in letters a–e, for which the individual ownership is more than or equal to 10% of paid-up capital to that PCBs
(g) Other PCBs which (i) the member of BOCs are the member of the PCBs BOCs and (ii) this double membership is greater than or equal to 50% of the membership of BOCs and directors
(h) Companies where 50% or more of the total members of BOCs and directors are member of PCBs' BOCs and directors
(i) Borrowers that are granted by the parties from letters a– i. See Article 7 of Bank Indonesia Regulation Number 11/13/PBI/2009 concerning Maximum Legal Lending Limits for People's Credit Banks

[81]Since 1 January 2015, the minimum paid-up capital to establish a PCB is as follows: Rp. 14.000.000.000 (US$1.052.632) for zone 1; Rp 8.000.000.000 (US$615.345) for zone 2; Rp 6.000.000.000.00 (US$451.128) for zone 3; and Rp 4.000.000.000 (US$300.752) for zone 4. Zone 1 refers to regions that have high level of economic potential and high level of financial institution competition and zone 4 is vice versa. See Article 5 and its explanation of The Indonesian Financial Services Authority Regulation Number 20/PJOK.03/2014 concerning People's Credit Banks.

[82]See Articles 3, 4, and 5 of Bank Indonesia Regulation Number 11/13/PBI/2009 concerning Maximum Legal Lending Limits for People's Credit Banks.

The funds provided to the unrelated parties are as follows: maximum 20% of the PCBs' capital for a saving into other banks, maximum 20% of the PCBs' capital for a credit to an unrelated borrower, and maximum 30% of the PCBs' capital for a credit to a group of unrelated borrowers.[83]

PCBs are also required to apply a prudent principle in providing fund to the related and unrelated parties.[84] However, if there is an indication that the fund violates the 3L rule limits, PCBs are required to report to the IFSA an action plan to settle the problem. The report needs to include the time frame of settlement.[85] The main critique of this provision is that it gives a degree of tolerance to breaches of the 3L rule. It contravenes the Banking Law 1998, which rigorously comments that the violation of the 3L rule is banned. It is suggested that such formulation should be abolished.

While these standards are well explained and have been executed for the last 7 years, it is alleged that some failures of PCBs have a strong correlation with the violation of the 3L rule and specifically the credit policy guidelines in PCBs.[86] This violation has caused some credit scandals and internal fraud by related parties and management.[87] It is critical that the compliance with the 3L rule be further scrutinized.

4.1.6 Risk Management and Internal Control Systems

Risk management is defined as a series of methods and procedures applied in identifying, measuring, monitoring, and controlling any risks caused by all PCBs' businesses. PCBs are obliged to implement risk management via directors and BOCs' supervisory toward; policies, procedures, and limitations of risk management, identification, measurement, monitoring, and risk control processes; a risk management information system; and a comprehensive internal control system. Risk management in PCBs focuses on credit, operational, compliance, liquidity, reputation, and strategic risks.[88]

A risk management committee consists of the majority of directors and related executive officials. The committee is responsible for advising the president director

[83]Article 9 of Bank Indonesia Regulation Number 11/13/PBI/2009 concerning Maximum Legal Lending Limits for People's Credit Banks.

[84]See Article 64 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[85]See Article 11 of Bank Indonesia Regulation Number 11/13/PBI/2009 concerning Maximum Legal Lending Limits for People's Credit Banks.

[86]See Bank Indonesia Circular Letter Number 14/26/DKBU, dated 19 September 2012 concerning Credit Procedures, Policies, and Guidelines in People's Credit Banks.

[87]See Kontan online, 29 August 2014, LPS minta BPR merger untuk tekan fraud, http://keuangan.kontan.co.id/news/lps-minta-bpr-merger-untuk-tekan-fraud, accessed 15 October 2015.

[88]See Articles 1 (6), 2, and 3 of The Indonesian Financial Services Authority Regulation Number 13/POJK.03/2015 concerning The Implementation of Risk Management in People's Credit Banks.

in creating risk management policies, the improvement of risk management implementation and its evaluation, and the considerations towards any operational decisions that contravene a standard procedure.[89]

The IFSA requires PCBs to write to their customers to inform them of new product risks before performing a transaction.[90] This protocol is a good policy to minimize any drawbacks from PCBs' main product, particularly credit scheme. PCBs are also required to report to the IFSA each semester on their risk profile that is prepared by the risk management unit or an executive official for implementing risk management functions.[91] However, this report is hardly seen by PCBs' customers because they lack the authority to access the report. The IFSA should consider PCBs to directly disclose the risk profile report to their customers.

Other PCBs' business risks that are important to be disclosed are the high average credit interest rate and the high NPL[92] gross. However, the regulation mentions nothing on these issues. The main reasons are that the average credit interest rate in PCBs is much higher than in general banks and the high PCBs' average NPL level. In 2015, it reached 29.52% for working capital credit, 26.26% for investment credit, and 26.24% for consumption credit. Meanwhile, in general banks at the same year, it reached 12.48% for working capital credit, 12.12% for investment credit, and 13.88% for consumption credit. Meanwhile, the average NPL level in PCBs is still high. The NPL level indicates a PCB's credit management efficiency and a PCB's soundness level. The maximum NPL gross tolerated for each PCB is 5%.[93] However, according to Indonesian Banking Statistic (2015), nationally, PCBs' NPL has reached 6.13% in October 2015. It is suggested that PCBs are also required to directly disclose these types of risks to their customers before completing a credit scheme transaction. The disclosure of these two types of risks needs to be further formulated by the IFSA.

A comprehensive and an effective internal control system must be applied towards all PCBs' businesses and activities in order to detect and to solve any weaknesses and violations. The internal control systems can be done via the implementation of risk management,[94] and one of the important goals to be reached is to maintain the adequacy of PCBs' financial records and any other operational

[89] See Article 16 of The Indonesian Financial Services Authority Regulation Number 13/POJK.03/2015 concerning The Implementation of Risk Management in People's Credit Banks.

[90] See Articles 19 and 22 (1) of The Indonesian Financial Services Authority Regulation Number 13/POJK.03/2015 concerning The Implementation of Risk Management in People's Credit Banks.

[91] See Articles 22 (1, 2, 3) of The Indonesian Financial Services Authority Regulation Number 13/POJK.03/2015 concerning The Implementation of Risk Management in People's Credit Banks.

[92] NPL is a condition where debtors are not able to make their payment as scheduled. According to Bank Indonesia, NPL consists of substandard credit (kredit kurang lancar), doubtful credit (kredit meragukan), and loss credit (kredit macet). See Djohanputro and Kountur (2007).

[93] See Article 38 (2 d) of The Indonesian Financial Services Authority Regulation Number 20/PJOK.03/2014 concerning People's Credit Banks.

[94] See Articles 12 and 13 of The Indonesian Financial Services Authority Regulation Number 13/POJK.03/2015 concerning The Implementation of Risk Management in People's Credit Banks.

activities.[95] One main weakness of this standard is that the standard rules nothing on one important function of internal control systems to design fraud risk procedures to prevent internal fraud in PCBs. This function needs to be further structured since internal fraud in PCBs still dominates the majority of fraud cases in the banking field in Indonesia.[96]

The risk management and internal control systems standards are well structured. However, since the principles are new and were only recently applied in PCBs by November 2015, their effectiveness needs to be further scrutinized.

4.1.7 Conflict of Interest Settlement

The IFSA explicitly rules that if there is a conflict of interest, BOCs, directors, and executive officials are forbidden to make any decisions that may lead to the loss of PCBs' profit. If a decision must be made in such circumstances, PCBs are required to disclose this conflict of interest in their decision. Special treatments for any parties, including applying interest rate that contravenes the promulgated regulations on this matter, can also be categorized as conflict of interest.[97]

The IFSA also considers a conflict of interest when the economic benefits of the PCBs contravene ethics and give personal economic advantages to the owners, BOCs, directors, executive officials or any other related parties.[98] Unfortunately, there are no detailed protocols on how a conflict of interest is settled and who will be responsible to lead and resolve any conflicts of interest in PCBs. There are no clauses to deal with these issues. At this point, the conflict of interest settlement mechanism in PCBs is partly sound. It is suggested that independent commissioners should take the lead to resolve any conflicts of interest arising in PCBs and conflict of interest dispute settlement mechanisms should be clearly outlined. Consequently, these two main issues need to be further structured.

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[95] The areas that are addressed by a comprehensive internal control system; see Article 14 (1) of The Indonesian Financial Services Authority Regulation Number 13/POJK.03/2015 concerning The Implementation of Risk Management in People's Credit Banks.

[96] See Infobank online, 14 April 2016, OJK: tanpa GCG, banyak bpr lakukan fraud, http://infobanknews.com/ojk-tanpa-gcg-banyak-bpr-lakukan-fraud/, accessed 16 April 2016.

[97] See Article 30 of The Indonesian Financial Services Authority Regulation Number 20/PJOK.03/2014 concerning People's Credit Banks and Article 69 and its explanation of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[98] See the explanation of Article 30 of The Indonesian Financial Services Authority Regulation Number 20/PJOK.03/2014 concerning People's Credit Banks.

4.2 The Existing Corporate Governance Standards That Have Been Enacted in Indonesian Current Legal Arrangements but Have Not Yet Been Applied

The research also revealed that some corporate governance standards have been promulgated; however, they have not yet been applied in PCBs. These standards mostly deal with organs, committees, units and functions needed by PCBs' corporate structure to function effectively such as (1) the fulfilment of minimum numbers of two and three commissioners and two and three directors, minimum 50% independent commissioners for large PCBs, and at least one independent commissioner for medium PCBs, (2) the establishment of an internal audit unit and a compliance unit, and (3) the appointment of executive officials to implement internal audit function and compliance function.

By law, all of these PCBs' structures must be completed. However, the transitory regulation of the IFSA Regulation on Corporate Governance indirectly gives PCBs until 31 March 2017 to complete all these structures. Otherwise, they will be sanctioned by the IFSA.[99] Meanwhile, the formation of audit committees and risk observer committee, risk management unit, and risk management committee and the appointment of executive official to implement risk management function must be accomplished by 31 December 2017.[100]

There are, however, some potential significant problems that need to be anticipated in conjunction with PCBs' effort to complete all the above matters including the minimum PCBs' financial affordability to facilitate these structures and the limited supply of skilled and professional human resources in the PCBs' industry. It is critical to further examine how PCBs will overcome these problems.

4.3 The Gaps in the Standards in PCBs in Indonesian Current Legal Arrangements

This research also found some gaps in the standards that have not yet been promulgated in Indonesian current legal arrangements such as stakeholders and their rights, protecting minority shareholders, and the roles of employees. These standards should exist in order to promote more awareness of the implementation of GCG in PCBs. Therefore, these standards need to be further considered by the IFSA. In terms of PCBs' corporate structure, it was also found that PCBs have no corporate secretary. However, a company secretary is not relevant to PCBs as non-public

[99]See Article 92 of The Indonesian Financial Services Authority Regulation Number 4/POJK.03/ 2015 concerning The Implementation of Corporate Governance in People's Credit Banks.

[100]See Article 38 of The Indonesian Financial Services Authority Regulation Number 13/POJK.03/ 2015 concerning The Implementation of Risk Management in People's Credit Banks.

companies. The Indonesian current legal arrangements only require a secretary in public companies.[101] Another reason why a corporate secretary is not required in PCBs is that its duties to administer, attend, and prepare minutes of BOCs are conducted by BOCs.

5 Conclusions and Recommendations

There are four main conclusions in this research. First, there are some corporate governance regimes that have been promulgated in Indonesian current legal arrangements and applied in PCBs. These regimes include board leadership and effectiveness, compliance function, internal and external audit, business plan, financial and nonfinancial transparency, risk management and internal control systems, maximum legal lending limits, and conflict of interest settlement.

Second, the existing standards in PCBs are sound enough and they have been developed from poor and simple standards to sound and multifaceted ones. However, there are weaknesses that exist in the current standards such as no explanation of the independent commissioners' selection process and its criteria and who will take the lead in resolving conflict of interest. The regulations are also silent on the disclosures of compliance function report, business plan report, significant assets and transactions alteration reports, high average credit interest rate risk, and high non-performing loan risk. Other shortcomings are potential conflicts of interest within BOCs since they have to deal with their own remuneration, a degree of tolerance to infringements of the maximum legal limits, and the lack of provision on the importance of internal control systems to design fraud risk procedures to prevent internal fraud.

Third, there are also some corporate governance standards that have been enacted in Indonesian current legal arrangements, but not yet applied in PCBs. These standards mostly deal with the fulfilment of minimum numbers of commissioners, directors, and independent commissioners, the formation of committees and units, and the appointment of executive officials needed by PCBs' corporate structure to function effectively.

Fourth, there are some gaps in the standards in PCBs that have not yet been promulgated in Indonesian current legal arrangements such as stakeholders and their rights, protecting minority shareholders, and the roles of employees. To create a sounder corporate governance, environment needs PCBs to improve their implementation of corporate governance standards and to strictly comply with the standards that have not yet been applied. The IFSA should further structure more regulations to overcome the existing standards' drawbacks. These steps are critical

[101] See Law Number 8 of 1995 concerning Capital Market. See also The Indonesian Financial Services Authority Regulation Number 33/PJOK.04/20014 concerning Directors and Commissioners in Public Companies.

to prevent unfair business practices and to protect PCBs' customers and other stakeholders' interest across Indonesia and for the better future of PCBs' industry. It is also proposed that further research should focus on approaches to compliance, the compliance of PCBs with the standards and its impediments, the closures of PCBs and corporate governance, and corporate structure reform in PCBs.

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The Indonesian Financial Services Authority Regulation Number 44 /POJK.03/2015 concerning Work Competencies Certification for Members of Directors and BOCs of PCBs and Sariah Financing People's Banks.

SRI in Korea: Facts, Challenges, and Opportunities

Karl Chun Seung Yang

Abstract The purpose of this chapter is to analyze the market situation of socially responsible investment (SRI) in Korea. The author investigates the purpose and process of investment decision-making of all the public offering funds and pension funds available in Korea as of 31 December 2015 and figures out the size and distribution by investment strategy. And I will try to identify what are the major obstacles to promotion of SRI in Korea and conclude with some proposals for the market, policy-makers, and legislators.

1 Introduction

Though socially responsible investment (SRI) has very wide interpretations ranging from ethics-based exclusion to ESG integration, in its core does the principle of responsibility lie for the impact of the investment on environment and society in addition to the sufficient return to the investors. It has in common with the conventional investment the fiduciary duty of achieving the maximum return on investment for the asset owners but differentiates itself by assuming its responsibility for the impact of its investment on the environment and society. In this perspective, we may expect SRI to accomplish a double job of "doing well while doing good." For the purpose of this chapter, I would define SRI as an investment approach that considers environmental, social, and governance (ESG) factors in portfolio selection and management (GSIA 2015, 3).

The global SRI market has continued to grow both in absolute and relative terms, rising from \$13.3 trillion at the outset of 2012 to \$21.4 trillion at the start of 2014 and

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from 21.5% to 30.2% of the professionally managed assets (GSIA 2015, 7).[1] However, SRI in Korea is not mature yet. It was originally introduced to Korea in 1999 just after the Asian financial crisis. This crisis influenced Korean economy very seriously. Before the crisis, Korean corporate culture was tainted with cozy relations between politics and business, economic monopoly by chaebol, nontransparent accounting practices, a relentless environmental deterioration in return for profit maximization, and so on. Stock market was crowded with speculators with short-termism, and the power of pension fund was negligible (KoSIF 2008, 48).

Whether forced by the International Monetary Fund (IMF) or not, the crisis served as a momentum to initiate various reforms to the financial system of Korea. Various measures were taken with a view to strengthening the legal and regulatory infrastructure, restructuring the financial sector, liberalizing capital market, and improving corporate governance of financial institutions (Kim 2006, 12–19). Consequently, Korean businesses became more transparent and more acceptable to global standards. However at the same time, IMF intervention in favor of neoliberalistic policies like deregulation, privatization of public services, and reduction in government spending resulted in widening social inequality and the conflicts among social classes.

In this context, some religious people of different beliefs mainly from Catholics, Protestants, and Buddhists got together to address this social challenges. Led by a prominent Catholic Priest, Ham Se-Ung, a study group "SRI movement" was organized in 1999, which later changed its name to the Center for Corporate Social Responsibility (CCCR) in 2003 (http://www.ccsr.or.kr/). As such, SRI in Korea originated from the societal requests for economic justice and social democratization not from the demand of financial market (KoSIF 2008, 48).

The first SRI fund in Korea was reportedly "Samsung Eco-Fund," launched in 2001 by Samsung Investment Trust Management. But the capital market in Korea was not prepared for accepting this new investment approach, and as a matter of course, SRI funds in this beginning stage were not successful. For example, "SRI-MMF Fund" with AUM of US$8 million launched in December 2003 by CJ Jeh-Il Investment Management disappeared from the market by April 2005 because its performance against the benchmark was disappointing and could not raise enough amount of fund. This failure was attributable to lacking of infrastructures for SRI such as lack of ESG (environmental, social, and governance) disclosure, low level of corporate value assessment, low social awareness on SRI, lack of SRI expertise, and so on (KoSIF 2008, 49).

As Korea went through a very compact growth trajectory of capitalism within a very short period of time, it has had lots of social/environmental issues to be addressed without delay in order to leave a sustainable world to our future generations. Aging society, health and safety, wealth polarization, prevailing hate crimes, climate change, energy, social welfare, and even confrontation of two Koreas are

[1] The latest data released in 2016 by Eurosif, US SIF, and RIAA shows total global SRI assets under management are now increased to US$22.2 trillion as of end of 2015 (Eurosif 2016; US SIF 2016; RIAA 2016).

such typical issues Koreans face now. These problems were traditionally supposed to be tackled by the government, but unfortunately it has too little budget to invest. According to Chosun Biz, the fiscal deficit of the central government of Korea is sharply increasing from KRW 13 trillion in 2010 to 17.5 trillion in 2012, 21 trillion in 2013, 29.5 trillion in 2014, and 38 trillion in 2015.[2]

What makes the matter worse is that these problems, if not addressed immediately, will affect business activities adversely. Irresponsible business will bring about social/environmental harms, which in turn cause the society to increase hostility against businesses and result in reinforced regulation on businesses. For the benefit of both the business and society, it is absolutely necessary to break this vicious cycle. And in this context, the importance of SRI is highlighted in Korea. Especially the National Pension Service (NPS) with KRW524 trillion ($447 billion) AUM is expected to play a key role.

Recent development of humidifier disinfectant misuse in Korea illustrates above situation dramatically. Oxy-Reckitt Benckiser and some others sold humidifier disinfectants of toxic substance without safety test, and as of end of November 2016, 1092 children are reported to have died from lung disease, and 5226 children were damaged.[3] It happened long time ago, but neither the companies nor the government took any proper measures. In this year, the government began to investigate the case and recently took legal actions against the companies. Finally people got angry now and organized a nationwide boycott against "Oxy" and similar products. The National Assembly unanimously decided to start "parliamentary investigation" on the case and promised to reinforce the regulation on the product safety. An Internet media reported that a few lawmakers in the opposition parties proposed an amendment to the Product Liability Act to include the clause of "punitive damages" and "consumer class action."[4] Some prominent NGOs including Korea Sustainability Investing Forum (KoSIF) and Korea Federation for Environmental Movement (KFEM) in their press release on 14 June 2016 jointly criticized NPS for not actively exercising its voting rights even though it has held, as of end of 2015, KRW3.9 trillion (US$3.4 billion) worth stocks of Oxy and other offenders in misuse of humidifier disinfectants as confirmed by a member of the National Assembly.[5]

Now SRI in Korea has grown to manage KRW 7.9 trillion (US$6.8 billion), and the societal expectation for the positive role of money is growing high, and social awareness on SRI is improving quite rapidly. "National Assembly SRI Forum" is under preparation with partnership with KoSIF to raise awareness and arouse a public opinion among Assembly Members in favor of SRI, thence facilitating the enactment of SRI-related policies. Also legislation for mandatory ESG disclosure is expected to be passed in the National Assembly sooner or later.

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[2]http://biz.chosun.com/site/data/html_dir/2016/04/05/2016040501577.html

[3]http://www.newsis.com/pict_detail/view.html?pict_id=NISI20161212_0012489306

[4]http://www.lawissue.co.kr/news/articleView.html?idxno=20161105125513360229401_12

[5]http://www.naeil.com/news_view/?id_art=202291

However, the response of Korean finance industry to such a high expectation of the public seems very slow. Socially responsible investment (SRI) as a vehicle for the societal progress is not so active yet despite the relatively growing public awareness. What is the reason of this mismatching between the expectation of the public and the response of the finance industry? The author prepared this chapter to find the very reason of the problem.

This chapter will analyze the current status of SRI market in Korea, identifying what are challenges and opportunities to the SRI investors. First, I will explain the methodology of data analysis and then show the current status of SRI funds in Korea. And I will try to identify what are the major obstacles to promotion of SRI in Korea and conclude with some proposals for the market, policy-makers, and legislators.

2 Methodology

In order to measure the size of SRI funds in Korea, we gathered data from two different sources. One is institutional pension funds (IPF), and the other is public offering funds (POF). Private placement funds (PPF) were excluded from this analysis because of limitation in data collection and inaccuracy of data quality.

The data of IPF were collected primarily from the websites of the institutions and conducted a follow-up interview with fund managers of each institution. Whoever did not want to make public his investment details were excluded from the survey.

On the other hand, the information of POF was gathered through a series of processes. We used the data provided in the electronic disclosure service of Korea Financial Investment Association (KOFIA).[6] All the figures are as at 31 December of each year. First, we screened the title of each fund by keywords of environment (E), social (S), and governance (G). And secondly, we investigated investment policy statements (IPS) and checked if the investment purpose corresponds with its title. Thirdly, “SRI Public Offering Funds (POFs) pool” is formed only with such funds as have passed the previous two criteria.

From KOFIA, we have collected detailed information about each fund of the “SRI POF pool,” which included fund type, investment region, launching date, assets under management (AUM), unit price, performance, fund portfolio, investment criteria, public or private, IPS, etc. When any of information is missing or unclear, we contacted the fund manager to clarify. Also we referred to time series statistics from Fund Information One-Click system of KOFIA (http://fund.kofia.or.kr/index/index.html), national statistics from Statistics Korea (http://www.index.go.kr/potal/main/PotalMain.do), and *Finance & Investment Fact Book 2015* published by KOFIA (https://www.kofia.or.kr/brd/m_52/list.do) in order to figure out the general trends of fund market of Korea.

[6] http://dis.kofia.or.kr/websquare/index.jsp?w2xPath=/wq/main/main.xml

Data analysis for POF market was carried out with consultation of KOFIA. In case of master-feeder fund, feeder fund was counted either for number counting or AUM calculation. But for multi-class fund, we counted number of multi-class funds and AUM of class funds where applicable.

3 Trends and Issues of SRI Market in Korea

3.1 Overview

Growth of SRI Market in Korea
The estimated size of the SRI market in Korea as defined by this chapter is at least KRW 7.87 trillion (US$6.8 billion) as of 31 December 2015, based on the data gathered by the author. The data is summarized in Table 1.

From Table 1, we may find some unique trends of SRI market in Korea as follows. Firstly, SRI market size in Korea is growing steadily despite temporary downturn. It grew more than four times from KRW 1.8 trillion (US$1.6 billion) at 31 December 2007 when the first estimation was made by KoSIF (2008, 177–195). Overall AUM of SRI funds in Korea steadily increased to KRW 8.1 trillion (US$7.1 billion) in 2013 but decreased to KRW 7.3 trillion (US$6.4 billion) in 2014, and now it is on the road to recovery. Secondly, while POF is shrinking very sharply, IPF is leading the market. The share of the latter is increasing from 24% in 2007 to 91% in 2015.

Asset Allocation by Strategy
Asset allocation by the investment strategy was not investigated this time. But the Association for Sustainable and Responsible Investment in Asia (ASrIA 2014, 39) provides the results of its survey for 2013, which I would quote in Table 2 just for reference. There are some differences of the figures between KoSIF and ASrIA because of different methodologies and coverages of the study. ASrIA data were collected through questionnaire survey analysis, and private equity fund (PEF) SRI was included in the survey. Despite such differences, it is still valid that ESG integration is the most popular strategy in SRI in Korea given that 75% of NPS SRI funds are managed by ESG integration strategy as shown later in Table 7.

Table 1 Growth of SRI AUM in Korea (unit: KRW 1 billion)

Year	2007	2011	2012	2013	2014	2015
IPF (share)	440 (24%)	3576 (57%)	5477 (71%)	6554 (81%)	6277 (86%)	7184 (91%)
POF (share)	1382 (76%)	2668 (43%)	2277 (29%)	1551 (19%)	1063 (14%)	681 (9%)
Total AUM	1822	6244	7754	8105	7340	7865

Source: KoSIF (2016) "SRI Market in Korea"

Table 2 Breakdown by strategy of SRI Korea market in 2013

Strategy	AUM (US$ million)	Share (%)
Negative/exclusionary screening	109	1.29
Positive/best-in class screening	170	2.02
Sustainability-themed investing	533	6.32
Integration of ESG issues	6457	76.62
Corporate engagement/shareholder action	1158	13.74
Total	8427	100.00

Source: ASrIA (2014) "2014 Asia Sustainable Investment Review," p. 39

Table 3 Trends of voting rights exercised by NPS

	Year	2013	2014	2015	2016
	Number of proposals	1677	1738	1914	1976
	Number of opposition vote	181	140	180	179
	Ratio of opposition vote (%)[a]	10.79	8.06	9.40	9.06
Opposition Ratio for each issue	Approval of financial statements	1.24	1.80	1.93	1.68
	Amendment to AOI	30.06	7.78	20.59	17.24
	Appointment of insider directors	28.99	23.23	21.98	24.20
	Appointment of outside directors	30.23	28.71	27.67	22.34
	Appointment of nonexecutive directors	43.64	24.44	21.67	26.32
	Appointment of member of audit committee	16.42	17.09	16.88	16.78
	Appointment of auditors	33.33	40.98	43.75	31.58
	Director's remuneration	0.30	0.58	0.79	2.40
	Limit of audit fee	0.65	0.63	0	0.62
	Provisions for directors severance payment	6.67	8.82	14.29	6.90

Source: Korea Corporate Governance Service, Voting Information Plaza (VIP) http://vip.cgs.or.kr/investor/ivt_invest.asp

[a]Opposition vote ratio is calculated against the executives' proposals in AGM of listed companies in KOSPI

Shareholder Advocacy

In Korea, shareholder advocacy is legally possible either by exercising his voting rights in annual general meeting (AGM) or by submitting shareholder proposal. Also even a minority shareholder is allowed by the law to take legal action against director (s) on certain conditions if he believes the company is being mismanaged. Recently institutional investors are under increasing pressure from the public to actively exercise their voting rights in AGM. NPS has Proxy Voting Guideline in place and began to raise its voice in AGM against the proposals of the company executives. Main issues which NPS voted against were the appointment of directors/ auditors and the amendment to the articles of incorporation (AOI). Table 3 shows the trends of voting rights exercised by NPS.

Table 4 Opposition vote of private institutional investors

	2012	2013	2014	2015	2016
Number of total proposals	13,056	12,606	13,522	15,484	14,281
Number of opposition votes	41	62	202	266	252
Opposition ratio (%)[a]	0.31	0.49	1.49	1.72	1.76

Source: Korea Corporate Governance Service, Voting Information Plaza (VIP) http://vip.cgs.or.kr/investor/ivt_invest.asp

[a]Opposition vote ratio is calculated against the executives' proposals in AGM of listed companies in KOSPI

Table 5 Trends of shareholder proposals

Year	2013	2014	2015
Number of proposals	36	42	116
Number of companies	12	16	35

Source: D.W. Lee et al. (2015) "Analysis of Shareholders' Proposals; Current Status and Legal Provisions" CG Review 2015(2) p. 96

Besides NPS, private institutional investors also have their own voice against the executives' proposals even though the opposition ratio is very low. According to the internal report of Korea Corporate Governance Service (KCGS), the opposition ratio of the private institutional investors is increasing from 0.31% in 2012 to 1.76% in 2016 as shown in Table 4. Such a low opposition ratio of private institutional investors compared with NPS case explains why "Stewardship Code" should be introduced to Korea.

In addition to the exercise of voting rights which is a passive expression of the minority opinion, shareholder is allowed to submit shareholder proposal as an active expression of its opinion (Bang 2015, 2–7). If the shareholders have held a share of any listed company equaling at least 10/1000 (or 5/1000 in case of a listed company with a total capital of KRW100 billion or more as at the end of the preceding fiscal year) of the total issued and outstanding shares consecutively for at least the preceding 6 months, they can propose certain items for the agenda at shareholders' meeting by submitting to the directors a document outlining those proposed items for the agenda at least 6 weeks prior to the shareholder meeting (Commercial Code of Korea, §362). Unlike the USA, the proposed agenda in Korea are limited to the stipulated ones in the Commercial Code of Korea, §361, but if any proposal gets the support of the majority, it has binding force.

According to D.W. Lee et al. (2015, 96), shareholder proposal in Korea is on the rise as shown in Table 5.

In 2015, the issues of shareholder proposal are mostly concerned with appointment of directors/auditors (72 out of 116, 62%), followed by dividend (20), amendment to AOI (8), information disclosure (8), and so on. Among 116 proposals, 28 were approved by majority, 54 were rejected, and the rest were withdrawn (Lee et al. 2015, 97).

3.2 Institutional Pension Funds (IPF) and SRI in Korea

Steady but Slow

Institutions who are actively adopting SRI approach are three pension funds and one state enterprise with a financial arm. As of 31 December 2015, there are 65 pension funds in Korea, out of which only 3 pension funds such as the National Pension Service (NPS), Teachers' Pension (TP), and Government Employees Pension Service (GEPS) are managing parts of its assets by SRI approach. Another institution adopting SRI approach is Korea Post (KP). All these institutions entrust parts of their assets to SRI trustees.

Even though these IPFs take major share in SRI market in Korea, proportion of SRI relative to the total managed assets is no more than around 1%. Among IPFs, NPS takes the lion's share of 95.36%. In a word, the SRI market in Korea is absolutely dependent on NPS. Table 6 is a summary of assets under management by each institution.

NPS Is the Leader but Needs to Be More Aggressive

Now let's focus on the trends of NPS asset management. Its SRI assets amount to almost KRW 6.9 trillion as of end of 2015, almost doubled from KRW 3.5 trillion in 2011. Apparently it seems that total managed assets of NPS in absolute value are accumulating very rapidly and SRI assets also look recovering over time. However, if we compare them in a relative value, the proportion of domestic stock among portfolio actually maintains a stable level of 17–20% of total AUM. Also relative SRI proportion remains almost unchanged at more or less 7% of domestic stock investment and 1.3% of total managed assets. Figures are shown in Table 7.

As of 31 December 2015, NPS allocates SRI assets to several trustees as shown in Table 8. More than 3/4 (KRW 5.1 trillion) of total allocated assets for SRI are managed by ESG integration and the rest, by screening strategy. These trustees are evaluated periodically against an undisclosed benchmark, NPS-FnGuide SRI index, which was developed jointly by NPS and FnGuide, a private financial service provider.

Table 6 Proportion of SRI relative to total AUM as of 31 December 2015 (unit: KRW 1 billion)

	Total AUM (A)	SRI AUM (B)	Proportion of SRI (B/A, %)	Market share (B/C, %)
NPS	512,324	6852	1.34	95.36
TP	12,756	100	0.78	1.39
GEPS	15,909	109	0.69	1.52
Subtotal	540,989	7061	1.31	98.27
KP	108,494	124	0.11	1.73
IPS total (C)	649,483	7185	1.11	100

Source: KoSIF (2016) "SRI Market in Korea"

Table 7 Proportion of SRI relative to total AUM of NPS (unit: KRW 1 billion)

Year	2007	2011	2012	2013	2014	2015
Total AUM (A)	211,426	348,868	391,968	426,955	469,823	512,324
Domestic stock investment (B)	23,873	62,140	73,317	83,938	83,930	94,896
B/A, %	11.29	17.81	18.70	19.66	17.86	18.52
SRI AUM (C)	440	3450	5244	6261	6001	6852
C/A , %	0.21	0.99	1.34	1.47	1.28	1.34
C/B, %	1.84	5.55	7.15	7.46	7.15	7.22

Source: Recomposed by the author using NPS statistics from http://www.nps.or.kr/jsppage/info/resources/info_resources_03_01.jsp?cmsId=statistics_year

Table 8 Distribution of NPS SRI assets by strategy (unit: KRW 1 billion)

Trustee	Strategy	NAV as of 30 September 2015
A	Negative screening + ESG integration	467.5
B	ESG integration	654.5
C	ESG positive screening	333.8
D	ESG integration	1291.20
E	Positive screening	65.6
F	ESG integration	1723.30
G	Positive screening	1165.40
H	Internal screening	100.10
I	ESG integration	954.00
Total		6755.40

Source: NPS, obtained from Lee Mokhee, the former National Assembly member

Since the "National Pension Service Act" is amended in February 2015 to take environment, social, and governance (ESG) issues into consideration in its decision-making, NPS is apparently trying to comply with the new regulation. NPS recently amended its IPS to stipulate that "In case assets are managed by trading stocks, ESG issues may be taken into consideration for stable return on long term basis. And also voting right shall be exercised actively to the best interests of the subscribers with a view to increasing its net asset value (NAV) on long term basis but subject to Proxy Voting Guideline" (NPS 2016). Also in order to test if SRI can really outperform benchmarks, it is confidentially carrying out an experiment with virtual SRI fund, using its own ESG criteria including climate change, cleaner production, eco-friendly products, human resource management, health and safety at workplace, supply chain management, fair competition, shareholder rights, board of directors, auditing system, dividends, etc.

There is a greater social pressure on NPS to manage its public assets in more socially responsible way. Furthermore NPS is asked to assume much higher social responsibility as a signatory to the Principles for Responsible Investment (PRI). But the figures above speak for themselves that NPS has been implementing very conservative strategy in its SRI policy. Its SRI is limited to domestic equity market only. Considering that NPS has enormous influence over the capital market and the national economy as a whole, the above figures are far from satisfactory. The reason for such conservatism seems that NPS is under the control of the government and its asset management is easily influenced by the political stance of the ruling party.

Potentials of Small IPFs

SRI assets of other small institutions are not so much aggressive yet. As already seen in Table 6, the proportion of SRI relative to total managed assets of these institutions is even lower than that of NPS. Also their market share among SRI IPFs is altogether not more than 5%. However, they are also continuously increasing SRI portion over time and attracting new comer like KP to SRI market as shown in Table 9. If they adopt more aggressive strategy from now on, they will have quite good potential in raising social awareness and expanding SRI market in Korea because the subscribers

Table 9 Trends of SRI assets by institutional investors (unit: KRW 1 billion)

Year	2011	2012	2013	2014	2015
NPS	3450	5244	6261	6001	6852
TP	52	118	145	98	100
GEPS	74	114	105	99	109
Subtotal	3576	5476	6511	6198	7061
KP			43	79	124
Grand total	3576	5476	6554	6277	7185

Source: KoSIF (2016) "SRI Market in Korea"

of TP and GEPS are relatively highly educated and more conscious of the impacts of their own asset management.

3.3 *Public Offering Funds (POFs) and SRI in Korea*

POF's SRI Market Is Declining

Total assets of SRI POFs as of 31 December 2015 are estimated to amount to KRW 681 billion (US$592 million), merely 0.31% of total managed assets of total POFs KRW 221,290 billion (US$192.4 billion). Compared with AUM of 2011, it dramatically shrank by 75% in 2015 even though total AUM of POFs is growing continuously as shown in Table 10. The number of SRI POFs also slightly decreased from 72 in 2011 to 67 in 2015.

The reasons behind this continuous decline are to be further researched. However, provisionally the author extrapolates they are because of bearish stock market with high volatility and low return, which drove investors to more stable and less volatile asset classes other than pure equity. According to KOFIA, KOSPI index fluctuated from 1825.74 in 2011 through 1997.05 in 2012, 2011.34 in 2013, 1915.59 in 2014, and 1961.31 in 2015 (KFIA, http://freesis.kofia.or.kr/). When bearish market continues over time, SRI tends to make little difference in ROI compared with conventional investment. As a matter of fact, Allianz Korea, who used to account for almost 50% of whole public retail SRI in Korea, cut its managed assets of governance-focused SRI funds by half from KRW 553.2 billion in 2014 to KRW 268.1 billion in 2015 just because of low performance.

Corporate Governance Is Still the Main Focus

Major investment criteria of public SRI retail funds are classified into the following three categories, environment-focused (E), governance-focused (G), and ESG integration (ESG). Traditionally SRI investors were concerned with corporate governance of Korean companies. More than 70% of public SRI retail funds in Korea have focused on governance issue (Table 11).

Table 10 SRI POFs (unit: KRW 1 billion)

	2011	2012	2013	2014	2015
Total POFs (AUM)	188,146	195,030	190,444	204,265	221,290
SRI POFs (AUM)	2668 (1.42%)	2277 (1.17%)	1551 (0.81%)	1063 (0.52%)	681 (0.31%)
Change (%)		−14.66	−31.88	−31.46	−35.94
Number of SRI POFs	72	70	67	68	67

Source: KoSIF (2016) "SRI Market in Korea"

Table 11 SRI POFs by investment criteria (unit: Nbr, number of funds; AUM, 1 billion KRW)

	2011		2012		2013		2014		2015	
	Nbr	AUM	Nbr	AUM	Nbr	AUM	Nbr	AUM	Nbr	AUM
E	37	481	36	376	35	271	35	206	36	143
G	9	2030	10	1772	9	1188	13	790	10	482
ESG	26	157	24	129	23	92	20	68	21	56

Source: KoSIF (2016) "SRI Market in Korea"

Equity Type for Domestic Stock Market Prevails
When we analyzed the fund types and investment region, most of SRI assets were invested in equity of domestic market. As of end of 2015, equity fund accounts for 88.7% and domestic market 87%, respectively. From 2014, SRI fund investing in bonds appeared even its AUM is negligible yet. Table 12 shows the trend of fund type and investment region.

3.4 *Current Issues in SRI Market in Korea*

There are lots of issues SRI community is facing in Korea now. They can be categorized into three groups, i.e., legal/regulatory issues, financial performance of SRI funds, and rising concern of the public over health and safety.

Legal/Regulatory Issues on ESG Disclosure, Corporate Governance, and Responsibility of the Public Institutional Investors
Among others, the following three issues deserve highlighting. First is the amendment to the Financial Investment Services and Capital Market Act (FISCMA) which aims to mandate ESG disclosure of listed companies; secondly amendment to Corporate Governance Codes which aims to reinforce the active exercise of voting rights by the institutional investors, to promote CSR management practices of the companies, and ultimately to improve the transparency and effectiveness of corporate governance; and thirdly introduction of "Korea Stewardship Code," which is a set of guidelines for institutional investors to exert their voting rights to promote investor's active involvement in corporate management such as in the decision-

Table 12 SRI POFs by type and investment region (unit: Nbr, number of funds; AUM, KRW 1 billion)

		2011		2012		2013		2014		2015	
		Nbr	AUM	Nbr	AUM	Nbr	AUM	Nbr	AUM	Nbr	AUM
Fund type	Equity	58	2645	57	2258	53	1538	52	993	51	604
	Fund of funds	5	8	3	5	3	3	2	2	4	2
	Mixed	9	15	10	14	11	10	12	68	10	75
	Bond	–	–	–	–	–	–	2	0.2	2	0.06
Investment region	Domestic	47	2385	48	2075	45	1389	46	936	44	593
	Overseas	21	280	18	200	18	162	18	126	19	88
	Mixed	4	3	4	2	4	1	4	2	4	0.4

Source: KoSIF (2016) “SRI Market in Korea”

Table 13 Financial performance of NPS SRI funds (unit: KRW 1 billion, %)

Year	2008	2009	2010	2011	2012	2013	2014	2015[a]
NAV	595	1283	2363	3450	5244	6261	6001	6852
Performance	−39.2	65.1	27.3	−10.8	8.8	2.7	−7.1	12.68
Benchmark	−40.7	49.7	21.9	−11.0	9.4	0.7	−4.8	8.28
Excess performance	+1.5	+15.4	+5.4	+0.2	−0.6	+2.0	−2.3	+4.4

Source: NPS (2016) "Asset Management Evaluation Report for 2015 first half" p. 77 & K.S. Park (2015) "SRI by Pension Funds; Status and Challenges" presented in Korea Securities Association
[a]Performance for 2015 is only for the first half

making of merger and acquisitions and dividend payouts with a goal of maximizing shareholder benefit. The amendment of FISCMA is still under discussion in the National Assembly, but the other two were already adopted with its contents compromised to reflect the requests of the industry.

Financial Performance of SRI Funds in Korea
It is not a specific issue for Korea but a general issue for global market. There have been long controversies about whether SRI can really achieve better performance compared with traditional benchmark. There have been numerous studies on this issue with different conclusions. However recent studies seem to conclude that there is positive relationship between SRI and corporate financial performance (Friede et al. 2015, 226). Also most of SRI indices including FTSE4GOOD, MSCI World SRI Index, and Jantzi Social Index outperformed the benchmark from the launching date through the end of 2014 (Sustainvest 2015, 2–3).

Meanwhile, SRI in Korea has too short a history to empirically study the co-relation between SRI and its financial performance. But Kim and Chang (2013, 131–152), after analyzing the abnormal financial performance of 500 Korea largest companies in market capitalization from 2008 to 2011, concluded that companies with high ESG scores showed positive financial performance while those with low ESG scores, negative performance. Furthermore, NPS also provides its own statistics on the performance of NPS SRI funds in Table 13. The results show that SRI largely outperformed the benchmark KOSPI.

Growing Concern of the Public over Health and Safety
After the fatal Sewol ferry disaster involving 300 and more deaths on 16 April 2014, concern of the public over the safety issue is growing. Recently there have been two multinational corporations (MNCs), whose unethical scandals sparked excessive anger among the public. One is Oxy-Reckitt Benckiser who caused more than 200 deaths of innocent children by the use of toxic substance in humidifier disinfectants, and the other is Volkswagen who used software to falsify emission tests on some diesel cars.

All these cases served as an opportunity to tighten the regulation on corporations. A new bill titled "Corporate Manslaughter and Corporate Homicide Act" and amendments to the existing "Product Liability Act" are proposed with a view to strengthening criminal punishment by introducing "punitive damages" and "consumer class action."

Such social climate is changing awareness of all walks of life including consumers, investors, and even politicians. Korea Social Responsibility Network (KSRN) reports that about 1/6 of candidates for the National Assembly were committed to enacting bills for promotion of CSR/SRI once elected (Pressian 2016). Consumers and investors are also urging NPS to be accountable for its investment of KRW3.9 trillion (US$3.4 billion) in the stocks and bonds of the ten companies involved in the production and sale of toxic humidifier disinfectants.

4 Challenges and Opportunities with a Few Suggestions

Summary: Facts and Trends

Throughout this chapter, the following facts and trends were identified. First, overall market size of SRI in Korea is continuously increasing, led by NPS. Secondly, nevertheless, NPS maintains quite conservative approach to SRI because of various reasons such as political influence, inefficient and fragmented regulations, and so on. Thirdly, SRI POF market is shrinking very sharply because of persistent bearish stock market and unsatisfactorily low ROI. Fourthly, there is growing awareness on CSR/SRI among the public and lawmakers.

Challenges and Opportunities

Despite steady growth of SRI assets in Korea, many experts argue that general level of CSR practices by Korean companies is so low that it is difficult to differentiate good companies with high CSR profile from poor CSR companies. What makes matter worse, ESG disclosure of Korean companies is both quantitatively and qualitatively insufficient. According to Global Reporting Initiative (GRI), only 110 companies in Korea issued sustainability reporting in 2014.[7] Besides, many of the reports fail to be faithful to the materiality principle but appear to be CSR-washing, rather trying to provide the investors with unnecessary information. Another obstacle to SRI in Korea is that Korean financial market players are lost in short-termism rather than long-term consideration. Most asset owners are likely to choose their asset managers not based on long-term sustainability but on short-term financial performance (Ryu 2010, 127–143). Lastly, the policy signal from the government in favor of SRI is unpredictable, depending on the political orientation of the ruling party.

However, there are some good signs for SRI in Korea. The people's awareness for the just and responsible society is growing rapidly, which is evidenced by the recent candle demonstration of several millions, requesting President Park to step down. Also Korea Stewardship Code on "comply or explain" basis was introduced on 19 December 2016, and Corporate Governance Code on "voluntary" basis were amended on 27 July 2016, respectively. Even though these two Codes were allegedly watered down in order to reflect the interest of the industries, they will help

[7] https://www.globalreporting.org/services/Analysis/Reports_List/Pages/default.aspx

promote SRI market in Korea. Another factor in favor of SRI in Korea is the pressure for sustainable finance from the global communities including the Paris Climate Agreement, UNEP/FI, PRI, etc.

A Few Suggestions for Policy-Makers

Even the present of SRI in Korea might look a little gloomy, the author is quite optimistic about its future because the political horizon and social awareness on ESG in Korea is changing favorably. The National Assembly was taken in last election by the majority of the opposition party who is more progressive. Concern of the public and legislators over the democratization of the national economy and the role of the public institutions including NPS for improvement of corporate governance is growing rapidly.

Taking these changes in consideration, the author would like to make a few policy suggestions. Given that ESG consideration, long-term investment, and active ownership are the essentials of SRI, suggestions for promotion of SRI in Korea are made in three directions.

For ESG consideration, the author suggests to mandate ESG disclosure by both the companies and the fund managers. This is very important in that it will allow the financial consumers to make well-informed choice in selection of their asset manager as well as composition of asset classes. Also more stringent regulation of unethical/unlawful businesses in terms of environment, social, and governance is required. Especially, as ASrIA (2014, 39) puts, investors are still concerned by the quality of corporate governance in Korean companies and the effect of the chaebol structure on internationally ethical, transparent business practices needed for investor confidence. In this context, strong implementation of the amended Corporate Governance Code by the companies to improve corporate governance standards is recommended.

For long-term investment, tax exemption for dividends and capital gains derived from long-term investment in listed stocks is required. Also pension funds, when they choose the trustees, must evaluate and choose them based on long-term performance.

For active ownership, “Korea Stewardship Code” is required to be adopted by as many institutional investors as possible including NPS, which will definitely reinforce SRI practices through stringent voting right policy of institutional investors who have paid little attention to shareholder advocacy and SRI so far. Also the Commercial Code of Korea needs to be amended to extend the agenda of shareholders proposal to flexibly cover all ESG issues raised from time to time.

Last but not least, investors need to support the efforts of academia and NPOs for promotion of SRI in Korea. For example, the research on such subjects as the causality between SRI and financial performance, relationship between economical democratization and active ownership, and effective campaign for enhanced awareness of SRI and dissemination of best practices in ESG/SRI must be supported by the investors, who will directly benefit from the research.

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Part III
New Emerging Challenges of CSR Practices

Whistleblowing and Culture: A Case for CSR in Developing Markets

Jürgen-Matthias Seeler, Anja Fuchs, Thomas Stöckl, and Karin Sixl-Daniell

Abstract Whistleblowing is a powerful tool to tackle corrupt practices, thus contributing to an ethical organizational culture. We elaborate on a case study from Malawi, Africa, in which a private organization established an external whistleblowing system in 2009/2010 and attracted more than 50 clients from the private and the public sectors. We find that (1) individuals still hesitate to report misconduct but they are strongly encouraged to do so by extrinsic motivators (monetary incentives). (2) Malpractices including financial rewards are more likely to be reported, while nonfinancial malpractices play a minor role for potential informants. (3) Private companies, especially those headquartered abroad, are seriously concerned with the investigation of incoming reports. (4) Public entities exhibit lower degrees of commitment to whistleblowing systems and are regarded less serious in the follow-up process. On institutional level we conclude that strict governance processes are strong facilitators for effective whistleblowing and consequently for corporate social responsibility. These findings could be the basis for a systematic approach to enhance the effectiveness of whistleblowing systems in the private and public sector in Malawi and help in building hypotheses for quantitative testing in future research.

1 Introduction

Whistleblowing offers a protected way of reporting misconduct, corrupt practices, or other misbehaviour without disclosure of the reporter's identity (Miceli and Near 2002; Miceli et al. 2008; Shaw and Barry 2006; Lewis et al. 2014). Potential malpractices comprise, e.g. bribery, theft, embezzlement, misappropriation of funds, discrimination, harassment, nepotism, and favouritism (Brown et al. 2008). Whistleblowing is certainly not a cure for corruption and other malpractices, but it

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assists in setting the tone in an organization as far as moral obligations are concerned (Rossouw and van Vuuren 2010). It also helps with tensions that may result from professional obligations contrary to an individual's moral convictions (Kaplan and Walker 2006). Typically, whistleblowing is characterized by three main advantages (Carroll 2006; Shaw and Barry 2006). First, it helps identifying cases of misconduct. Second, it assists in preventing malpractices due to awareness within the organization and an increased likelihood of detection. Third, it contributes to developing a culture encouraging ethical behaviour within organizations. However, effectiveness of whistleblowing depends on the seriousness of an organization's management in implementing and running the system. Here, the concepts of corporate social responsibility and governance play important roles. They require strong enforcement measures (Apreda 2005; Beltratti 2005), and whistleblowing can be seen as an important one, as far as corruption prevention is concerned.

Looking at these characteristics of whistleblowing, its contribution to corporate social responsibility (CSR) becomes obvious: corporate social responsibility can be understood as comprehensive approach to moral concern in business activities (Murphy 2002; Windsor 2006). It demands a company to take into account not only the interests of its owners but of corporate stakeholders overall (Jones 1980). Therefore, managers need to consider financial, social, and ecological responsibilities, rather than just focussing on financial results (Cadbury 2006; Murphy 2002). Given this claim, fighting fraud, corruption, and other wrongdoings is an integral part of any comprehensive approach to corporate social responsibility, and whistleblowing proved to be an effective means towards this end.

One can distinguish between internal and external whistleblowing systems (Grace and Cohen 2010). Internal whistleblowing refers to the operation of the reporting system being part of the organizational hierarchy of the entity that intends to fight corruption. External whistleblowing systems are not part of the organization but are separate, independent entities. These usually have a number of clients from various industries (Miceli and Near 2002; Park et al. 2008). Typically, external whistleblowing systems are more trusted by potential informants due to their status of being independent (Dubinsky 2006; Trevino 2006). The channels for reports vary from telephone hotlines to mail, email, text messages, etc. (Moberly 2014).

Figure 1 depicts a typical structure of an external whistleblowing system. The process starts by an internal or external stakeholder of the company observing some kind of malpractice by peers, superiors, or company representatives. Then, this person reports the malpractice to an agent of the (external) whistleblowing hotline who collects information on the issue and develops a structured report. This report is sent to the company's ethics office, ethics committee, or some similar institution within the company which discusses the report received and determines the line of information and the way forward. If necessary, the institution will engage with authorities (police, prosecution).

In this chapter we elaborate on a case study from Malawi, in which a private sector organization established an external whistleblowing system in 2009/2010 which attracted more than 50 clients from both the private and the public sectors. Malawi is continuously ranked in the middle field of the Transparency International Corruption Perception Index (CPI 2014) in which 175 countries are listed. With this

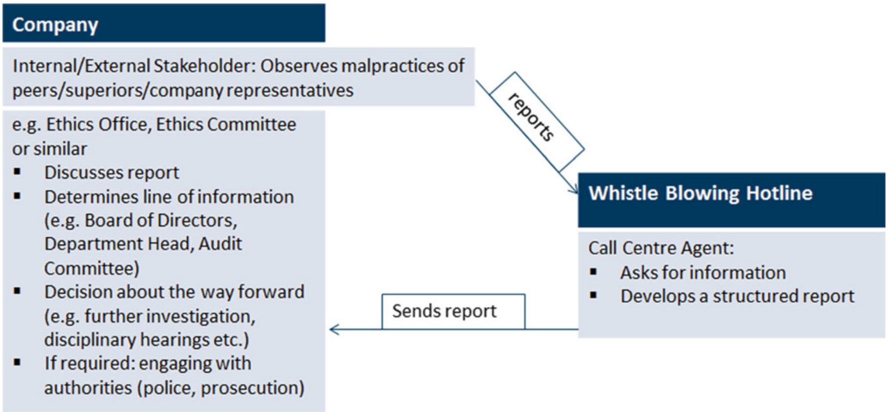

Fig. 1 Structure of external whistleblowing, designed by author

rank, the country's business environment is neither particularly bad nor specifically conducive, as far as corruption is concerned. It can therefore serve as a good example for certain success factors for and impediments to whistleblowing systems (Miceli and Near 2002; Daugareilh 2008).

If whistleblowing is seen from a more general perspective, it becomes clear that context factors like individual, organizational, and institutional conditions need to be taken into account in the analysis of individual cases. However, societal and cultural context factors determine organizational and individual behaviour (Sanchez Bengoa et al. 2009). In the context of this chapter, culture shall simply be understood as traditional habits, values, and norms predominant within a group (Jackson 2011). Therefore, in the analyses, the chapter mainly aims at exploring cultural issues that may hinder the success of whistleblowing (Weaver 2001).

We find that (1) individuals still hesitate to report misconduct but they are strongly encouraged to do so by extrinsic motivators (monetary incentives). (2) Malpractices including financial rewards are more likely to be reported, while nonfinancial malpractices play a minor role for potential informants. (3) Private companies, especially those headquartered abroad, are seriously concerned with the investigation of incoming reports. (4) Public entities exhibit lower degrees of commitment to whistleblowing systems and are regarded less serious in the follow-up process. These findings could be the basis for a systematic approach to enhance the effectiveness of whistleblowing systems in the private and public sector in Malawi and help in building hypotheses for quantitative testing in future research.

2 Methodology

The chapter is designed as a case study. It explores a single case, which is deemed rich in relevant information. The report aims at identifying success factors for and impediments to successful applications of whistleblowing in Malawi. We state the following research question (RQ).

RQ: What are important success factors for and impediments to successful application of whistleblowing in Malawi?

Based on a research paradigm of constructivism (Guba and Lincoln 1994; Kitzinger 2004; Veal 2005), the chapter applies an inductive approach to answer the research question. It explores a single case and attempts to come to more general conclusions. In this regard, the chapter is mainly descriptive (Soeffner 2007). The case is deemed rich in information (Patton 1990; Seale 2004), and the researcher's subjectivity is deliberately included in the entire process (Soeffner 2007). Given the specific environment in Malawi, theory generation rather than theory testing is the focus of this report, and qualitative research methods are used (Guba and Lincoln 1994). Data collection is carried out through an in-depth, half-standardized expert interview with the individual who has been managing the whistleblowing system since its launch. Data analysis is based on hermeneutical and interpretive strategies (Guba and Lincoln 1994; Thompson et al. 1994). For this purpose, a team of researchers is engaged in the analysis in order to cross-validate the findings generated.

In order to incorporate culture into this investigation, Hofstede's cultural dimensions are used (Hofstede 1980, 1991; Hofstede et al. 2010). They are applied to Malawi, and interview statements are then compared to the general cultural context. This procedure provides for a more systematic account of where culture may interfere with the aims of whistleblowing. So far, data is only available for four out of six cultural determinants (power distance, individualism, masculinity, and uncertainty avoidance). For the remaining two (long-term orientation, indulgence), available data from the neighbouring countries of Tanzania and Zambia are used, assuming similar cultural backgrounds due to their similar cultural heritage and colonial past. For the purpose of this chapter, a discussion of the merits and weaknesses of Hofstede's framework will be omitted. For Malawi the following cultural determinants can be described:

- With regard to *power distance*—the degree to which individuals accept and expect hierarchical and unequal power distribution—the country ranks high, meaning individuals are likely to accept hierarchical differences with no request for justification. The scores for the neighbouring countries (Tanzania and Zambia) support this classification.
- As far as *individualism*—meaning the degree to which individuals tend to either individualistic or collectivistic views—is concerned, the country is marked by a high level of collectivism, as are the country's neighbours. Therefore, group interests are given priority over individual aims.

- Regarding *masculinity*—the degree to which individuals emphasize achievement and goal orientation rather than social issues—the country scores low, meaning that individuals prefer social issues rather than competition and the wish to be the best. Scores for the neighbouring countries suggest the same.
- With regard to *uncertainty avoidance*—the level to which members of a society feel challenged by unknown situations—the country scores on a medium level and does not show a specific cultural preference. This score is again in line with the neighbouring countries' scores.
- *Long-term orientation*—the degree to which members of a society tend to make long-term plans and actively embrace societal change—can be considered rather low in the country. The low degree of long-term orientation indicates that individuals rather feel threatened by change and tend to employ a short-term perspective. The scores of the neighbouring countries support this view. Hence, an estimate for this dimension was made, based on the scores of neighbouring countries and mapped with one of the authors' observations when living in the country. These estimates are deemed accurate through this process of mapping. Furthermore, the authors suggest a cluster of these countries on this dimension.
- *Indulgence*—a concept described as standing for "for a society that allows relatively free gratification of basic and natural human drives related to enjoying life and having fun. Restraint stands for a society that suppresses gratification of needs and regulates it by means of strict social norms"—can be estimated as high in the country. Again, the scores of the neighbouring countries support this view. Hence, an estimate for this dimension was made, based on the scores of these neighbouring countries and mapped with one of the authors' observations when living in the country. These estimates are deemed accurate through this process of mapping, and the authors suggest a cluster of these countries on this dimension as well.

These cultural findings for the country will be used in the analysis of interview statements in order to come to conclusions in how far culture may affect the success of whistleblowing. Moreover, it will help in developing hypotheses that can be tested quantitatively in future research.

Due to the nature of the phenomenon in question—the sensitive matter of whistleblowing—the results are described in a general way with client names, specific cases, precise numbers, amounts, etc. not being disclosed nor public organizations, parastatals, individuals, or groups being mentioned. The authors acknowledge that qualitative research cannot account for statistically valid results. Qualitative research approaches, and case studies in particular, base research quality on the concepts of confirmability and traceability of the entire study (Miles and Huberman 1984; Silverman 2006). Proper and comprehensible documentation of the research process is assured.

3 Analysis

In this section we report on the findings from the interview statements and link these findings to a description of Malawi along Hofstede's cultural determinants. Following this procedure, we attempt to gain insight in culturally determined influences to whistleblowing in Malawi.

With the increasing number of subscribers, the whistleblowing organization has now more than 50 clients from the private business and the public sector. Per month, the organization receives roughly 65 valid reports. The majority of cases reported address matters connected to direct financial impact, such as bribery, embezzlement, and misappropriation of funds. There are a considerably lower number of reports on issues like discrimination, harassment, and favouritism. Malpractices including financial rewards are more likely to be reported, while nonfinancial malpractices seem to play a minor role for potential informants. Moreover, individuals reporting misconduct seem to be strongly encouraged by extrinsic motivators (financial incentives). For example, individuals only report misconduct, if rewards are granted for valid tip-offs. It is evident that the number of reports increases with higher rewards. Looking at the cultural determinants derived by the authors for Malawi, the estimated high degree for the dimensions Indulgence and the estimated rather short-term orientation could support these behaviours.

Only a small share of reports—approximately 10%—addresses misconduct at top management level. A number of reasons are mentioned for this: Many employees seem to be afraid of retaliation. They fear severe consequences in case of a breach of confidentiality and seem to not entirely trust anonymity of the external whistleblowing system. There seems to be a "culture of silence" (interviewee's statement). It is just not common in Malawian society to speak up, and this is particularly true as far as senior individuals are concerned. Moreover, with only a minor share of reports on misconduct of top management representatives, there are only few cases where investigations led to severe consequences. This observation is in line with the commonly shared perception that only common people are caught on corrupt practices, while "the big fishes get away with it" (interviewee's statement). To map these observations with Hofstede's dimensions, it is likely that the high power distance, with a rather strong adherence to hierarchy, and collectivism in Malawi contribute to these findings.

On corporate level, there seem to be predominantly decision makers that do not see a need for ethics policies and ethics enforcement measures. This observation confirms short-term orientation estimated to be high for the country, as seemingly the long-term benefits from good business practices are not seen as a priority. A minority of decision makers shows at least some kind of commitment towards the fight against fraud and corruption. Firms with foreign headquarters appear to engage most actively in tackling corrupt practices and to take whistleblowing and the implementation of such systems seriously. Many of them seem to be forced to this behaviour by foreign shareholders and legal regulations in the respective home countries. Not surprisingly, outside pressure seems to help overcome uncertainty avoidance. In contrast to private sector organizations, public sector organizations in Malawi appear to be less serious in employing whistleblowing procedures. Many organizations only subscribe because they are forced to do so by the government. There seems to be a lack of leadership and commitment by top-level representatives, and thus, implementation and daily conduct of whistleblowing systems are poorly enforced, if not compromised. Again, the connection to the high degree of power distance and collectivism can be seen here.

In addition to the low degree of commitment, investigations on incoming reports are not necessarily taken as seriously as it would be beneficial in the public sector. Oftentimes, it seems that reports are followed up selectively: if there is a need to remove an individual from office, there appears to be a tendency for reports to be used for this purpose. On the other hand, if powerful political groups want a specific person to be placed in a certain position, it does not appear to matter much whether the person previously engaged in, e.g. corruption or fraud. Seemingly, strong political and personal interrelations allow for purposeful usage of information in favour of or against an individual. Again, this observation is connected to the high degrees of power distance and collectivism. It is no surprise that in such an inner circle, interference from outsiders is not well received. Therefore, whenever donor organizations suggest or demand application of whistleblowing systems, there is a tendency to attempt compromising implementation efforts. As far as public authorities are concerned, hierarchical thinking, collectivism, and uncertainty avoidance seem to considerably influence the way in which whistleblowing is applied. Personal interrelations and dependencies among representatives of the public sector are probably very important impediments to the successful application of whistleblowing systems.

Linking cultural traits of the Malawian society to whistleblowing, the following conclusions can be drawn. Owing to the high degree of collectivism in Malawi, the numbers of cases of misconduct reported are significantly below the actual number of cases of misconduct observed. Moreover, the high degree of collectivism in Malawi encourages cases of misconduct by individual persons not to be followed up by the relevant groups/organizations. The high degree of power distance in Malawi encourages reported cases of misconduct to be followed up by higher levels in the relevant organization and cases of misconduct by persons (perceived to be) in positions of power not to be followed up by the relevant organizations. The estimated low degree of long-term orientation in Malawi discourages a long-term mindset to reporting cases of misconduct. The estimated high degree of indulgence in Malawi discourages cases of misconduct to be reported as such behaviour is seen as an integral part of life.

Looking at the merits and challenges of the whistleblowing system introduced in Malawi, it proved to be a barrier between the informant and the company. With a culture that increases trust in confidentiality of the system in place, individuals dare to report. It is observed, however, that there is still hesitation to speak up against superiors which again shows the high degree of power distance prevalent in the country, though individuals seem to be strongly encouraged to report misconduct by extrinsic motivators. Additionally, a rather collectivistic perspective according to Hofstede's dimensions may be a reason for this hesitation. In general, the external whistleblowing system is found to be effective in stopping malpractices but has yet to effectively assist in recovering financial resources missing due to misconduct. In those instances when organizations took on reported cases, severe consequences such as warnings, dismissals, and court cases resulted of these whistleblowing activities. However, to date legal actions haven't led to any fines yet.

Table 1 summarizes our key findings categorized on individual, organizational, and institutional levels and mapped to the most important cultural determinants.

4 Conclusion and Implications for Future Research

Whistleblowing is a powerful tool to tackle corrupt practices. It can assist in establishing a culture encouraging ethical behaviour within an organization. This chapter elaborated on a case study from Malawi, in which a private organization established an external whistleblowing mechanism in 2009/2010 and attracted more than 50 clients from both the private and the public sectors since inception.

We find that (1) individuals still hesitate to report misconduct but they are strongly encouraged to do so by extrinsic motivators (monetary incentives). (2) Malpractices including financial rewards are more likely to be reported, while nonfinancial malpractices play a minor role for potential informants. (3) Private companies, especially those headquartered abroad, are seriously concerned with the investigation of incoming reports. (4) Public entities exhibit lower degrees of commitment to whistleblowing systems and are regarded less serious in the follow-up process.

The personal interrelations and dependencies among representatives of the public sector are probably very important impediments to successful whistleblowing application. On institutional level, effective corporate governance seems to facilitate effective whistleblowing in that it forces management to seriously engage in the use of whistleblowing systems. Here, the influence caused by pressure from international governance systems must not be underestimated. At the same time, this would mean that corporate social responsibility would depend on external pressure rather than on the wish to live up to moral values.

These findings could be the basis for a systematic approach to enhance the effectiveness of whistleblowing systems in the private and public sector in Malawi. For the provider of the whistleblowing mechanism, it becomes clear which interventions suggest better results. For example, future clients should be encouraged to grant higher rewards for valid reports. Also, efforts should be made to visibly promote trustworthiness of and confidentiality in the whistleblowing services. For potential clients from the private and the public sectors, awareness building is highly important. This must include an emphasis on the fact that the whistleblowing service provision is a Malawian solution. Changes of culturally determined behaviours and convictions are difficult and require time. It is certainly most challenging to effect change in public institutions and in particular if they are subject to political influences. Most likely, there will be no other means but to persistently lobby for the long-term merits of whistleblowing. Moreover, our findings could help in building hypotheses for quantitative testing in future research.

The findings in this chapter are subject to limitations and potential weaknesses. First, the chapter looks only at one private organization offering whistleblowing services in Malawi. As of now, no other institution is offering these services. However,

Table 1 Categorized findings referred to cultural determinants, designed by author

Interview statement	Institution	Organization	Individual	Reference to cultural determinants (Malawi)
Public organizations least seriously engaged, private firms to some degree engage in whistleblowing, private firms with foreign HQ, or shareholders are most serious in following up on whistleblowing		x		Uncertainty avoidance
On corporate level, severe consequences rather for employees than for top managers		x		Power distance
Only few court cases, reportedly no fines yet	x			Power distance
Lack of trust in confidentiality of whistleblowing systems (though trust is increasing)		x	x	Uncertainty avoidance Individualism
Whistleblowing helps speaking up against senior individuals		x	x	Power distance Individualism
Rather extrinsic motivation for reports		x	x	Long-term orientation Indulgence
Significantly more reports on financial matters			x	Long-term orientation
Fear of retaliation		x	x	Power distance
"Culture of Silence"	x	x	x	Individualism
"Only common people are caught, not 'big fish'"	x	x	x	Power distance
Decision makers do not see the need to fight malpractices	x	x	x	Long-term orientation
Public institutions less serious and less actively engaging in whistleblowing	x	x		Power distance Individualism
Public institutions: "Inner circle" behaviour, do not live up to integrity, reject claims from donors/ outsiders	x	x		Individualism Masculinity Uncertainty avoidance
Public institutions: cases are selectively used against those who are wanted to out of office	x	x		Individualism Uncertainty avoidance
Public institutions: if someone is wanted in a certain position, then his/her previous wrongdoings don't matter	x	x		Individualism Uncertainty avoidance

with more than 50 organizations having participated so far, the fact that these services are only offered through one organization does not seem to have an effect on validity of the observed results. To overcome this limitation, future studies could include longitudinal studies on whistleblowing in Malawi or could focus on further organizations from all sectors. Second, Hofstede's dimensions are not available for Malawi for the dimensions of indulgence and long-term orientation. Hence, an estimate for these dimensions was made, based on the scores for the neighbouring countries of Tanzania and Zambia. These estimates are deemed accurate through this process of mapping. For future research, this chapter may serve as the starting point to establish precise scores for Malawi on Hofstede's dimensions of indulgence and long-term orientation. It would also be interesting to see if these scores confirm the authors' view that clusters along these dimensions exist in Malawi and the neighbouring countries of Tanzania and Zambia.

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Scaling Up Corporate Social Responsibility: Coffee Farming in Chiapas, Mexico

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Abstract Corporations are seeking new frameworks, practices, and tools for socially responsible management in their business operations. Restaurantes TOKS, which sells over half a million cups of coffee per month in their 134 restaurants in Mexico, is developing a project in Chiapas, Mexico, to improve productivity and address child labor practices and living wages for local coffee farmers in the village of Talquian. This case study presents TOKS' Chiapas coffee project and its relationship to evolving principles of corporate social responsibility (CSR) in developing markets, sustainable supply chain management, and new sustainable business models.

1 Grupo Gigante, TOKS, and Corporate Social Responsibility

Ever since Grupo Gigante was formed more than 50 years by a young Spanish immigrant, Angel Losada Moreno, the welfare of Mexico and social responsibility have been at the top of the agenda of the now multibillion dollar company. In the words of Chairman of the Board and CEO Angel Losada Moreno:

> [W]e will focus on the value of serving others, the underprivileged and those who need it the most... together with the particular efforts made with all the enterprises of the group, we reach out to children, youth and elderly persons, promoting relevant causes related to health, education, nutrition, environment and emergencies from acts of nature." (Grupo Gigante Annual Report 2012, pp. 2–3)

The companies, which today are part of Grupo Gigante, include Office Depot, The Home Store, Restaurantes TOKS, PETCO Mexico, Panda Express Mexico, Cup Stop, and Gigante Grupo Immobiliario. In addition, Grupo Gigante gives long-term and steady support to its foundation, Fundacion Gigante. In its first decade of operation,

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Fundacion Gigante donated 295 million pesos, almost US$20 million, and helped over two million people (2002–2012) (Grupo Gigante Annual Report 2012, p. 28).

In accordance with Grupo Gigante's social responsibility policy and following the example of Grupo Gigante's founder, Grupo Gigante and its subsidiary companies are "focus[ed] on . . . the value of serving others, the under-privileged and those who need it the most" (Grupo Gigante Annual Report 2012, p. 3). Social responsibility at Grupo Gigante is not mere afterthought or window dressing but an integral part of company operations:

> As a substantive part for our reasons for being, we have developed and implemented a policy in matters of Social Responsibility as a Group and for each subsidiary, executing strategies and actions to strengthen it. We continue to provide assistance because we are certain of the value of providing service for those most in need. (Grupo Gigante Annual Report 2014, p. 3)

Juan Carlos Alverde Losada, a Director of Grupo Gigante and TOKS, carries this mantle well, spearheading many socially beneficial initiatives. He is personally involved, and at critical junctures he always chooses the socially responsible action ("to do the right thing") for the community, which ultimately ends up benefitting the company. For example, when the town of Villahermosa was badly flooded, and the local TOKS restaurant was spared, Alverde directed that everyone who came into the restaurant be fed for free. They proceeded to feed three thousand people for 4 days straight, while there was no government assistance to Villahermosa. They did not advertise their act of good will, but word spread through the community, and within 2 weeks they broke all sales records. A grateful community continues to patronize the local TOKS restaurant.

TOKS and its parent company Grupo Gigante continue to grow while consistently behaving ethically and responsibly, proving that Corporate Social Responsibility (CSR) and profitability are not mutually exclusive but go hand in hand. Grupo Gigante has grown from one store in Mexico City in 1962 to a holding company with total revenues of over $18,860,847 thousand pesos in 2012 and over $20,814,102 thousand pesos in 2014. Restaurantes TOKS ("TOKS") in 2012 had 109 restaurants throughout the country and served over 23 million customers, with a growth three times greater than that of the restaurant industry as a whole in Mexico. By 2014, TOKS had grown to 134 throughout the country with over 25 million patrons and increased sales by 8.8% (Grupo Gigante Annual Reports 2012, 2014). In 2015, over 13,000 people were employed by TOKS and 35 million customers served. TOKS' competitive advantage, according to Perez, is their unique offering of Mexican recipes made with natural ingredients made by local producers (Gustavo Perez Berlanga, Personal interview, July 28, 2015).

1.1 Gustavo Pérez Berlanga, TOKS' Director of Social Responsibility

> In the frame of the philosophy of the Group to which we belong, an indivisible part of . . . [TOKS'] company strategy is the Social Responsibility to drive the 'Productive Projects' initiative that we have been carrying out since 2003, with gratifying results. This has

> permitted more than 5000 individuals to definitively overcome poverty, by creating their own enterprises that are currently suppliers of our restaurants. (Grupo Gigante Annual Report 2012, p. 16)

TOKS' "Productive Projects" initiative supports 25 projects in 40 communities in Mexico, including sales of Christmas ornaments from local villages, honey from the south, chocolate from Oaxaca, strawberry marmalade from Santa Rosa, and coffee from Talquian. TOKS is committed to its projects for 15–20 years, reflecting its long-term vision.

The man at TOKS who is responsible for carrying out the company's projects to help lift people out of poverty is Gustavo Perez Berlanga, Director of Social Responsibility for TOKS. Perez is a kind, compassionate man, yet a persuasive man of action when it comes to bettering Mexican society. He sees his actions as a necessity that adds social, environmental, and economic value for the company, the employees, the supply chain, and the customers. Perez exudes energy. He lives and breathes his work, running from one beloved project to the next, exceedingly happy to help improve the lives of those living in poverty or otherwise disadvantaged. His position at TOKS is not just a job; it is his life's mission, and he is energized by his work and ability to change individuals' lives for the better.

1.2 TOKS and Supply Chain Sustainability

"Supply chain sustainability is the management of environmental, social and economic impacts, and the encouragement of good governance practices, throughout the lifecycles of goods and services" (UN Global Compact Report 2015, p. 5). Perez likes to emphasize the triple win for the company's "Productive Projects": the customers, the producers and their families, and the company all benefit. As described in the UN Global Compact Report on supply chain sustainability (2015):

> Companies which make their supply chains more economically inclusive can support further economic development through job creation and increased incomes. Economic development has secondary impacts on socioeconomic development and the environment and is therefore a critically important aspect of sustainability.

TOKS CEO, Federico Bernaldo de Quiros describes the company's commitment to supply chain sustainability this way:

> At Restaurantes TOKS we have the commitment not only to deliver products and services that fulfill and exceed our customers expectations, but to contribute in the development of a sustainable supply chain for the benefit of our business, our society, and our planet. Sharing success is a must in the process of assuring long term sustainability and growth. (UN Global Compact Report 2015, p. 57)

2 Coffee from Chiapas: The Talquian Coffee Project

Half the population of Mexico lives in poverty. The Mexican poverty line is $120 USD per month (Perez, Personal interview, July 28, 2015).

TOKS embarked on a coffee project in Talquian (see Fig. 1, Annex) to help coffee farmers there increase their productivity and earn a living wage. Talquian is located near the Tacana volcano in the Soconusco region of Chiapas. Most of the people in the village of approximately 580 souls live in abject poverty with average household incomes of US$80 per month. TOKS' goal was to increase incomes of the coffee farmers in the village to help address a range of socioeconomic and environmental issues including child labor, lack of educational opportunities, a high incidence of childhood disabilities, and declining production from old coffee plants.

2.1 TOKS, Garcomex, and AMSA Collaboration in Talquian

In 2012, Perez placed a call to Jesus Garza, President and General Manager of Garcomex. Garza founded the company in his parents' basement 25 years ago. Garcomex is an independent coffee distributor and roaster located in Monterrey, Mexico. Garcomex, which now employs over 200 people, gathers coffee from small producers and then roasts, packs, and gets it ready for distribution. TOKS had a plan to help coffee farmers; Garcomex had a lot of suppliers; AMSA had a program in social responsibility and direct contact with the farmers. So Garza arranged meeting with TOKS and AMSA.

AMSA (Agroindustrias Unidas de Mexico S.A. de C.V.) is the Mexican subsidiary of Ecom Agroindustrial Corporation Ltd (ECOM). ECOM is a global commodity trading and processing company specializing in coffee, cocoa, and cotton in major producing and consuming countries around the world. ECOM is one of the world's top three merchants in coffee, purchasing coffee directly from more than 250,000 small farmers in 30 countries. AMSA helps link farmers to the market and trains and advises them on which certification programs to adopt, which higher value market segments to aim for, and which technologies to implement. AMSA puts TOKS and Garcomex in touch with the farmers, and together they visited several coffee farms in Talquian.

Roya, a fungus also known as coffee leaf rust, has devastated coffee farms in Central and South America and is moving northward, facilitated by climate change. Garcomex, AMSA, and TOKS decided to collaborate to assist farmers in Talquian with replacing old diseased plants with new rust-resistant plants and to teach them improved agricultural techniques so as to increase production. Talquian, with average productivity of 380 pounds, or 3 quintals per hectare, has one of the lowest productivity rates in the world. Productivity per hectare in Guatemala is 25 quintals per hectare (Q/ha) and 40 Q/ha in Brazil.

By working with an initial group of 9 out of the 25 coffee farmers in Talquian, TOKS, Garcomex, and AMSA hoped to increase productivity five to seven times and increase the farmers' income to US$500 per month. The 5-year goal was to increase productivity to 22 Q/ha by 2019, closer to Guatemala's.

2.2 Disabilities in the Children of Talquian

When TOKS, AMSA, and Garcomex first came to the village, Perez says the farmers asked him: "What are you going to do with our dumb kids?" TOKS and Garcomex found 15 boys and girls in the village with different disabilities, out of a total population of approximately 580 people.[1]

Lorena Guevara works with Fundacion ASOMAS (Association Mexican Anne Sullivan, IAP). The ASOMAS Foundation's primary mission is to promote the comprehensive development of children with deafness, blindness, and/or multiple challenges through educational programs that foster their independence, autonomy, and integration into the family, school, and society.

Perez recruited Guevara to help assess the health of the children of Talquian. Guevara says that disabilities in the villages, including Talquian, are mostly due to malnutrition, not contamination. The people in the villages practice organic farming, although it is too expensive to get the certification. Pesticides do not contaminate their soil, as the farmers do not have the income to buy them.

The ASOMAS Foundation is the only one in Mexico that works with children with multiple disabilities. They work with the teachers, parents, and the communities. TOKS asked ASOMAS and Guevara to join this project. TOKS and Garcomex helped the 15 children and paid for two surgeries. TOKS plans to tell customers that their purchases of this coffee support this work.

2.3 A Living Wage

TOKS is one of the most profitable restaurant chains in Mexico. How does it make money? According to Perez, TOKS makes money by respecting the law, its employees, its customers, and society. "You move from traditional capitalism to responsible capitalism. Social responsibility: it's not how you spend your money, it's how you make it." TOKS is investing in its future in Talquian. By improving the lives of the coffee farmers in Talquian, TOKS hopes to secure a supply of quality coffee. TOKS eventually wants to buy directly from the coffee farmers—a 15–20

[1]The total fertility rate per family is about five to eight children. There are about 300–400 children under the age of 17 in a village of 580 people. (But there has not been a direct count.)

year project—and these farmers will be TOKS suppliers for many years. TOKS will then have a sustainable supply chain.

Talquian is perfect for growing coffee because of the rich soil and high altitude. High-quality coffee needs to be grown above 2000 m or 6562 ft. Talquian is above 6000 ft elevation in the rain forest in Soconusco, on the Tacana volcano. The soil is so rich in Talquian, on the side of the volcano, that the farmers do not need fertilizers or pesticides; hence they can be certified organic. Pesticides would destroy Roya; however, the farmers cannot afford pesticides, and organic coffee commands 2–10% higher prices on the world market. Customers pay an average of 20% to 25% more for organically grown coffee (The Coffee Guide, February 2016).

Fair Trade Certification also pays more, but the price is tied to the Chicago commodities market and is not enough to give the coffee farmers a living wage (Haight 2011). Perez and TOKS have their own standard: they will pay however much is needed for the coffee farmers to have a decent living, not tied to the Chicago markets. TOKS will negotiate the price based on amount, quality, quantity, and the farmers' willingness to take the program to the next farm. TOKS will pay for premium coffee at a premium price and will test the market (Perez, Personal interview, January 20, 2015). Will it be possible to charge a price high enough to give the farmers a living wage?

2.4 Challenges in Talquian

To get to Talquian, one must drive through little villages into the rain forest to the last village, which is Talquian, before the Guatemala border. It is a route where drugs and illegal immigrants travel, and travelers are frequently stopped by the Mexican military. The coffee farmers travel with the coffee about 2 hours to get it to market. It is hard to get the coffee out to be sold because Talquian and the surrounding villages are so remote, and they do not have good roads. An earthquake in July 2014 damaged some homes and parts of the road up the mountain to Talquian, which have yet to be repaired.

Juan Carlos Hinojosa, who is in charge of marketing for TOKS, explains that in Talquian, the entire family needs to work to eat. All children age 6 and older work, with the result that children are denied schooling. Perez says: "Child labor is invisible and it is a family issue."

Ultimately, there are three options for families living in poverty in Chiapas, Perez says: they can emigrate to larger Mexican cities or to the USA; they can participate in organized crime; or they can continue as coffee producers with a decent life for themselves and their families by increasing family incomes. "We want them to choose the last." Perez's goal in the Talquian coffee project is to help increase productivity, add value to coffee, diversify economic opportunities in the village, and increase the economic well-being of families.

However, small coffee farmers face many difficulties, such as lack of productivity due to poor nutrition; density and age of the coffee plants; high production costs;

traditional agricultural practices unsuited to climate change and increasing numbers of pests; and lack of public services to get the coffee to market. The coffee farmers need help to reach buyers and need financial support and support finding clients and markets.

Jose Verdugo Mendez, a coffee farmer, was born and lives in Chiapas and has worked with indigenous people for over 20 years. He has a wealth of knowledge about coffee production. Verdugo has certifications for organic, Fair Trade, and marketing. Verdugo represents GRAPOS, or the Grupo de Asesores de Producción Orgánica y Sustentable, a small coffee producer organization located near the town of Tapachula in Chiapas. According to their website, GRAPOS represents 2600 small coffee farmers who work on an estimated 8000 ha of land in Chiapas. Producers from Talquian have been members of GRAPOS since 2007 (Fair Trade USA 2016).

Verdugo agreed to work with TOKS, Garcomex, and AMSA: "I was the mediator between the men who brought the project and my people." To get farmers organized can be a little bit difficult; some cannot read. But they were very clear with their message: "Give us one opportunity to see if it works." They started to trust each other and started working together.

But coffee leaf rust fungus, or "la Roya" in Spanish, had damaged many of the coffee trees in Talquian and elsewhere in Central and South America. Roya is transferred through the air and consumes the leaf, which then falls from the tree. Without the leaves, there are no coffee beans on the tree. With no coffee, there is no income for the farmers.

2.5 Increasing Productivity

Edgar Luna is the AMSA representative who agreed to work with Perez, Garza, and Verdugo in Talquian. His company's role is "to connect the coffee producers and the rest of the value chain—connect the farmers for a global business." Luna describes Chiapas as a marginal place in the Sierra Madre with difficult access. Talquian is a special area, very close to a volcano, half in Mexico, half in Guatemala. The challenge in Talquian was to increase productivity and grow the coffee with better practices—sustainable production. They needed to make the old coffee plantation new again, to give the farmers 30–40 more years of production. They needed to find plants that are resistant: it is the old trees that are affected by the rust and need to be replaced with new plants. AMSA provided knowledge, training (including organic kits), follow-up, and 29,700 new plants for nine of the coffee farmers in Talquian.

The new plants provided by AMSA in 2012 and 2013 are resistant to the rust leaf, which kills the coffee tree, but the new plants will not have production for 3 years. Cost of the new plants was US$14,000, paid for by AMSA. The result of increased productivity should be increased income. Perez and AMSA estimated a five- to sevenfold increase in income from the new coffee plants. If income is $500/month (compared to $80/month), then the farmers will stay on their lands.

3 The Coffee Farmers Speak

Talquian farmers needed to change their coffee plants because of their age, quality, and susceptibility to coffee leaf rust. It was not an easy choice and was resisted by the farmers because these plants had been in their family for generations. Farmers do not want to cut the trees because "they were planted by my grandfather."

In January 2015, top executives from TOKS traveled to Talquian to meet with the coffee farmers and other members of the community. The meeting was held at the local school and included many of the children from the village. At the meeting were TOKS executives Juan Carlos Alverde, COO; Federico Bernaldo de Quiros, CEO; Perez and Hinojosa, together with Garza from Garcomex; representatives from AMSA; and Guevara, who came to meet again with the children and their teachers and assess their progress.

Verdugo welcomed everyone and served as the moderator. Perez asked if they were convinced about the coffee fields. A female coffee farmer spoke about her experience on her 1 ha. She has seen an increase in production: the old plants produced only about one quarter of the new ones. They are very thankful for the trees and support, even the government was not able to help them.

Another coffee farmer spoke and said that he represented the community. He emphasized that they want more technical support in 2015. This past year he felt they could have used more technical support. However, they are successfully cutting the coffee cherries and producing coffee. He reported enthusiastically that "there will be more coffee to sell you next year," and he "asks God that everyone's life will be blessed!"

The Commissioner of the community spoke next. Today he is a producer, thanks to this project, and he is seeing the results. Before, he worked but his plants did not produce. Seeing now that this works, he thanked them because the government never implemented such successful projects. He does not know where they came from, but with their support they will keep working and organize as producers and go ahead with the project because now they have a quality product.

Another farmer recounted that in 2012 he started to see and talk about projects with Jesus and Gustavo but didn't believe plants could be of more quality, but they needed more productivity. At first only three people got the new plants, then five more, now nine in total. There are 12 more coffee producers who do not have new plants, of the 20 total coffee producers in Talquian. He hopes that there will be benefits and that they will see the difference between yields both with and without support. They will show us the demonstration land, a good example of productivity. There are so few good people in the world, but with people like these, they can move forward from poverty.

One farmer said they did not have technical assistance this year and explained that although "we are working and making an effort, we need that assistance because this is a new kind of coffee, very different, very big in production so we cannot harvest it like we used to."

One man, accompanied by his daughter, thanked TOKS for sending the little girl to Mexico City for an operation to fix her hearing. Now she is no longer deaf. Another man relayed how TOKS provided him the help he needed with his eyesight. He was one of the project participants, who benefited, as his new plants are resistant to the Roya fungus and his productivity and income have improved substantially. He enthusiastically relayed that "it is big for the community, to make the coffee strong." He hopes the project will continue because there is so much need. Another farmer testified, "You have helped us more than the government. Other people want to have plants like ours."

Another one of the participants who had replaced the sick coffee trees offered the following: "The old plants have a family history so it was difficult to start changing. I joined the organization only two years ago and didn't believe it at all. Now my hectare is good—not affected by coffee leaf rust. We were born in very difficult circumstances but now we can see for the first time that we can improve our lives and our circumstances."

The farmers asked for help to spread the word: "we want the community to be known for the quality of its coffee. We are seeing the results of the project and know it works; we need to see the way to help each other deliver an excellent coffee. We are quality oriented." They ended by saying: "the health of our kids has improved. Thank you for taking notice."

4 Return on Investment in Talquian

4.1 TOKS

Speaking to the community during the visit to Talquian in January 2015, Perez told the farmers that TOKS planned to assess the quality and quantity of the beans and determine whether TOKS can charge a premium price. While all players in the value chain need to make money, TOKS wants to assure enough money for the coffee farmers from TOKS sale of the coffee to pay the farmers enough for them to have a dignified salary and eventually operate without TOKS on the project.

The harvest occurs once per year, in May and June. TOKS was able to procure a small batch for tasting from the harvest in 2015. The first batch from the new trees yielded two superior grades of coffee: "over standard" and "exceptional." But the coffee from the nine farmers was mixed with the rest of the harvest from Chiapas, all 42 tons of it, and therefore it was not possible to identify the Talquian coffee. The coming coffee harvest in 2016 will give TOKS another opportunity to test the coffee and, if the quality is good, to buy directly from the farmers.

The total investment in the Talquian project for the first 2 years was $28,000. AMSA paid $14,000 for the approximately 29,700 new plants (which were distributed among the nine farmers) and for training, and TOKS and Garcomex paid $14,000 for the surgeries for the two families (Perez, Personal Communication, January 24, 2015). TOKS sells half a million cups of coffee per month, not including coffee provided with meals (Perez, Personal Communication, January 20, 2015). The projected 1-year return on investment for TOKS from the sale of the coffee from Talquian is $146,000 (Perez, Personal interview, October 31, 2014).

An additional 150,000 plants will go to this community to change the old plants out for all the coffee farmers in Talquian. Maximum production of the new plants is 3 years, not 5 years as with other plants. The new plants are resistant to rust leaf, so it will not spread.

4.2 Productivity and Farmers' Incomes

By helping farmers improve agricultural techniques and by providing new trees, the farmers' income was projected to double after 3 years and quadruple 4 years later. While certification adds an average of 9% to a farmer's income, increased productivity adds much more: up to 81% more (Perez, Personal interview, October 31, 2014) (see Annex). Due to high price volatility, coffee producers are very vulnerable, however, and the price for coffee, even with increased production, is not high enough. According to Perez, the nine farmers already have both Fair Trade and organic certification. But the Fair Trade price changes every day according to the Chicago market. Perez wants to pay the coffee farmers a living wage of up to 30% more than the farmers were receiving for their coffee, to make the price paid more stable for the farmers (see Annex).

Since coffee farmers have only 4–5 months of harvesting coffee, farmers' incomes could increase further if the rest of the year can be spent harvesting other crops. Adding other crops would, Perez estimates, help drive incomes up from $80 per month to between $500 and $800 per month due to increased productivity (from the new coffee plants) and as high as $1500 per month if farmers diversified and grew other crops in addition to coffee (Perez, Personal interview, January 24, 2015).

Perez is always thinking about alternatives to improve coffee farmers' incomes and security. He worries that if coffee producers or farmers do not earn enough money, they will switch crops to corn or cattle, both more destructive to the environment. What is known, however, after 3 years in the program, is that the nine farmers have increased productivity on their parcels by 300–500%. Productivity for some of the farmers increased from two to three quintals per hectare (Q/ha) to as much as 12 Q/ha[2] (Perez, Personal interview, February 3, 2016). Some farmers increased their income from coffee to $800/month, enough for "a decent life," according to Perez. He strongly believes that TOKS has to "spread this program as fast as we can now that we know what we are doing and have had success in Talquian."

5 A New Sustainable Business Model for Coffee

This past year, TOKS expanded its efforts toward sustainable coffee to five more communities in Chiapas. As of the end of July 2015, TOKS was working with approximately 100 coffee farmers (Perez, Personal interview, July 28, 2015). As Perez sees it, TOKS' work with the coffee farmers of Chiapas is an example of the "huge opportunity in responsible business" (Perez, Harvard, July 28, 2015). TOKS was able to scale up its work on sustainable coffee from Chiapas because of the hard-won lessons learned in Talquian: build credibility with the farmers and the community; educate the farmers and the community for positive social impact; and set conditions on the use of child labor.

5.1 Build Credibility

It was important for TOKS to get close to the farmers of Talquian and approach them directly. Others had come to the village before, with promises of help that were later abandoned. It took time for the farmers to trust TOKS and to work with them. In the first couple of meetings, the farmers were suspicious, and some were downright hostile (Perez, Personal interview, February 3, 2016).

Coffee from Talquian is a value chain product from a poor community. Perez says: "You have to understand their behavior. They are used to competition; they fight each other; they have been manipulated. To work with poor communities, they have to trust you. You have to gain the confidence of the parties. It takes sometimes 2–3 years. How many CEOs want to wait that long for return on investment? [But] it is necessary to invest in the future to improve life for everyone, to make society safer for everyone." Perez asks, parenthetically, "What are you going to do, hire 20 bodyguards to protect your children? How do you change the minds of CEOs to make these kinds of investments? How to add value for your company?" In Perez's view, it is about "how to create value and how to share value."

[2]Results vary for each farmer, as some locations and parcels have better shading, slope, and more new plants, all of which affect productivity.

This picture above depicts one of the farmers of the community proudly showing a handmade billboard that reads in Spanish: "Organic Project. TOKS, Garcomex, and AMSA, thanks for this project."

5.2 Educate for Positive Social Impact

In order to ensure that the additional income from the coffee would produce positive social impact for the families in the village, TOKS' representatives went with each of the farmers to help them open bank accounts. For the first 2 months, TOKS kept track of the farmers' expenses and how they were using their money. Then, for the next 4 months, TOKS sporadically checked the farmers' accounts. After the first 6 months, TOKS ceded all control overspending to the farmers. But monitoring their accounts for the first 6 months allowed TOKS to guide and educate the farmers about the best use of their increased income for the benefit of their families and their community (Perez, Personal interview, February 3, 2016).

5.3 Monitor Child Labor

One of the conditions that TOKS put on its assistance to the farmers of Talquian was that children may not lose any time from school to work on the family's parcels and, when working on the coffee farm, they should not be required to do any hard labor, such as lifting heavy bags. Children would be allowed to work on family farms for supporting activities not involving hard labor, such as picking the berries. This was a radical change from former conditions. Farmers that did not follow these requirements risked expulsion from the project (Perez, Personal interview, February 3, 2016).

6 Replicating the Model in Oaxaca

Based on lessons learned in Talquian, TOKS is replicating the project in the State of Oaxaca. TOKS will take the same approach as in Talquian, however, without Garcomex, AMSA, or GRAPOS. TOKS will be leading this project on its own but is getting the support of the Mexican government, which is helping the communities build their own greenhouses to nurture the young coffee plants that will replace the old, rust-infested coffee trees. The only stipulation from the government, according to Perez, is that the community must own the greenhouses, not individuals. Thus the farmers will get their new plants from their own greenhouses, with the government providing financial backing and technical assistance.

TOKS has confidence that it can successfully expand the project to Oaxaca, because TOKS learned what worked, and what did not, from the project in Talquian. In Oaxaca, TOKS decided to go forward without partners, because TOKS had more resources and could move more quickly on its own.

7 Guidelines for a Sustainable Business Model

TOKS has developed a successful business model for sustainable coffee. Nevertheless, there are many additional questions for TOKS and Perez to ponder about the future of the company and the society in which it operates, and how best to grow the company while ensuring a sustainable future for its supply chain, its customers, and society. In Perez's experience, there are several guidelines to follow in developing a sustainable business model for a company's operations and in its supply chain.

First, in order to make money, a company must respect the law, its stakeholders, employees, customers, and suppliers: "the entire value chain." In business as usual (BAU), money matters, nothing else, but in a socially responsible business, what matters is "people, planet, and profit" or "the triple bottom line." Perez believes that being a socially responsible business is more challenging, but in the long term, "you make more money."

Second, people from the communities can be viewed by business merely as poor people or as an opportunity, Perez says. TOKS' current projects (July 2015) affect 7500 people in 40 communities. These projects produce great products for TOKS and are profitable, and "society wins."

Third, while companies like TOKS have a role to play in ensuring that their suppliers receive a living wage, Perez notes that the consumer does as well. The responsible consumer, like the responsible business, needs to understand where a product, such as coffee, comes from, find products that meet the standard of a living wage, and then helps to spread the word. The responsible consumer needs to "look for companies that are making these changes," and the responsible company needs to educate its consumers. It is not easy, as Perez notes, "social responsibility is a success story in slow motion."

Fourth, sustainable business is a long-term goal. TOKS' ultimate goal is to eradicate poverty in Mexico, one community at a time, and inspire others to take action. Most companies are focused on the short term, and Perez himself wonders, sometimes, "how many responsible consumers are there in the world?" Perez believes, however, that becoming a socially responsible business is possible with CEO support, long-term commitment, and stakeholder involvement throughout the value chain. These requirements include educated consumers, clearly defined goals, teamwork, and, sometimes, "a high tolerance for frustration."

Still, the rewards are potentially great, and new models for sustainable business are becoming a necessary rather than optional part of a company's strategy. As TOKS CEO, Federico Bernaldo de Quiros, explains this new business model:

> At Restaurantes TOKS we have the commitment not only to deliver products and services that fulfill and exceed our customers' expectations, but to contribute in the development of a sustainable supply chain for the benefit of our business, our society, and our planet. Sharing success is a must in the process of assuring long term sustainability and growth. (UNGC Report on Supply Chain Sustainability, p. 51)

Annex

Fig. 1 Location

Talquian, Chiapas, is located in the southwestern part of Mexico, right next to the border to Guatemala and next to the Tacaná volcano (longitude −92.083611, latitude 15.084722)

Fig. 2 Volatility price of coffee as a commodity in a 10-year timeframe

Nasdaq. http://www.nasdaq.com/markets/coffee.aspx?timeframe=10y 02/22/2016

Coffee is a very volatile commodity. According to the Oxford dictionary, a commodity is "a raw material or primary agricultural product that can be bought and sold, such as copper or coffee." http://www.oxforddictionaries.com/es/definicion/ingles_americano/commodity 02/22/2016.

This means that based on the table above, consider the price of coffee on February 22, 2016, at 119.85 cents per pound. It means that a pound of coffee on that date has a face value of $1.1985 USD/pound, which is the standard pricing method used for other common commodities such as orange juice or sugar (Fig. 2).

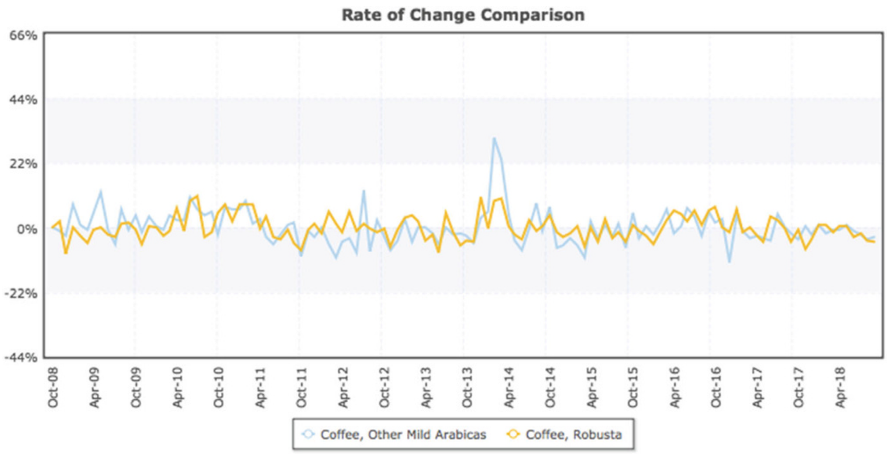

Fig. 3 Price change comparison between Robusta and Arabica coffee varieties. http://www.indexmundi.com/commodities/?commodity=robusta-coffee&months=120&commodity=other-mild-arabicas-coffee 02/22/2016

Different varieties of coffee show different price variations. Let's see how Robusta (shown in yellow) and Arabica (shown in blue) coffee prices perform over a period of 10 years. The correlation coefficient of these two varieties of coffee shows to be 0.5656 over that specific period of time, showing that a better quality coffee in this case Arabica shows higher volatility over time than Robusta (Fig. 3).

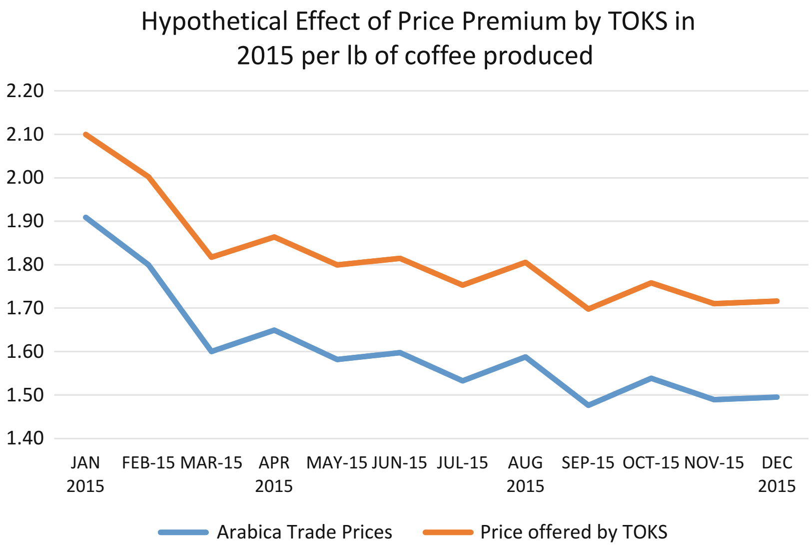

Fig. 4 Incomes based on market prices for coffee, floor price, and premium paid to farmers. Source for trade prices: http://www.indexmundi.com/commodities/?commodity=robusta-coffee&months=120&commodity=other-mild-arabicas-coffee 02/22/2016. All data in USD

We can see that the effect of TOKS 10–15% price premium offered to the community actually shows almost the same behavior to trade prices. Although they would be able to reach their objective of increasing the wealth level of the community, they fail to reduce volatility on the income of the community at this point (Fig. 4).

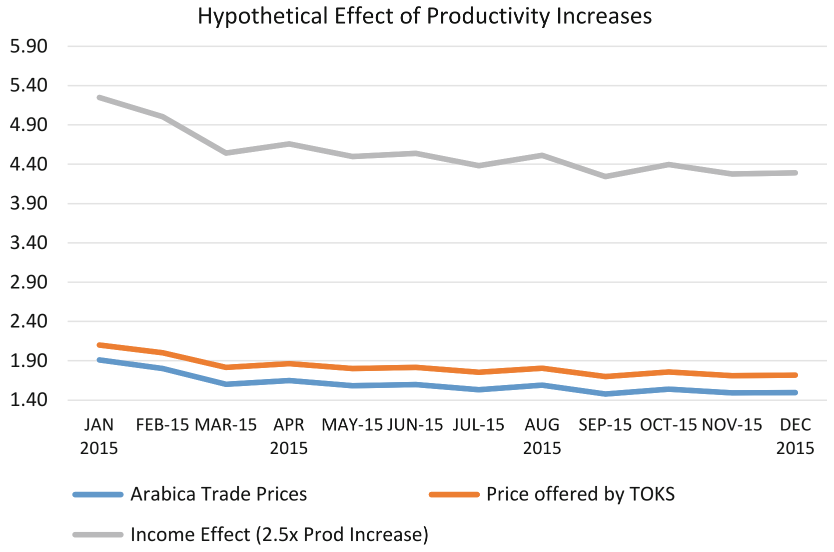

Fig. 5 Incomes based on market prices for coffee, floor price, and premium paid to farmers adjusting productivity increase. Source for trade prices: http://www.indexmundi.com/commodities/?commodity=robusta-coffee&months=120&commodity=other-mild-arabicas-coffee 02/22/2016. All data in USD

As we can see in Fig. 5, after we adjust productivity, we clearly see how both objectives are reached, and although the income effect does suffer some volatility from the market price of coffee, it does become less relevant due to the level of income achieved.

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Corporate Social Responsibility (CSR) in Corporate DNA: A Case Study of Ocean Park Hong Kong

Amy C. Y. Yip and Elsha Yiu

Ocean Park Hong Kong is expanding and is growing more globally than ever; our operations may change over the years. Nevertheless, our commitment to corporate social responsibility (CSR) are championed at the board and management levels, and CSR programs are implemented with support of all personnel in the entire organization. Our CSR undertaking has evolved together with the organization; they are a part of the Park's DNA.
—Mr. Matthias Li, Deputy CE and CFO of Ocean Park Hong Kong (Company interview with Mr. Matthias Li on 8 May 2015)

Abstract Ocean Park Hong Kong was established in 1977 and is operating in a unique business model: incorporated as a nonprofit organization while adopting commercial principles. Since its inception, Ocean Park's mission—to provide recreational and educational services for all guests—aligns the organization in a common direction and serves as a rubric for strategy and decision-making. Ocean Park strives to maintain its commercial viability with the strategy of embedding education within recreation. The seeds of CSR as an explicit strategy that includes a publicity and marketing focus are being sown since day 1, as Ocean Park argues that it would educate visitors in the value and diversity of nature. The gradual but consistent and rewarding success of this strategy provides for a positive feedback loop, in which CSR contributes to rising visitor numbers and customer satisfaction, which in turn makes the case for still more prominent CSR strategies and programs. In this case study, we discuss the driving forces of Ocean Park's CSR initiatives and

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its operational approach to CSR based on primary data collected from site visit and interview with its Deputy Chief Executive and CFO. Ocean Park's CSR initiatives in terms of social programs, edutainment, conservation, and corporate partnerships are examined in the context of ISO 26000 reporting framework. This showcases a successful operating model of putting rent-seeking after corporate mission, in which CSR principles are embedded.

1 Introduction

For the past two decades, corporate social responsibility (CSR), also known variously as corporate citizenship, corporate responsibility, and management sustainability, has been taken seriously and substantially by boards and management teams of world-class amusement parks (Holcomb et al. 2010). In the course of being defined and redefined, the concept of CSR, as well as its associated reporting behaviors and practices, has been examined in management literature. Prior studies suggest that CSR initiatives have a positive influence on a company's ethical motives and help raise standards regarding social, environmental, and economic reporting in annual reports and various media (Gjølberg 2009; Basu and Palazzo 2008; Bewley and Li 2000).

While it might have been seen as a global trend emerging at the beginning of the second millennium, CSR is an essential part of Ocean Park Hong Kong (the Park) since the day 1 of its inception. Embedded in its corporate ordinance, the Park's mission—to provide recreational and educational services for all guests—builds the organizational culture and serves as important principle for major decision-making. Always putting the Park's mission first before profit maximization was proved to be essential in the later phases of the Park's development and expansion.

The Park started its operation in 1977 and is a key player of the hospitality and tourism industry in Asia. During the 2014–2015 fiscal year, the Park received a total of 7.6 million of guests and recorded HK$1968 million (US$253 million) in revenue. In 2015, TripAdvisor nominated the Park as one of the top theme parks in the world and second in Asia. The Park runs in a unique operating model. It was incorporated as a nonprofit organization while adopting business principles. This unique model of balancing its nonprofit identity with commercial operation derives from a clear sense of its mission, with the result that any surplus above operating expenses is already pre-earmarked for important socially responsible and valuable activities such as community outreach or habitat preservation.

In this case study, primary data were collected from the site visit and interview with the Park's Deputy Chief Executive and CFO, Mr. Matthias Li. The key drivers of the Park's CSR initiatives and how it integrates CSR principles into its daily operations and business decisions are explored. These initiatives are also analyzed in the context of ISO 26000 reporting framework, which is the ultimate goal the Park is heading toward in its CSR reporting.

2 Background: Ocean Park's 1987–2016 Transformation

Ocean Park has a 38-year history. The government of Hong Kong allotted a piece of land, and the Hong Kong Jockey Club, the largest charity and community benefactor, provided the funding to build the Park. In the first 10 years of operation, the Park was run as a Jockey Club subsidiary company. In 1987, the Jockey Club handed the Park over to the government and established a HK$200 million (US$25.7 million) trust fund to ensure the Park's continued development. The Park was then incorporated, under the Ocean Park Ordinance, as a financially independent, nonprofit organization to be managed by the Ocean Park Corporation. The corporation's principal activity is to create and maintain the facility as a public recreational and educational park.

Between 1977 and 2005, the Park served the Hong Kong public with about 35 rides and attractions, including a water-themed attraction. The number of visitors peaked in 1997 at 3.8 million and then slumped to a record low of 2.9 million in 2001. In 2003, the Park reported cumulative losses of almost HK$200 million (US$25 million) since 1998, and it seemed destined to be sold or privatized (TTG Asia 2003).

In 2005, guided by the new chairman Dr. Allen Zeman, the Park announced a major redevelopment plan known as the "Master Redevelopment Project." The project intended to transform the Park from a deficit-running local operation into a world-class theme park. This marked the most significant change in the Park since its opening and called for a capital investment of HK$5.55 billion (US$713.3 million) for 6 years. In terms of size, the Park increased from 300,000 to 438,000 m^2, and its daily capacity surged from approximately 30,000 to 50,000 visitors. The number of attractions doubled, with some of them taking the lead in the region's hospitality and tourism industry. As an example, in 2010, the Grand Aquarium became one of the largest aquariums in the world, housing 5000 fish and 400 species.

In the course of expansion, the Park has not given up its nonprofit status. It consistently keeps a unique approach—involving education within recreation—while introducing new attractions and exhibits. The Park has leveraged animal exhibition sites to develop educational activities and tours. Educational tours are regularly conducted to the public in the Polar Adventure, The Rainforest, the Pacific Pier, and the Grand Aquarium. Programs such as "My Animal Fun-Time," "Animal Party Duet," "Ocean Athletes," "Penguin Encounter Programme," "Sea Lion Feeding," and "Grand Aquarium Scuba Diving" provide exclusive guided visits and interactive learning to participants about nature and animals. These exhibitions, presentations, and attractions are run at the actual exhibition sites, enabling learners to gain firsthand experience about animals and ecosystems. Key themes, such as sustainable seafood and marine biodiversity, are featured at educational exhibits to instill conservation awareness and inspire actions that positively impact the natural environment around us. Moreover, scientific research and projects are undertaken at these animal exhibition sites.

The Master Redevelopment Project has been a remarkable success. In the tourism and recreational industry, visitor number is always the most important performance indicator. In 2013–2014, the Park received 7.6 million visitors, way surpassing the target set in 2005. In the world's ranking of most visited theme parks, the Park took the 11th place according to TEA/AECOM Attraction Attendance Report in 2013. Within Asia, it took fourth place, and in Greater China, it ranked first.

The Park also began to receive local and global awards. The 2012 Applause Award presented at the International Association of Amusement Parks and Attractions Expo serves to mark the Park's global positioning within the tourism and hospitality industry. It is the highest recognition awarded to a theme park, and the Park is the first in Asia to win it. In 2015, TripAdvisor nominated the Park as one of the top theme parks worldwide, ranking 2nd in Asia and 23rd in the world.

Underlying the Park's impressive outward changes are a persistent vision and mission, passed on from one chairman to another over a decade and a half. Chairman Dr. Allen Zeman, who represents the Park's new era, chairing it between 2003 and 2014, summed it up:

> It bears emphasizing that community pride in Ocean Park is critically important as we move into our new era, because Ocean Park is above all else a possession of the Hong Kong people, and part of the community's heritage. Even as international and mainland visitors surge, there can be no doubting Ocean Park's core mission to serve its local community, above all else in the areas of education about the natural world, and the conservation of our marine environment. (Ocean Park 2004)

The Park's Master Redevelopment Project would not have been possible if it not been for the substantial support of a wide range of social players, ranging from the government of Hong Kong to the Tourism Commission, from charity groups to international organizations, and from corporations to individuals who live and work in the Park's community. Nevertheless, the Park attributes its success to the Hong Kong public, which is one of the major contributors to its overall revenue.

3 Ocean Park's CSR Undertaking

3.1 CSR Principles Embedded in Its Original Identity

3.1.1 Vision and Mission

The vision of Ocean Park is stated as "[becoming] a world leader in providing excellent guest experiences connecting people with nature." The Park's mission is to provide all guests with memorable experiences combining entertainment and education while inspiring lifelong learning and conservation advocacy. Within the framework of providing services that combine education, entertainment, and maintaining a healthy financial operation, the Park envisions to achieve a global status beyond local and regional recognition. The Park's aspirations align with Hong Kong's cosmopolitan and a world city positioning. The Park recognizes that simply providing thrill-based or theme-based entertainment to visitors would not be enough to make the Park a world leader in the global tourism industry. Whereas, by actively promoting and integrating its social responsibilities within the Park's operations, the Park would take the most distinct advantage of its nonprofit status.

3.1.2 Incorporation as a Nonprofit Organization

Its nonprofit status allows the Park to allocate resources to uphold and promote the Park's mission of connecting visitors with nature. According to Deputy CE and CFO Li, the Park's board and management could weigh the value of educational activities, conservation, and environmental protection above profit maximization, keeping these core values at heart, whether in everyday operations or in major expansion schemes. This principle also shapes and guides the organizational culture and staff morale. Therefore, as a theme park, the Park appeals not only to its visitors' thrill-and-entertainment seeking but also takes on a proactive role in providing educational and meaningful experiences to visitors so that they would become aware of social issues, such as environmental concerns and conservation.

3.1.3 Nonprofit but Adopting Commercial Principles

The Park aims to "maintain a healthy financial status while striving to deliver the highest standards of safety, animal care, products and guest service" (Ocean Park 2014). Because the Park is not subsidized by the government of Hong Kong, the Park's board and management team have been solely responsible for ensuring its commercial viability, taking multiple stakeholders into consideration in accounting for their decisions and actions. The Park adopts business principles to ensure it would bring not only social and environmental but economic benefits to Hong Kong. Despite the Park's expansion in scale and size and rise in status, the Park's mission and vision still remain the primary impetus driving the Park's developmental and financial planning.

3.2 Ocean Park's Operational Approach to CSR

Unlike many large business organizations with global operations that institutionalize CSR through corporate policy and strategy, the Park establishes an open platform for interdepartmental committees to initiate new projects on sustainability (Dai et al. 2013). It is where CSR projects are proposed, approved, and delegated to over 2000 staff of the organization.

These committees are responsible for leading the execution of the projects and reviewing their effectiveness. In Li's words, the programs are "run, recorded in quantifiable terms, and then reported to the public." The feedback loop allows the development of powerful key performance indices for individual CSR programs.

The CSR initiatives are spearheaded by the board of directors who develops the overall direction and safeguards and reinforces the mission and vision of the Park. The senior management is responsible for driving and coordinating interdepartmental efforts for the execution plans of individual programs. An Education Advisory Committee was also formed by the board to advise on the promotion and implementation of the Park's education mandate.

The Park adopts an across-the-board engagement strategy on CSR initiatives with all its staff. All staff who join the Park will be trained in safety services and, equally important, environmental and educational awareness. As an annual flagship staff activity, the Park organizes a competition for environmental conversation and safety-related issues. This is one of many exemplary activities showing the Park's efforts to impart genuine, approachable, and learnable environmental awareness and conservation to the staff.

3.3 *Ocean Park's CSR Programs*

As one of Hong Kong's oldest recreational theme parks, the Park has a long list of CSR programs, officially reported and unreported. In recent years, the Park has generally reported its CSR-related activities in the following categories: social programs, edutainment, conservation, and corporate partnership.

3.3.1 Social Programs

Ocean Park's social programs are an integral part of its existence, development, and operations. Over time, the Park has launched a number of social care programs that explicitly demonstrate its efforts to enable all local citizens to enjoy the Park. Some well-known and regular programs include:

1. Free admission for every Hong Kong citizen aged 65 and above
2. Free day pass for every Hong Kong citizen on his/her birthday
3. $20 entry pass for beneficiaries of Hong Kong government's Comprehensive Social Security Assistance (CSSA) scheme
4. Free admission for all holders of the Registration Card for People with Disabilities and a 50% admission discount for one accompanying friend or family member
5. Hosting the International Day of Disabled Persons (IDDP) Fun Day for over 20 years

Furthermore, the Park recognizes income-gap realities and institutes measures to support the underprivileged. It collaborates with the Hong Kong Jockey Club Charities Trust to support students unable to pay the admission fee. According to the Park's annual reports, approximately 55,000 school children each year have the opportunity to visit Park exhibitions on much discounted fares. The Park also gives away many entrance tickets to various charities in order to allow more people, whom the Park might not otherwise be able to reach, to enjoy Park's services. Reaching out through charitable groups has been a CSR strategy the Park consistently employs to ensure fair distribution of the Park's services to every sector of the Hong Kong society. Currently, these social care programs are primarily administered and overseen by the Public Affairs and Human Resources departments.

3.3.2 Edutainment

Another focus area of CSR programs is education, especially education in conservation and environmental issues. The Park has to subsidize some of its educational programs heavily, taking in fees ranging from only HK$50 to HK$80 (US$10.3) per participant. The Ocean Park Academy was established in 2004 to further develop and strengthen educational program efforts for kindergarten, primary, and secondary students and teachers. Operated within the Park, these education programs focus on animal conservation, liberal studies, science, and other learning experiences. The Academy also organizes outreach seminars and animal-themed programs free of charge on school campuses promoting environmental education.

In addition to student programs, the Park launches corporate training programs on global environmental issues, electricity conservation, and renewable energy. During the period from 2011 to 2014, the Park conducted over 100 training sessions, with over 7000 participants from fields ranging from banking to law, medicine, retail, and the public sector (Ocean Park 2014).

As an international park situates in an international city like Hong Kong, the Park goes beyond promoting and enforcing recycling and reuse. It innovates and adopts new ideas through partnership with different organizations, such as the Hong Kong Green Council and International Green Purchasing Network. It also expands and influences environmental education in Hong Kong by participating in large-scale education expos, such as the Learning and Teaching Expo.

While actively publishing its relevant policies and programs on the government website, the Park demonstrates full awareness and readiness to tackle some of the inherent problems its operation brings to the environment. As Hong Kong's most prominent and most visited recreational site, the Park takes a forerunner role in response to the government's appeal for responsible corporate behavior.

3.3.3 Conservation

Two major funds, the Ocean Park Conservation Fund and the Hong Kong Society for Panda Conservation, were initially established in 1993 and 1999. The two merged to form the Ocean Park Conservation Foundation Hong Kong (the Foundation) in 2005. The Foundation's mission is to advocate, facilitate, and participate in effective conversation of Asian wildlife, with an emphasis on Chinese white dolphins and giant pandas, as well as their habitats. For every ticket sold, the Park donates HK$1 to the Foundation. A portion of the panda merchandise proceeds, revenue from food and beverages and animal encounter programs, and the entirety of admission revenue from the Animal Conservation Day in January are also donated to the Foundation. These contributions are made based on turnover and not on profit, showcasing the Park's strong undertaking to the Foundation. The contributions in 2013–2014 amounted to HK$13.1 million. Since 2005, the Foundation has allocated over HK$58 million to fund research projects on cetaceans, giant pandas, and many other species.

Environmentalism is a steadily rising political concern both globally and locally. To lead the Park's environmental initiatives, the Environment and Carbon Management Steering Committee (ECMSC) was set up. For a theme park with a long history of operation, renewing and reusing existing facilities are a considerable challenge. A case in point is the creation of Shark Mystique in the Atoll Reef exhibit, a conservation project completed in 2013 that maintains a legacy facility opened 37 years ago. The upgraded facility features an energy-efficient gas absorption refrigeration system, extensive use of LED lighting, and two skylights to let natural light in. The Adventures in Australia exhibit was also developed from an existing building, with an ethylene tetrafluoroethylene (ETFE) roof added to enhance heat insulation and natural illumination for the future koala residents. Other environmental management programs include:

- Conducting annual carbon audit
- Developing Green Guidelines for internal applications (e.g., environmental procurement and solid waste management)
- Appointing Environmental and Safety Ambassadors for all departments to help monitor department's environmental performance
- Being the founding member of Green Purchase Charter[1]
- Developing sustainable design checklist and enabling new project design that can comply with sustainable design principles
- Integrating environmental awareness training session into the staff orientation program and conducting comprehensive training to further promote environmental and conservation concept to general staff
- Promoting the importance of a clean air environment by "Clean Air Outreach Program"

The Park also pioneers in exploring and adopting new and better energy management. In accordance with their Master Redevelopment Project, the Park is required to set a 10-year carbon emission reduction target. In order to commit to the pledge, the Park has invested considerable resources to upgrade energy reduction facilities and run various carbon reduction programs:

- Waste recycling programs, such as paper, metal, plastic, cooking oil, food waste, calendars, computers, mooncake boxes, toner cartridges, and rechargeable batteries
- Energy efficiency programs, such as installing energy-efficient lighting and variable speed drives on motors

[1]The Hong Kong Green Purchasing Charter and Hong Kong Green Council were founded by a group of 11 corporations in response to the 2006–2007 Policy Address delivered by HKSAR's chief executive to appeal "to the trade and industry sectors to protect the environment in which green procurement methods in operations are highly recommended." Founding members included Cathay Pacific Airway, CLP Power, Hong Kong Disneyland, Hong Kong Housing Authority, Airport Authority Hong Kong, Hospital Authority, MTR Corporation, NWS Holdings Limited, Shui On Land, and The Hong Kong and China Gas Company (Source: Green Council official website).

- No straw campaign
- Promotional programs such as environmental signage for water and electricity saving
- Use of green energy such as solar panel for electric cart
- Use of electronic means (e.g., email and intranet) for communications
- Staff incentive program, to encourage staff to use their own food containers for takeouts from the staff canteen

3.3.4 Corporate Partnerships

The Park works with various organizations that recognize its CSR principles and practices and at the same time have distinctive CSR branding. For example, Kee Wah Bakery, a well-known Chinese bakery brand founded in Hong Kong in 1938, sponsors the “Old Hong Kong,” a theme street inside the Park that promotes Hong Kong’s history, food and transportation, and other elements reflecting changes in Hong Kong society. Kee Wah Bakery was awarded the Caring Company Award by the Hong Kong Council of Social Service in recognition of its work for the society, its workforce, and disadvantaged groups. Through selling of traditional snacks and knick-knacks and booth games, the Park and its partner enable visitors to recall the precious cultural and historical memories rarely experienced in daily life nowadays.

Another long-term partner is Volkswagen Group (VW), which sponsors the Ocean Express, a new addition in 2008 and the second link after the Cable Car that connects the two sides of Brick Hill (Nam Long Shan) where the Park is situated. VW’s 2014 sustainability report shows that VW’s compliance with ISO14001 has reached 97.7%, compared to 96.8% in 2013 (Volkswagen 2014). The ISO 14001 standard is structured for companies and organizations of all kinds looking to manage their environmental responsibilities. Li refers to VW’s environmental management and experience as important criteria in meeting the Park’s strategic partnership scheme.

4 Discussion: Ocean Park’s CSR Reporting and Development

Being a public-vested organization, the Park makes itself accountable to all stakeholders by voluntarily publishing annual reports online. Reporting is taken seriously by the Park, and it considers annual report as a key communication channel with the public. CSR is a part of the annual report. Here, the Park reports on all five main CSR areas, environment, community, market place, vision and values, and workforce, in a stand-alone “Sustainability Report” section (see Table 1).

The Park seeks continuous improvement on its reporting, so as to better represent itself to stakeholders of all kinds. According to Li, it is in the Park’s interest to measure itself against internationally recognized guidelines, i.e., ISO 26000, to

Table 1 Ocean Park's CSR reporting areas (Holcomb et al. 2010)

Key area	Subcategory
Environment	– Conservation – Architectural integration (heritage)
Community	– Community support and charities – Employee volunteerism – Jobs for handicapped/disadvantaged
Market place	– Business partners and suppliers – Safety of customers
Vision and values	– Mission/vision statement – Code of conduct (ethics) – Board conducted CSR review
Workforce	– Employee diversity – Family services/employee welfare programs – Child care

assert the Park's global status and reach a global audience more readily. ISO 26000 highlights seven core subjects, namely, organizational governance, human rights, labor practice, environment, fair operating, consumer issues, and community involvement and development (see Fig. 1).

While the Park envisions to gradually move toward international reporting standards, the manifold CSR initiatives it is taking are analyzed and structured under the framework of the seven core subjects of the ISO 26000 guidelines.

4.1 *Organizational Governance*

Though being an unlisted company, the Park follows international legal norms and precedents in respect to corporate governance, such as having a board of directors, a yearly audit performed by an independent auditor, and transparency in its reporting of its business operations, through quarterly announcements as well as an annual report. These practices ensure that the activities of Ocean Park remain responsible toward its stakeholders, who include the Hong Kong government, its employees, visitors, and the general public.

4.2 *Human Rights*

The Park complies with first-world principles on human rights protection and nondiscriminatory policy. The major risk factor of the Park in this area lies with respect to "due diligence and avoidance of complicity" issues. In its procurement dealings with wildlife conservation officials, Ocean Park may need to deal with government officials from countries that have a poor human rights record, particularly in Africa.

Fig. 1 Social responsibility: seven core subjects (ISO 2010)

4.3 Labor Practices

The Park's management has established the Corporate Safety Committee to organize, develop, promote, and maintain a health and safety policy for staff and visitors. While Ocean Park is committed to paying a fair market value for labor, as well as guided by the Hong Kong law on the minimum wage and prevailing wage arrangements, the issue of labor costs has to be considered side by side with other goals. A right balance in resource allocation among nature conservancy projects, community outreach and education, the expansion and upgrading of facilities, and staff costs is to be struck.

4.4 Environment

The Park has been carrying out a wide range of initiatives to preserve the natural environment. In 2008, the Park's Environment, Carbon Management and Social Committee (ECMSC) was set up for originating and implementing such initiatives, which include engaging visitors in the Park's recycling programs and managing a wide range of environmental management and carbon reduction programs. In addition, the Park has been creative with revitalizing older facilities.

The Park has long-running and ever-improving conservation programs funded by the Conservation Fund, which was later regrouped into The Ocean Park Conservation Foundation Hong Kong. Over HK$58 million (US$7.5 million) was devoted to over 400 research projects since 2005. The Foundation also has its own fund-raising programs aiming at conservation and wildlife protection, as well as scholarships for students from Hong Kong and other parts of Asia. In 2013 and 2014 alone, the foundation funded 44 conservation projects, covering 30 species in 12 Asian

Table 2 Ocean Park's carbon reduction report (Ocean Park 2014)

Year	Carbon emission (tonnes)	Change (%)	Carbon intensity per 1000 visitors in tonnes	Change (%)
2013–2014	54,958	−3.4	7.2	−10.5

counties. The Park is also the first institution in the world to succeed in artificially inseminating bottlenose dolphins and developing numerous breeds of goldfish.

The Park's Master Redevelopment Project has set an explicit target of carbon emission reduction for a 10-year period. In 2013, the board approved the Carbon Footprint Strategy that includes a series of carbon reduction programs and specific carbon reduction targets, including decreasing absolute carbon emissions by 10% and carbon intensity by 25% per visitor by 2021/2022 when compared with 2011–2012 (Ocean Park 2013). Related statistics are disclosed in the annual report to allow for public monitoring (Table 2).

The Park's growing popularity and consequent expansion may place additional pressure on its neighboring environment. One area of concern is the environmental impact of the new 495-room hotel, now under construction. Some observers have questioned the need for the hotel, with its appeal for visitors rather than locals, and there have been arguments that the land would have been better utilized as a marine science research center. It is believed that in the long run, the environmental impact of increasing transportation usage may be reduced by the hotel as well as by the opening of the South Island line of the MTR, an environmentally friendly mode of transport which features a station at Ocean Park's doorstep.

4.5 *Fair Operating Practices*

The Park's fair operating practices are a subset of its transparent structure as a public-vested organization that is accountable to multiple stakeholders. Attention on anti-corruption principle is paid when the Park deals with countries that have higher corruption index scores than Hong Kong.

4.6 *Consumer Issues*

The Park has taken a leading role in its consumer outreach. Of note are its efforts to make the Park accessible to all social groups in Hong Kong. Thus, the Park has long worked with charities, distributing free park tickets to them, as well as setting aside a significant amount of entry tickets at a reduced price every year so that the Park would remain affordable to all Hong Kong students. As with labor costs, these programs have to be balanced against other considerations and priorities, including research, development, and expansion.

4.7 Community Involvement and Development

The Park has been at the forefront of community involvement and development, reflecting its status as an educational enterprise. Developing the community's awareness on environmental issues is part of the core mission of the Park.

The Park's social programs are an integral part of its existence, development, and operations. Selected well-known and long-lasting programs that benefit almost all Hong Kong citizens such as a free pass for every Hong Kong citizen on his/her birthday, or every Hong Kong elderly, are listed in the previous section. The Park also subsidizes some of its educational programs heavily, with around 55,000 school children visit the Park's exhibitions at deep discount every year. The Park also develops corporate training programs on topical subjects such as global warming and renewable energy. Over 7000 participants from various industries like banking, law, medicine, retailing, and the public sector attended the trainings from 2011 to 2014.

5 Moving Forward

One unique advantage that Ocean Park holds with its unique operating model is that it is offering a double benefit to its customers. On the one hand, the visitor is amused, and on the other hand, he/she is instructed. Compared to its competitors such as Disneyland, Ocean Park can offer a sense of giving its customers a "two for the price of one" deal.

With its CSR mission-vision-driven model, the Park can continue a two-prong approach in generating new ideas and values for its visitors while preserving the CSR undertakings in its operations. For example, environmental thinking is both a broad social trend and a work in progress that continues to evolve worldwide, and Ocean Park is only one of many stakeholders involved in creating a new consensus on how the interests of both animals and visitors can be accommodated in natural parks and zoological gardens.

Given its prominent achievements and success following completion of the Master Redevelopment Plan, the Park has applied to the Hong Kong Tourism Commission for further funding to develop the Tai Shue Wan Development Project. The project estimates an additional contribution of annual economic benefits to Hong Kong of some HK$842 million in 2018 to HK$1240 million in 2048, in present value terms. Ongoing operations are expected to generate some 2900 to 4290 new jobs between 2018 and 2048 (Tourism Commission 2013). Furthermore, the Park would continue to grow its hotel and resort business, adding a four-star, 495-room Ocean Hotel to be opened in 2017. In addition to the current 80-plus attractions, the Park will add 30 more attractions, with the 400,000 square foot Water World being the center of attention. The Water World will feature both indoor and outdoor attractions including wave pools and water slides.

According to Li, the Park's CSR scope has to continue to expand over the coming years, as it is beyond question that the Park's incorporation of such measures is far from complete to cope with the upcoming expansion. As the Park grows in scale, scope, and size, the management team needs to continue to seek systematic approaches, guidelines, and practical tools to manage its environmental responsibilities, keeping hotel design questions in mind in order to engage in environmental protection and balancing commercial principles and CSR undertaking.

In end 2014, the Park engaged an external consulting firm to undergo a CSR register review. The register review involves conducting extensive surveys with a wide range of stakeholders and devising formal CSR policy and strategic plan to guide the Park's CSR decisions in the future. This evaluation and assessment will help inform the board and senior management of organizational decisions relating to CSR responsibilities. Such decisions include, for example, whether to streamline, consolidate, or expand internal operation of existing CSR programs, so as to allocate existing resources more effectively.

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The Trends of CSR in China: An Actor-Focused Analysis Including the Cases of Huawei and the Society of Entrepreneurs and Ecology (SEE)

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Abstract This chapter analyzes the cases of Huawei's CSR program and the Society of Entrepreneurs and Ecology, a NGO organized by a group of companies, to explore the recent development of CSR in China. Three actors of central importance for recent trends are identified: the government, NGOs, and Chinese MNCs. An updated timeline is brought forward, which separates the introduction of CSR to China into a period of passive acceptance (1990s), learning and adoption (2000s), and active engagement (2010s). A promising trend is identified, with the limitation that second element of CSR, reducing the adverse effects of the company's commercial activities, is not getting enough attention.

1 Chinese Companies' Increasing Focus on Value Additions and Stakeholders

Demands have been voiced for a major change in the Chinese economic system in general and specifically improvements of working conditions, not just in 2010 when the Foxconn suicides got major exposure in the international press. It existed since the early days of the reform and opening-up, beginning in the late 1970s, which was mostly based on providing or utilizing cheap labor (Schmidpeter and Stehr 2015). Now the era of low added value is coming to an end (Li et al. 2012), as a new generation of Chinese companies move up the value chain and enter the global competition.

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These companies are eager to prove that their business plan is based on more than just the alleged borderline exploitation of migrant workers. They not only strive to create intellectual property or similar fields aimed to increase competitiveness; they also strive to catch up with their international competitors in other fields such as internationalization or CSR. Thus, Huawei introduced its sustainability program, including extensive CSR activities under the slogan of “Bridging the Digital Divide,” aiming to bring broadband connection to developing countries. And, companies in Shenzhen came together to establish the Society of Entrepreneurs and Ecology (SEE) purporting to stop desertification and improve the ecological environment in the China’s Alashan region.

This chapter is divided into five sections. This section represents an introduction. Section 2 introduces the definition of CSR that is used in this chapter as well as in relevant literature. Section 3 introduces the cases of Huawei and the SEE. The discussion and analysis in Sect. 4 are separated into three parts. The first presents three relevant actors: the government, NGOs, and Chinese MNS; the second presents an updated timeline based on the new insights presented in this chapter; and the third highlights the problems that still remain for CSR in China. Section 5 summarizes the findings and presents potential future research questions.

2 Definition and Literature Review

2.1 Literature Review

Outside China, literature on CSR goes back over half a century with the first articles discussing the concept in the 1950s in the USA, the initial publication being Howard R. Bowen’s *The Social Responsibility of the Businessman* in 1953.[1] Today, the most important source of publications on the subject is the *Journal of Business Ethics*, which highlights the link between business ethics and CSR. The journal provides a constant stream of articles, keeping the discipline up to date. Important publications include basic articles on the subject, for example, *Concepts and Definitions of CSR and Corporate Sustainability*, which summarizes the differences between *shareholder approach*, *stakeholder approach*, and the *societal approach* as well as other terms (van Marrewijk 2003), or, more recently, a *Special Issue on Sustainable and Ethical Entrepreneurship, Corporate Finance and Governance, and Institutional Reform in China*, which also touches on CSR in some of the articles (Cumming et al. 2014). In China, the subject slowly began to be more intensively discussed around 2006, answering more basic questions of the field (Lu 2002; Li 2006), with majority of the recent articles focusing on much narrower topics, often related to financial performance (Zhang et al. 2013; Yang 2015).

[1]For a thorough review of the development of CSR through the last six decades, see Carroll (1999, 2008).

Concerning CSR in China, there exist a variety of articles both in English and Chinese. A good summary on the field exists (though it is already aged) from the *Journal of Business Ethics* (Moon and Shen 2010). Other important contributions in the journal include research on Chinese consumers' responses (Tian et al. 2011) and an important article titled *The impact of Chinese Culture on Corporate Social Responsibility: The Harmony Approach*, which addresses the issue of adaption of CSR into Chinese culture (Wang and Juslin 2009). New impulses were given by a 2015 book, *Sustainable Development and CSR in China: A Multi-Perspective Approach* (Schmidpeter et al. 2015), discussing among other things implementation, opportunities for international cooperation, and cases. In Chinese language, there are articles that introduce CSR to a Chinese audience and discuss it in the context of China. As one would expect, there exists a multitude of case studies (Huang and Yu 2006), which discusses the cases of five SOEs, and empirical studies such as Wang and Chen (Wang and Chen 2011; Wu 2015). Another contribution that should be mentioned is *A Study on Corporate Social Responsibility Development and Trends in China*. Surveys, focus groups, and interviews were conducted for the study. The statistics provide valuable insights of opinions held in Chinese companies on CSR (CSR Asia 2015).

2.2 Definition of CSR

Based on Schmidpeter and Stehr, this chapter applies the EU definition of CSR as follows (Schmidpeter and Stehr 2015):

> To fully meet their corporate social responsibility, enterprises should have in place a process to integrate social, environmental, ethical, human rights and consumer concerns into their business operations and core strategy in close collaboration with their stakeholders, with the aim of:
>
> – Maximising the creation of shared value for their owners/shareholders and for their other stakeholders and society at large;
> – Identifying, preventing and mitigating their possible adverse impacts. (European Commission 2011)

This definition contains two important elements. First, it points out the importance of CSR beyond owners or shareholders. It also takes stakeholders into account when carrying out any commercial activities. Second, beyond creating value for shareholders and stakeholders, it also calls for companies to make efforts to reduce the adverse effects of these commercial activities. Furthermore, it should be mentioned that this definition gives no reason why this approach should be taken, making it easy for the companies from developing countries such as China to ignore the issue (Schmidpeter and Stehr 2015).

3 The Cases of Huawei and the Society of Entrepreneurs and Ecology

3.1 Huawei's CSR Program

Huawei is a Shenzhen-based provider of networking and telecommunications equipment as well as services. In 2015, it was the fourth biggest (by shipments) producer of smartphones (Statista 2015). It is a very atypical Chinese company in many regards including ownership: interestingly, Huawei cannot go public in China, as its number of shareholders exceeds 200—in 2014, around 70,000 out of a total of approximately 150,000 employees have held a share in the company (Tao and Wu 2014). The founder, Zhengfei Ren, is the largest shareholder of the company with only 1.42% of total equity (ibid.).

Year for year, Huawei publishes an increasingly extensive Sustainability Report, which is externally verified by the German TUEV Rheinland certification service (Huawei 2014a, 102f). In 2014, it covered five areas: (1) *Managing Sustainability*, (2) *Bridging the Digital Divide*, (3) *Supporting Stable and Secure Network Operations*, (4) *Innovating for a Greener Environment*, and (5) *Seeking Win-Win Development*.

1. *Managing Sustainability* is the overarching theme: The area is concerned with the implementation of CSR throughout the company. It describes the company's efforts to bring its engagement on a higher level by introducing a sustainability strategy—including, as a regular strategy, vision and mission—and various mechanisms for implementation.
2. *Bridging the Digital* Divide: The company's sustainability vision reads "To bridge the digital divide and promote the harmonious and sustainable development of the economy, the environment, and society." *Bridging the Digital Divide* stands at the first place and is the only program to be explicitly mentioned, showcasing the emphasis that Huawei places on this program.
3. *Supporting Stable and Secure Network Operations*: *Secure* stands first and foremost for IT security. In this sense, this area might be more related to service quality than to CSR. Furthermore, it covers Huawei's activities in disaster relief (see next section).
4. *Innovating for a Greener Environment*: This area covers Huawei's efforts to protect the local environment, lower carbon emissions, and improve its products' energy efficiency. These efforts are aimed at the second element of the EU definition of CSR, found in Sect. 2.2, that highlights the reduction of the adverse effects of its commercial activities.
5. *Seeking Win-Win Development*: This area covers efforts toward a green supply chain as well as issues concerning employees and the industry.

3.1.1 *Bridging the Digital Divide*: Huawei Applying Its Business Competencies on CSR

Though on paper Huawei's activities are separated into five distinct areas, in practice, there are many overlaps. *Managing Sustainability* is obviously overarching all its CSR activities, and (at least in theory) these activities should profit from the strict professionalism and efficiency that Huawei hopes to introduce through *Managing Sustainability*. Furthermore, besides classic CSR activities such as lowering the ecological impact or improving working conditions, there are numerous activities that aim at applying Huawei's competencies to achieve a positive social impact—one could say the company attempts to focus on CSR projects that offer synergies with its core businesses.

One such example is from *Supporting Stable and Secure Network Operations*: In this context, Huawei, in 2014, ensured network availability at 150 major events, including the Sochi Winter Olympics and the FIFA World Cup in Brazil (Huawei 2014a). It also rapidly restored the networks after major natural disasters including the Haiyan Typhoon in the Philippines in 2013 or in China after the earthquake in Ya'an also in 2013 and in Ludian in 2014 (Huawei 2014a, b). Network and telecommunications equipment is central to disaster relief efforts, since it is necessary to coordinate all other relief efforts. However, it may also take the greatest damage from the disaster. Huawei has even developed equipment specifically for this cause such as backpacks to provide or relay networks or very compact LTE equipment (Huawei 2016).

The disaster relief efforts are very impressive, but the area that best showcases the vision of Huawei's CSR strategy is *Bridging the Digital Divide*. This contains among others Huawei's efforts toward "Communications for all" (Huawei 2014a) and, more specifically, "Connecting the 4.3 Billion Unconnected" (Huawei 2014b). Again, the synergy with its core businesses is visible, but this self-imposed task highlights the stakeholder's focus that Huawei takes on in its CSR activities. Furthermore, it shows that Huawei understands the scope of its stakeholders in terms of the global population.

As a first step to become active in this area, Huawei in 2010 joined the Broadband Commission of the International Telecommunication Union and the UNESCO (as did other companies in the industry). The company's actions focused on providing mobile connectivity in developing countries. Its activities in this area include the following projects:

1. *Connecting Rural Zambia*: As over 25% of Zambians have to access to mobile network, Huawei installed 169 base stations to connect over 500 villages, making sure to employ locals. It also donated 100 mobile phones (Huawei 2014a).
2. *Improving Education Through the Internet*: In South Sudan, Huawei connected schools to the Internet and further provided training and equipment, giving 3000 students access to the Internet for the first time. It also provided 1GB of free bandwidth every month at the schools to ensure a continuous impact of the project (ibid., 31).

3. *Connecting Rural New Zealand with the Rest of the World*: It installed an LTE network to rural New Zealand (ibid., 32).
4. *Empowering ICT Talent to Flourish on the African Continent*: It made a pledge to train 10,000 ICT professionals on the African continent (ibid., 33).
5. *Nurturing ICT Professionals in Myanmar*: It trained more than 1500 ICT professionals in Myanmar and pledged to train 5000 more (ibid., 34).
6. *Expanding the Reach of Medical Services to People in Remote Areas*: It installed a system that connects 4 hospitals and 11 community health centers and rural clinics in Karamay in the underdeveloped province of Xinjiang in China (ibid., 35).

3.2 The Case of the Society of Entrepreneurs and Ecology

The SEE is the earliest and most influential NGO set up by entrepreneurs in 2004 in China. In many regards, it is a case of best practices in business ethics in China. Xiaoguang Liu, in his role as the executive of the state-owned enterprise Beijing Capital Group—one of the biggest water supply and discharge and real estate companies—witnessed the disastrous desertification and sand storms in the Chinese Alashan region in the province of Inner Mongolia. He decided to call for other entrepreneurs to set up SEE and fight desertification (Qiu 2010).

The declaration of Alashan of the SEE states that entrepreneurs wish for a better life for people and a good environment, pointing out that economic success is partly built on the sacrifice of the environment. The declaration further calls for enterprises to take environmental protection and their social responsibilities into consideration when carrying out their economic activities (SEE 2004).

SEE has raised 0.27 billion RMB and supported 191 NGOs' development. Its membership expanded from 80 from its founding to 506 at the end of 2015 (SEE 2015a). Its projects are spread all across China. In 2008, the Alashan Ecological Foundation (AEF) was established as a parallel organization with the SEE. The SEE fund receives 80% of the donations, including membership fees, which amount to 100,000 RMB a year (SEE 2015b).

In Alashan, the funds are used to carry out afforestation projects. For these projects, a high number of volunteers are recruited, typically employees from the companies which engage in SEE. They travel to the Alashan region together and carry out afforestation projects in the form of mass rallies in the desert. These projects are planned, and the necessary materials and equipment are prepared by AEF. For one such project in 2014, SEE was able to mobilize 400 volunteers (AEF 2014).

One interesting development of SEE as a NGO is its active engagement in politics. While in China, many NGOs want to keep their encounters with politics to a minimum due to the associated risks, however, SEE engages actively in politics (Xu and Chen 2013). For example, SEE launched its proposals on environmental pollution disclosure and promotion of environmental education at the National People's Congress and the National Committee of the Chinese People's Political Consultative Conference (SEE 2016). In SEE's opinion, an entrepreneur should not only seek profit but also fulfill his or her social responsibility as the slogan of the SEE is to "let ethnic and wealth go hand in hand" (Zhang 2004).

4 Discussion and Analysis

4.1 *Causes for a Qualitative Change in Chinese Companies' Engagement in CSR*

4.1.1 Government Policies

The central government in 2006 introduced a revision of the Company Law of the People's Republic of China, which foreshadowed a number of relevant regulations and laws passed in the following years. Through these actions, the government spearheaded the development to take place in China, though it is hard to say whether its initiative caused the engagement of Chinese MNCs in CSR or whether they both coincided due to common roots in a development in the society.

The first noteworthy regulation is the Guiding Opinions on Central Enterprises Realizing Social Responsibility passed by the State-Owned Assets and Supervision Commission of the State Council (SASAC 2008). This regulation stipulates that state-owned enterprises are to take on a leading role in the introduction of CSR to China. Its importance does not lie in its concrete provisions—the article itself is less than 3000 Chinese characters long. Instead, it is due to how widespread companies are directly controlled by the central government through SASACs. The regulations apply to companies central to everyday life such as major power companies, telecommunication companies, or some of the leading shipping companies of the world (Szamosszegi and Kyle 2011). Therefore, this regulation led to a wave of SOEs starting to engage in CSR in the late 2000s and 2010s. However, at least the companies in our cases appear to have already moved on from the passive implementation of these policies.

4.1.2 NGOs as Catalysts of Companies' CSR Engagement

Beyond the central government "forcing" companies to carry out CSR activities, NGOs give companies an easy access to take up activities that allow them to give back to society. This chapter discusses the case of SEE (Sect. 3.2). Other NGOs to enable companies' engagement are the China Green Foundation and, possibly, Project HOPE (Xiwang Gongcheng), though this second case is debatable as the NGO was involved in a number of scandals and interaction with companies is often limited to accepting donations.

Although through engaging in this NGO the involved companies do not fulfill the second element of their social responsibility, which is to reduce the adverse effects of their commercial activities, the engagement has an important effect on the level of the individual employees of the company. Specifically, desertification as it occurs in many regions of China, including the Alashan region, illustrates well how far the destruction of the environment has already progressed in China. Having this before one's very eyes can increase the awareness for ecological problems at the individual level in a company. Consequently, it can ease the introduction of other CSR-related measures or even lead to employees themselves providing suggestions to lessen the company's activity impact on the environment and changing its behavior.

4.1.3 Chinese MNCs Building Their Own CSR Programs

Chinese companies entering the international market trigger mutual exchange. They change the way the industries operate by providing cheaper or diversified products and services. But, they also get in contact with other MNCs and may incorporate an international business culture. In the recent development of CSR in China, internationalization of the Chinese economy is just one of the many factors; other factors include government policies (Sect. 4.1.2), companies wanting to improve their international reputation, key actors observing environmental pollution and engaging in NGOs, or other microlevel causes; hence it is difficult to estimate this single factors' importance.

The fact, however, remains clear that as Chinese companies enter the international market, they develop extensive CSR programs. Beyond Huawei, there are companies such as Alibaba, led by its CEO Jack Ma (Jakob and Stehr 2015), or even the infamous manufacturing, Foxconn, which are cognizant of issues such as "fair and humane treatment," wages and benefits, and working hours, as well as corruption (Foxconn 2014).

4.2 An Updated Timeline of CSR in China

This section adopts the findings from this case into an updated timeline of the introduction of CSR in China. It is based on a timeline presented in Wang and Juslin (2009). However, while Wang and Juslin (2009) cover the whole history of ethics in business, including *Traditional CSR (Confucius's time–1949)*, *Dislocated CSR (1949–1983)*, and *Absence of CSR (1984–1994)*, the timeline presented in this chapter only covers the introduction of modern CSR to China. Furthermore, as this chapter emphasizes a gradual introduction of CSR in China, it does without giving specific years as turning points. Lastly, the phases of *Learning CSR (2000–2003)* and *Engagement (2004–Present)* are summarized into one phase *Learning and Adaptation* in this chapter in order to be able to highlight the new quality of the latest development titled *Active Engagement*.

The introduction of CSR in China can roughly be separated into three time periods. In China, CSR is a foreign concept. During the time of its inception in the 1950s and its rise in the consecutive decades (Carroll 1999), with most of the major

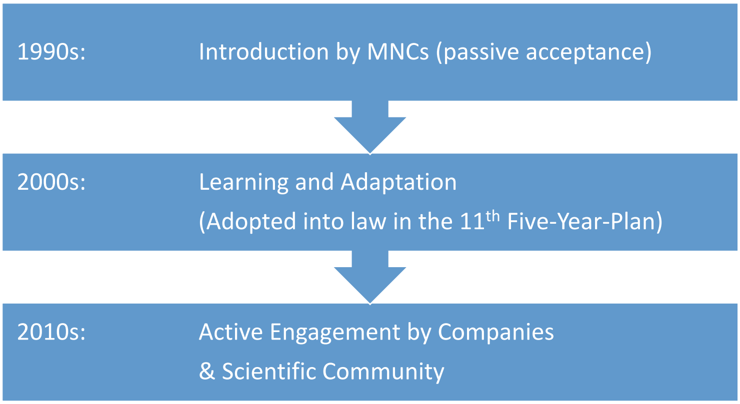

Fig. 1 Timeline of the introduction of CSR to China

writings originating in the USA (Carroll 2008), China was first engaged in the Korean War against the USA-led UN forces and later isolated itself from the rest of the world during the Cultural Revolution. As a result, CSR as a modern concept came to China after Deng Xiaoping's reform and opening-up policy was slowly realized throughout the country (Fig. 1).

4.2.1 1990s: Introduction of CSR in China by MNCs

When the reform and opening-up was initiated and companies, especially multinational corporations (MNCs), began to enter China, they brought with them the concept of CSR, which was already fairly established in Western countries. The push for CSR did take on another quality, however, in the 1990s due to the rise of the anti-sweatshop movement (Harrison and Scorse 2010). Particularly, US companies saw themselves forced to take action to improve the working conditions in their own and their subcontractors' factories, especially in developing countries. There are very few traces of Chinese companies actively engaging in CSR in the 1990s though. Measures of MNCs that targeted their subcontractors were primarily seen as contractual requirements that had to be fulfilled (or at least they had to give the impression that they were fulfilled) in order to be able to conduct business with the MNCs. Thus, CSR was only passively accepted by the MNCs' Chinese business partners without them actively engaging in it.

4.2.2 2000s: Learning and Adaptation—CSR Is Adopted into Law

This situation slowly began to change throughout the 2000s. First, on December 11, 2001, China joined the WTO, an important date which symbolizes China's commitment to the market economy (though the economic system is officially called socialist market economy). As a result, the world witnessed the rise of Chinese MNCs, such as Haier, Huawei, Lenovo, or Tencent. More than solely focusing on the national market, these companies were influenced by an international business culture and hired international employees, so that they became forerunners to implement CSR.

More importantly, in 2006, the new Company Law of the People's Republic of China took effect, which specifically mentions the social responsibility of companies (Company Law of the PRC 2005; see also Lin 2010 for a more detailed discussion). As the law does not specify how companies are to fulfill their social responsibility, it was followed by a number of laws and regulations that described the obligations of companies in more detail (see Sect. 4.1).

4.2.3 2010s: Active Engagement

Toward the 2010s, the actors became increasingly engaged in CSR. The new company law was slowly translated into more concrete laws. The difference becomes most articulate when companies' CSR projects today are juxtaposed with actions taken in the 1990s: in that period more and more Chinese companies saw themselves forced to fulfill CSR-related requirements in order to qualify as suppliers or cooperation partners with MNCs. Since they had no understanding of the concept of CSR, most requirements were fulfilled by the book, in some cases very reluctantly, as requirements like limited working hours conflicted with the reality in China (see Sect. 4.2.1). In contrast, this chapter has introduced the cases of Huawei and SEE. In these cases, the companies took their engagement far beyond passive acceptance: Huawei and the company behind SEE found ways to actively engage in CSR which they thought most fit their companies' specific context. Furthermore, in both cases it can be observed how they moved on from a learning and adaptation process in the 2000s to a regular execution of CSR in the 2010s. In addition, more than half a century after its inception in the US, the topic started to be extensively explored by the scientific community, and after the basics were introduced in Chinese language, Chinese scientists started to make more specific contributions (Fig. 2, see also Sect. 2.1).

4.3 Criticism: Problems that Still Prevail

Two problems still prevail for CSR in China. The first is companies that fail to realize the second element of the CSR definition provided by the EU (Sect. 2.2), which is to reduce the adverse effects that may be a result of these commercial activities. This is visible in the case of the SEE, where CSR activities of the participating companies are completely separated from their commercial activities. In the case of Huawei, this element also draws little attention, and, unsurprisingly so, as smartphones, which the company is famous for with consumers, are famously

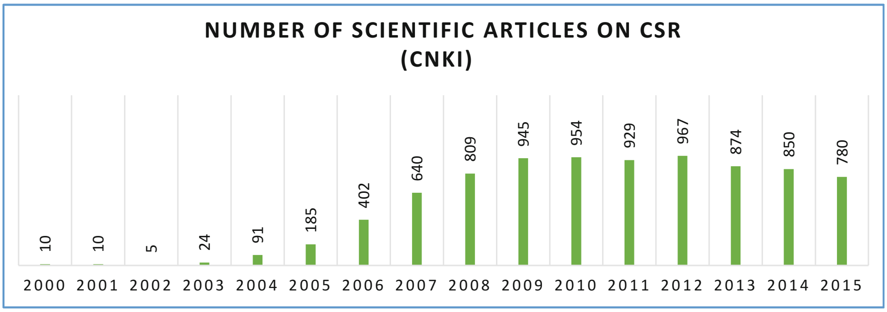

Fig. 2 Number of scientific articles on CSR (Qiye Shehui Zeren) on the China National Knowledge Infrastructure

harmful to the environment as they contain a variety of harmful chemicals (Suckling and Lee 2015).

The second issue is concerned with the scope of companies' CSR activities. As the anti-corruption campaign launched by Xi Jinping in 2012 shows, the problem of corruption in China still prevails. For many companies, the scope of corruption might dwarf the scope of their CSR activities. The German company Siemens in China was involved in the case of a bribe offered to a manager tasked with equipment purchases. The bribe amounted to over US$5 million, an amount above the scope of Siemens' CSR activities in the country (Sheng and Huang 2015). It is not unthinkable that the unethical behavior of Chinese companies dwarfs their CSR efforts.

5 Summary and Perspective

This chapter discusses the most recent trends of CSR in China. It brings forward the case of Huawei and its CSR efforts inspired by international CSR practices and implemented with a CSR strategy focusing on the company's competencies. In addition, insight into the engagement of Chinese companies in CSR through NGOs is provided through the case of the SEE. In the updated timeline (Sect. 4.2), this is highlighted in the phase *Active Engagement (2010s)*.

Future qualitative research should be conducted to confirm or reject the finding that CSR in China has taken on a new quality. A case study of another Chinese MNC could be used in a direct comparison with Huawei. Another topic that this chapter has not touched on is SMEs.

Lastly, a variety of possible influence factors for the introduction of CSR in China has been mentioned in this chapter, including government policies, pressure from international business partners, internationalization, and engagement in NGOs. Empirical research could identify the dominant influence factor and thus give some implications for future efforts to boost CSR in China.

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Analysis of Sustainability Policy and Practices of a Turkish Group Company: OYAK Case

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Abstract Globalization, financial crises, and relations with stakeholders have forced businesses to sustainable and energy-efficient approaches in management. Depletion of natural resources and fierce competition are also driving forces for sustainable management. Businesses that internalize sustainability and use it as a strategic tool are more likely to have a competitive advantage. Compared to research on sustainability management practices of firms in developed countries, research on developing countries is limited. Moreover, there is a significant gap in the literature on sustainability policies and strategy at business groups. This research analyzes corporate governance structure and sustainability practices of OYAK (Armed Forces Pension Fund in Turkey) and provides an inspiring framework for sustainability management in group companies.

1 Introduction

Sustainable development is one of the top priorities in the global economic agenda. The United Nations replaces Millennium Development Goals with 17 Sustainable Development Goals and accepts 2030 economic agenda for sustainable development. Businesses today no longer view incorporating economic, environmental, social, and cultural dimensions of sustainable development into their business practice as additional cost structures but rather as a business strategy to win over customers and markets (Kotler 2011), satisfy expectations of stakeholders (Freeman 2004), and have

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a good public image (Aguilera et al. 2007). As a result, there is a vast majority of research concentrating on sustainability performance indicators, their measurement, reporting, and management for companies especially in developed countries. However, there is not much research on sustainability management at group companies. Moreover, sustainability performance indicators are not adequately linked to strategic performance measurement systems (PMS) in the literature (Schneider and Meins 2012), and the empirical research is scant. This study sheds light onto how sustainability strategies are set, and performance indicators are chosen and integrated to performance measurement at a group company based on a case study of OYAK (Armed Forces Pension Fund) Group and hopes to provide an inspiring framework for group companies.

Corporations play a vital role in sustainable development of society in terms of satisfying environmental and social needs of the society. Integration of sustainability with business strategy is not an easy task at the beginning, and corporations may need to undergo substantial organizational changes and restructuring (Kang 2013). Integration of sustainability into internal systems and processes is important to achieve effective results in line with corporation's strategy and goals (Crittenden et al. 2011; Hubbard 2009). However, integration of environmental and social contributions to core business activities and establishing a sustainability management system is a challenging task (Figge et al. 2002; Parisi 2013). Extant literature on how companies integrate sustainability into business processes is scant, and this chapter aims to contribute to this literature. The obstacles and opportunities of effective sustainability management at group companies are not well known. This chapter sheds light onto tools and methods that group companies may need in sustainability management.

This case study analyzes how sustainability is integrated in operations, business practices, and projects. Projects are important tools for the implementation of corporate strategies, and they are major building blocks of sustainable development. Besides financials, businesses have started to list sustainability within criteria against which projects can be evaluated and ranked. Roles of strategies and policies have also been discussed in the domain of project management (Labuschagne et al. 2005; Silvius and Schipper 2012; Gareis et al. 2013), and indicators for measurement of sustainability have been investigated (Fernández-Sánchez and Rodríguez-López 2010). In the light of these indicators, redesigning the project life cycle processes and reevaluating the managerial decision-making are crucial to enhance sustainability prioritization and practices (Labuschagne and Brent 2005).

Prioritizing and integrating sustainability to decision-making can improve the relations with stakeholders and play a leverage role to differentiate the organization among its rivals Porter and Kramer (2006). In addition to the opportunities, there are difficulties in developing sustainability strategies and effective reporting mechanisms. O'Rourke (2004) investigates sustainability implementation challenges that corporations in developing countries face. Nasrullah and Rahim (2014) underline the large lag between developed and developing countries regarding incorporation of sustainability into corporate strategy. In many companies, sustainability concerns have been overshadowed by economic priorities. Even if economic pressures are more substantial in developing countries, sustainability awareness and studies have been increasing rapidly.

This study presents a sustainability management framework for group companies in a developing country. This framework includes how strategies are developed at headquarters and then communicated and implemented at group corporations. We aim to contribute to the development of sustainability integration tools at group companies. Detailed descriptions of the interlinkages between the actors in sustainability model are included. Research suggests that there is not a single prescription that will work in every company (Maas et al. 2016). In this respect, the motivation of this case study is to picture one strategic approach of sustainability management that works in a group company. The study concludes with future goals of OYAK Group and suggestions for improvement.

2 Case Subject and Methodology

This study uses case study methodology in analyzing how OYAK Group designs, implements, monitors, and evaluates sustainability performance. OYAK is a complementary occupational pension fund established to provide additional benefits to its members including members of the Turkish Armed Forces, Gendarmerie General Command, and Coast Guard Command and, as set out in the law, employees including members of public seeking to participate voluntarily. OYAK Group is chosen for a couple of reasons. First, it is one of the biggest groups in Turkey and operates in 20 countries. It is comprised of 86 companies in industry, finance, and service sectors and employs approximately 28,000 individuals. Second, sustainability is positioned as one of the main building blocks of the corporate strategy. Strategic management and implementation policies can serve as one of the best practices in Turkey. Third, detailed information about the company is accessible. Data is based on internal documents of the corporation, reports based on focus group discussions, and direct observations of the authors. Focus groups consist of employees from different managerial levels of OYAK Headquarters and group companies. Focus group discussion topics range from sustainability strategy development and implementation to reporting.

Most of the companies of the group are leaders in diverse sectors, including chemicals, iron and steel, energy, and automotive, in Turkey. According to the 2015 consolidated financial statements, OYAK Group's total revenues amounted to USD8.6 billion, and its total assets amounted to USD17.7 billion. The Group's total exports amounted to USD3288 million, accounting for nearly 2.3% of Turkey's total exports. At the end of 2015, OYAK Group's tax payment is USD1.7 billion which equals 1.14% of the total tax income of Turkey.[1]

[1]Financial statements were published in the OYAK 2015 Annual Report.

3 Sustainability Management Framework

Sustainability assessment, management control, accounting, and reporting have been studied in an isolated manner, and research on how to integrate these is at its infancy (Maas et al. 2016). How companies link accounting and assessment has become a critical success factor in sustainability management. This case study provides in the following sections how OYAK tries to integrate these processes.

Management control systems help formulation and implementation of the strategies (Mundy 2010; Henri 2006). How management control systems are used in sustainability management receives little attention from empirical research in sustainability (Durden 2008; Herzig et al. 2012). Based on defined strategies and objectives, corporations monitor and report how their sustainability progresses. Sustainability accounting is a tool to collect, analyze, and report not only financial but social and environmental impacts (Schaltegger and Burritt 2010). This study brings forth which tools OYAK needs to link sustainability management and accounting.

3.1 Definition of Sustainability for OYAK, Strategy and Policy Development

In Turkey, required regulations cover only a limited number of environmental aspects such as waste management, air pollution, etc. However in order to abide by EU membership candidate requirements, Turkey is continuously working on improving sustainability-related regulations. Even though sustainability implementation and reporting are not yet mandatory for Turkish companies, OYAK follows the EU agenda and policies and global sustainability trends. In this respect, its sustainability implementation is a good example of business-level self-regulation. A self-regulated company "establishes its own standards of behavior where no such statutory and/or regulatory requirements exist" (Hemphill 1992).

OYAK believes that community and business can only improve with the approach of "shared value." Main corporate values that shape its sustainability strategy are honesty, transparency, responsibility and accountability, happiness of members and employees, competition and fairness, creativity, and excellence. Management adopts "more value with less resources" approach in all its operations and projects. OYAK shapes its business strategy in line with these environmental, economic, and social objectives as suggested in the literature (Figge et al. 2002; Searcy 2012). In line with the abovementioned approach and corporate values, the following are OYAK's sustainability objectives for the 2014–2016 period:

- To adopt sustainability as a way of life
- To make effort to generate less waste during the production processes
- To conduct detailed analysis that include financial and nonfinancial factors essential for resource continuity

– To carry out projections to ensure raw material supply sustainability
– To determine the priorities with regard to rehabilitation, preservation of nature, and protection of biodiversity
– To increase product efficiency through life cycle assessment
– To implement pioneering practices in supply chain management

Based on these objectives, goals and targets are set and action plans are prepared. For example, Sustainability Department defines OYAK's biodiversity policy in collaboration with group companies and then edits a "Biodiversity Handbook" to serve as a guide for group companies' biodiversity conservation and rehabilitation activities.

3.2 Evolution of Sustainability Implementation

Integration of sustainability into the business strategy is a challenging task (Gond et al. 2012). It is even more challenging to operationalize sustainability at a group company composed of 86 companies. Corporations need a good sustainability framework to implement sustainability strategies. This section presents the governance structure and processes that OYAK uses in implementing sustainability strategies. First OYAK's sustainability governance structure and how it evolves are discussed. Schneider and Meins (2012) note that sustainability governance includes organizational units and arrangements such as task groups, sustainability representatives, and sustainability departments that are specific to sustainability implementation. They note that governance structure is related to organizational and managerial characteristics and important to ensure future sustainability in a corporation. Governance structure also encompasses mission statements and codes of conduct that are related to sustainability.

First pillar of sustainability management at OYAK is the establishment of OYAK Sustainability Committee. It consists of OYAK sustainability coordinator and representatives from group companies. The Committee defines OYAK's sustainability strategy and presents this strategy to top management. After top management's alterations, the final strategy and proposed action plan are communicated to group companies' managers. In this respect, OYAK Sustainability Committee works as a steering committee who manages the group's sustainability and methodological activities through monthly meetings. In these meetings, implementation methods of formulated sustainability road maps are discussed. The Committee then communicates finalized plans to group companies' managers for operationalization. Moreover, the Committee encourages group companies to organize sustainability trainings and activities to raise sustainability awareness among all employees. Annual evaluation meetings are held to assess previous year's performance in respect of the road map, and next year's activities are planned. Group companies' senior executives and relevant technical staff also attend these meetings.

Considering international practices of sustainability governance, OYAK builds the Sustainability Unit which is converted to Sustainability Department. This department aims to guide group companies in aligning operations with OYAK sustainability strategy. Linking performance measurement system to corporate strategy, vision and business practices are crucial (Kaplan and Norton 2005; Neely et al. 2001). Primary tasks of the department are to create organizational sustainability strategy, objectives, and course of action in line with OYAK's strategy together with the Sustainability Committee, to analyze risks and opportunities related to sustainability projects, to conduct sustainability performance measurement and assessment, to give feedback to group companies, and to manage stakeholder relations and lobby at governmental institutions.

It is challenging to operationalize sustainability at a group company composed of 86 companies. Therefore OYAK prioritizes strategies related to environment in early phases of sustainability management. Even though "triple bottom line" approach (Elkington 1998) is used and economic, social, and environmental performance indicators are measured, environmental indicators are weighted heavily in the beginning. As OYAK gains experiences in sustainability management, the social and economic indicators are also emphasized. Integration of social indicators is also an increasing trend in risk management, planning, and performance measurement (Adams and Frost 2008).

In order to implement strategical environmental policies more systematically at each group company at an operational level, OYAK adds Sustainability Group to its sustainability governance structure and extends sustainability scope as in Fig. 1. The group members are group companies' managers and the specialists. One of the five executive vice presidents at OYAK Headquarters is the head of this platform. This high management-level involvement at the beginning stage has accelerated sustainability implementation of environmental and climate change strategies.

The mission of OYAK Sustainability Group is defined as "systematically and regularly considering OYAK Group companies' activities, needs, and potential opportunities with respect to environment and climate change-related issues so as to manage risks and opportunities effectively, to anticipate potential costs, and to take appropriate measures accordingly." In early 2011, the OYAK Sustainability Group formulates a road map defining its short-, medium-, and long-term objectives. This road map forms the basis of OYAK sustainability framework and operationalization efforts. The Sustainability Group's main achievements can be summarized as follows: (1) sustainability reports are regularly published, (2) corporate environmental strategy is expanded as corporate sustainability strategy, and (3) technical working groups are created.

OYAK Sustainability Group is composed of five working groups which concentrate in the following areas: carbon management, waste management, project and funding opportunities, biodiversity, and regulatory compliance. Carbon management working group follows global climate change agenda and publishes OYAK Carbon Management Bulletin about national and international processes regarding climate change and carbon markets. Biodiversity working group develops a biodiversity action plan. The biodiversity working group publishes the Biodiversity

Fig. 1 OYAK's sustainability focus areas

Handbook in 2015. It is the first and only publication prepared by the private sector in this field in Turkey. Project and fund opportunities working group follows and applies to EU funds (HORIZON 2020) related to prevention of climate change, social welfare, and competitive economy. Waste management working group identifies inter-sectoral symbiosis opportunities. We can cite the use of grinded slag which is the by-product of iron and steel production instead of clinker which is a raw material for cement production at OYAK Cement Group Companies as a successful example. Regulatory compliance working group follows national legislation and updates annually the Corporate Regulatory Compliance Checklist. Major milestones in OYAK's sustainability management structure are listed in Fig. 2.

3.3 Performance Measurement and Reporting

Sustainability reports are prepared to reveal economic, environmental, and social effects of operations. The number of companies that report their sustainability performances is increasing day by day. International frameworks guide companies

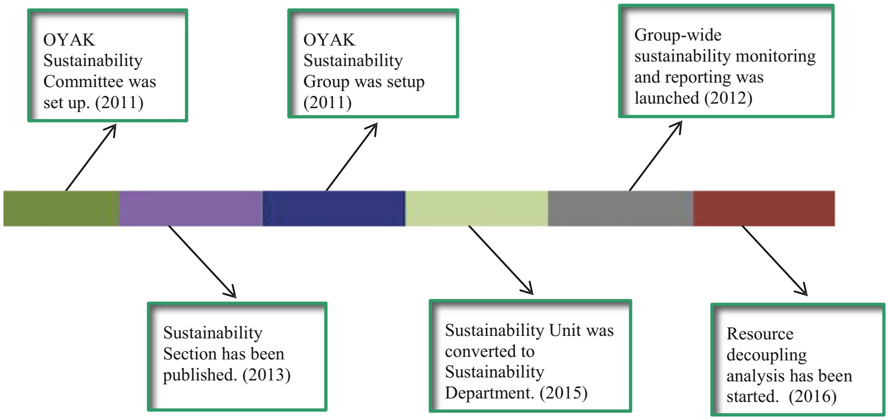

Fig. 2 Sustainability management structure milestones in OYAK

in preparing clear and transparent reports. These standards are widely accepted and have been updated upon the requests of shareholders and with changing needs. Sustainability reports, international standards such as SA8000 Standard, international regulations such as carbon emission reduction targets, and sustainability indexes at stock markets are growing in application globally (Lee and Saen 2012). In Turkey, BIST Sustainability Index was launched in November 2014 for 30 companies and was expanded to 50 companies a year later. One of the companies of OYAK which is listed is Erdemir, the biggest iron and steel company in Turkey. BIST Sustainability Index will be expanded in the following years. Transparency on sustainability policies and practices is important to rank high in rating applications with which publicly traded companies would encounter in the following years. OYAK encourages all of its public member companies to integrate sustainability into business practices, get in the habit of sustainability reporting, and increase transparency.

OYAK Group adapts Global Reporting Initiative (GRI) G4 standard. GRI G4 is the last version of the GRI frameworks. It specifies policies and indicators about economic, environmental, and social performances. Companies do not need to report all environmental, social, and economic effects of their operations but only the ones concerning their prioritized areas and critical activities. OYAK develops its own indicators in specific topics that are not covered by GRI reporting framework. For instance, innovation is one of the priority areas of OYAK, and the number of patents is added as a specific indicator to measure and evaluate sustainability of intellectual capacity. Literature also points to the importance of periodically checking indicators, deleting obsolete ones, and adding new ones as the need arises (Searcy et al. 2006). Within the scope of specified priorities, nearly 200 indicators are monitored through checklists updated every year according to national legislation changes, international sustainability trends, and OYAK's strategies.

Sustainability reporting requires that the employees who provide data have a deep understanding of the recording and reporting processes. For instance, even if the

Table 1 Selected sustainability goals and associated indicators and measurement units that OYAK uses

Sustainability goal	Sustainability indicators	Performance measurement unit
Reducing usage of raw material	Percentage of recycled input materials	M^3
Energy efficiency	Reductions of the energy consumption	kwh
Reducing waste	Amount of nonhazardous waste	tons
Gender equity	Percentage women employees in management level	%

conversion of measurement unit seems to be simple, it can have serious effects on the results. To be more specific, if the performance measurement indicator of energy is in kWh, the reporter must not quote it in Gj energy unit. These inconsistencies risk the validity of aggregated results. In order to prevent these risks, Sustainability Department organizes indicator training workshops for the employees. Group companies are supported to develop and implement their specific performance measurement indicators. The workshops also serve as an opportunity for group companies to give feedback on sustainability performance indicators to the Sustainability Department.

GRI indicators are general and customization is necessary for multi-sectoral group companies. Group companies' feedback which can be related to the number of indicators, coverage, and applicability to operational levels is important. Sustainability Department uses this feedback to change general indicators to sector-specific ones. As an example, air emission indicator is customized to include other emission parameters which are monitored by group companies. This combined set of chosen GRI- and OYAK-specific indicators currently fulfills OYAK's reporting needs.

Searcy (2009) notes the importance of linking indicators to easy-to-understand goals and targets. Table 1 illustrates some of the important indicators, their relation with the goals, and their measurement units that OYAK uses.

Sustainability Department sends the chosen sustainability indicator set to group companies and ensures that they provide sustainability performance measurement data. Standardization and specification of performance measurement units are critical because group companies operating in various industries submit data which is consolidated in OYAK's annual reports. Sustainability Department's role in analyzing and controlling the data is crucial since these practices require competence and might be prone to errors. Information technology (IT) is playing a critical role in efficiency and effectiveness of sustainability reporting. Integration of IT resources into sustainability framework enables corporations to improve sustainability capabilities and gain a competitive advantage (Dao et al. 2011).

Sustainability performance measurement requires a detailed analysis of the link between environmental effects and economic activities. Decoupling refers to this relation between the economically relevant variable and environmental pillars (OECD 2002) and is also used in material flow analysis. Decoupling analysis is an important tool to integrate financial and nonfinancial parameters and provides useful data for decision-making. OYAK has started to conduct resource decoupling analysis for energy, water, and emissions in 2015. This analysis shows the relations between OYAK's economic growth and environmental performance and will be included in sustainability reports.

3.4 Sustainability Accounting and Integration

OYAK Sustainability Department compiles and controls the sustainability indicator data generated by group companies. Submitted data is controlled via real-time measurements during technical site visits. If there is any mismatch, group companies update their reports. Technical visits also provide important nonnumerical data for corporations' sustainability practices. Department then analyzes data considering sectoral specifications and compares the indicator measurements with international benchmarks. Moreover, the department conducts company trend analysis in order to spot any unusual changes in reported measurements. Any unusual pattern is further examined with the company and preventive or corrective actions are taken.

OYAK's sustainability management system provides suggestions and feedback to group companies to integrate sustainability into their business practices. These suggestions address decision-making on investments, project selection, energy efficiency improvement, legislation issues, and supplier selection criteria. To give a specific example, owing to these guiding efforts, "Waste Companies Audit Checklist" is prepared in 2015. The aim of the checklist is to ensure that OYAK Group's waste management criteria are adopted and implemented by the service providers. This checklist is a supplier scorecard and used as a tool to select the waste management service providers. The selection process requires visits to the sites of the current providers. The scorecard points serve as main criteria for future contract renewals of the providers. As a result of these practices, OYAK provides sustainable and eco-friendly services, not only in its own operations but also in its outsourcing practices.

OYAK Headquarters encourages group companies to integrate social and environmental criteria into their capital investments. As a developing country and a EU candidate member, Turkey is prone to significant and frequent regulation and legislation changes. Sustainability Department watches out for international and global legislative changes and trends and adapts a proactive approach to resource efficiency. OYAK considers the EU legislation and its future implications for Turkish corporations in project choices and investment decisions.

3.5 Reporting and Stakeholder Relations

Sustainability reporting is not mandatory in Turkey. However, OYAK prepares the reports and communicates its sustainability performance to the stakeholders via annual report's sustainability section. This section includes OYAK's sustainability management structure and group companies' social, economic, and environmental performance. Sustainability Department is working continuously to improve external reporting's credibility and quality. One of the biggest shortcomings of corporate sustainability management is neglecting internal reporting which provides necessary data for decision-making (Staniškis and Arbačiauskas 2009). OYAK develops its own indicators, analyzes the performance results of group companies, and communicates the successful practices with other member companies as decision-making best practices. Best practices are shared to group companies via the internal reporting system. Carbon Bulletin and Sustainability Evaluation Bulletin are regularly published as a part of sustainability performance communication practices. Moreover, the Department presents these reports at conferences and seminars to get feedback and tries to improve the sustainability management system.

OYAK joins global and local networks to incorporate the latest developments and trends into its strategy. As an active member of the Turkish Industry and Business Association Environment and Climate Change Working Group, OYAK has become a development actor for corporate sustainability policies. OYAK is also active in various industrial associations such as Turkish Cement Manufacturers' Association and Turkish Steel Producers' Associations. These organizations provide improvement suggestions on sectorial policies to the government. OYAK participates in the Carbon Expo and United Nations Framework Convention on Climate Change Conferences of the Parties (UNFCCC COP) and attends the international conferences on sustainability, environment, climate change, and carbon markets.

OYAK encourages bilateral communication with its stakeholders and supports their participation in the development of corporate sustainability strategy. This is in line with the link between stakeholder theory and corporate sustainability (Epstein and Widener 2011). Communication channels and engagement methods range from complaint systems, stakeholder meetings, workshops to focus group meetings. Group companies encourage employee idea submissions and respond to stakeholder concerns. In addition, innovative ideas are awarded in various ways such as recognition and monetary awards, and feedback is always given to employees.

4 Discussion and Conclusion

There is a substantial amount of research on sustainability performance indicators, their measurement, reporting, and management in an isolated manner for developed countries. However there is not much empirical research linking these processes. Searcy (2012) points to the need for extensive case studies that document and present the entire life cycle of the sustainability management framework. This case study aims to fill this gap by analyzing how OYAK structures its sustainability governance, sets its sustainability strategies, chooses its performance indicators, and integrates them to performance measurement through time. We try to reflect the evolution of OYAK's sustainability policy and practices based on focus group discussions, reports, internal documents of the corporation, and direct observations of the authors. This chapter also intends to contribute to the literature by linking sustainability management system practice and theory.

OYAK initiated its monitoring of sustainability practices in a systematic manner in 2011 and has taken successful steps since then. OYAK's multi-sectoral structure is a challenge to constituting a common sustainability management system. A strategic approach to ensure a successful management system is through setting a performance measurement system (Bourne et al. 2000). PMS designed for corporate sustainability practices is defined as "a system of indicators that provides a corporation with information needed to help in the short and long-term management, controlling, planning, and performance of the economic, environmental, and social activities undertaken by the corporation" (Searcy 2012).

OYAK currently measures sustainability performance but does not link it to OYAK's sustainability targets directly. In 2015, it starts to work on decoupling analysis to support and improve performance measurement system. This analysis forms the basis of both financial and nonfinancial performance measurements for each sector. This sectorial differentiation will help to assess the individual performances of OYAK Group companies' employees. Group companies' participation in the design of PMS is critical to avoid employee resistance (Neely et al. 1995; Neely 2005). A successfully designed PMS catalyzes integration of sustainability into business processes and decision-making. Understanding intersections of business and society is critical to evaluate strategical and operational decisions, and PMS can be used as a tool in this evaluation.

Social impact analysis measures effects of corporate actions on society including factors such as demographic change, economic capacity, ecologic conditions, institutional capacity, etc. Social impact is defined as "the consequences to human populations of any public or private actions that alter the ways in which people live, work, play, relate to one another, organize to meet their needs, and generally cope as members of society" (Burdge and Vanclay 1995). OYAK Group, operating in 20 countries in different sectors, has a wide influence area and aims to conduct social impact analyses in the future.

This study sheds light onto OYAK Group's corporate governance structure and sustainability practices. The goal is to provide an inspiring framework for group companies and contribute to the empirical literature on sustainability practices in developing countries. In-depth analysis of designing performance and social impact measurement systems and integration of these to sustainability management at group companies suggested future work to complement this study.

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Social Acceptance in Energy Projects: Shale Gas in Poland—Case Study

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Abstract Domestic energy systems are created and operate independently of the daily life of regular citizens. This helps minimise the risk related to new technologies and work performance. However, they affect the lifestyle of citizens and energy consumption structures. The energy policy is usually conducted in a paternalistic and centralised way, away from the social environment. Often times, rights of local communities are passed over during execution of energy projects. The objective of the chapter is to show importance of social acceptance in execution of new energy projects in the example of shale gas output in Poland and active opposition against it. The chapter is aimed at showing that local community becomes the key stakeholder in initiating local projects, and community consultations and dialogue with stakeholders become a determinant of success for innovative energy projects. Moreover, the author will attempt to defend the thesis that irrespective of the origin of the primary sources of energy fossil (nuclear or renewable), social acceptance is often the barrier for effective and efficient implementation of energy projects.

1 Introduction

The energy industry has the basic importance for social and economic development and stability of any country. Counteracting global warning significantly affected the functioning of the modern economy as well as its sectors. The energy industry, which is currently regarded as one of the most responsible for pollution, is under strong influence of institutional activities in support of transformations towards low-emission economy. Apart from geopolitical conditions, environmental aspects constitute now the main determinants of the functioning of the sector. For this reason, there is intense search for new solutions in order to meet its ecological, political and social challenges. The hydraulic fracturing method has become one of

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the answers, allowing to extract gas from shale deposits. However, this technology is a very controversial issue due to its impact on the natural environment, especially at the time of enhancing ecological aspects of the economy, which strives to completely integrate ecological and social costs in the economic accounts. Moreover energy enterprises have been receiving a series of accusations over the years, such as negative environmental impact, putting human health at risk, violating industrial safety regulations and employee rights, violating human rights, corruption, lack of transparency measures, negative impact on local communities and stakeholders, financial improprieties and avoiding payment of taxes, participation in military conflicts and violating rights of ownership (Watts 2005). The energy industry is in the first ten sectors which violated the UN Global Compact Rules (Oekom CRR 2016). It specifically is dominant in the area of corruption and negative effect on the natural surroundings. For example, in 2015, the oil, gas and consumable fuels industry enterprises seriously polluted the water environment seven times (Oekom CRR 2016). Any energy investments and technologies feature benefits and risks. Cohen et al. (2014) emphasise that new energy technologies, no matter how wonderful and quality solutions they offer, force changes in the system and have chance for full execution only with social acceptance. The objective of the chapter is to show importance of social acceptance in execution of new energy projects in the example of shale gas output in Poland and active opposition against it. The chapter consists of four parts. The first presents the issue of social acceptance in the energy sector in the theoretical view. Then, that the results of public opinion polls in Poland will be presented in the reference to shale gas. The third part presents the author's quality studies aimed at supplementing the all-Poland quantity studies with the methods: in-depth interview and case study analysing opposition against extraction of gas from shale deposits in south-eastern Poland. The summary is presented in the final part. The chapter is aimed at showing that local community is becoming the key stakeholder and social acceptance the determinant of success for innovative energy projects.

2 Social Acceptance and the Energy Industry in the Theoretical View

Domestic power supply systems are created and operate independently of the daily life of regular citizens. This helps minimise the risk related to new technologies and work performance. However, they affect the lifestyle of citizens and energy consumption structures. There are two opposing models of development of the energy industry: paternalistic and democratic (Lund 2000). The former is based on exclusion of participation of the society and the centralised decision-making process. The latter indicates that the energy policy friendly to the environment may be created only with active participation of local communities and the industry. Increasing institutional structure of the modern energy market is currently emphasised, the industry that was shaped and has been functioning based on regulations, standards and social and cultural conditions (Wolsnik 2012). Struss et al. (2013) indicates that the shape of energy systems is based on culture and economy. Jochem (1998) presents dependencies between the national climate policy and the general culture. Degradation of the natural environment is extending beyond physical surroundings and enters the realms of social and cultural life (Oliver-Smith 2009). In the discussion of the issue of sustainable consumption, Jackson (2004) indicates the relationship between energy consumption culture and social organisation. Łucki and Misiak (2010) propose the humanistic strategy of the approach to the issues of energy, from both the demand and supply sides, so that social problems could be solved. Additionally, the idea of sustainable and permanent development or social responsibility of enterprises strengthens the multidimensional attitude to the functioning of the economy. This changes the attitude to innovativeness, which is no longer perceived as a technological, economic or social or political solution but as a combination of all the above factors (Urry 2011: 123). Besides, the climate policy and development of renewable sources of energy forces transformation of energy systems and business models in the industry. Meanwhile, oftentimes rights of local communities are passed over during execution of energy projects. This industry, very often with cooperation of the government administration, presents information about the functioning of the sector in the context of its own interests and needs and even creates forces of pressure on stakeholders so that they would rephrase their needs and desires (Mercer et al. 2014). For example, the discourse proposed by the protagonists of shale gas development is based on patriotism and creation of work places, neglecting challenges and the problem of protection of the environment (Hudgins and Poole 2014; Mercer et al. 2014). Additionally, the areas of oil or gas output are marked as "technological zones with restricted access", which seems to be justified technically, but is also used to hide political and business interests (Willow and Wylie 2014). On the other hand, we have been observing during the recent decade increased emphasis on importance of commitment of the interested parties, social acceptance and participation of the society in many areas of politics, especially those dealing with the issues of protection of the environment or evaluation of technology and management of resources (Oughton 2008). Social acceptance is gaining special significance, especially during the time of digitisation of the economy, social media and the Internet being used for authorisation of stakeholders (Juris 2008) and monitoring of democracy and civil rights (Keane 2009).

Majority of the research dedicated to the problem of social acceptance is focused on studies of public opinion or a specific group, but does not expand the spectrum of analyses with geographical, institutional or cultural aspects. Narrowing down social acceptance only to public opinion studies is too deep a simplification the view of the frequent problem referred to as NIMBY (*not in my backyard*), that is, objection around the locations of energy projects, in particular of the infrastructural nature, close to the place of residence of the local community. Moreover, Brohmann et al. (2007) indicate that social acceptance is the result of a dynamic and multidimensional process in which the project itself, opinions of stakeholders and the context of the undertaken actions are mutually supplementing. Wüstenhagen et al. (2007) emphasise that acceptance of local communities is related to the feeling of justice, that is the way how both costs and profits from the use of innovative technologies are distributed. Moreover, the author indicates that from the point of view of the local community, the aspect of transparency of actions is important, based on the fact that they can co-participate as stakeholders in developing the infrastructure, and whether they can trust investors, especially if they come from outside of the local community. With the example of RSE technologies, Wüstenhagen et al. (2007) present three dimensions of social acceptance: (1) socio-political acceptance (technologies, policies, institutional changes, policymakers, the public, key stakeholders), (2) community acceptance (place attachment, landscape identity, fairness of process, residents, local authorities, trust) and (3) market acceptance (consumers, investors, green tariffs, intra firm, incumbents, new parties). Cohen et al. (2014: 5) redefine social acceptance, not in terms of any action taken by residences, or as a lack of opposition, but *as set of outcomes and aspects that leave local at least as well off as they were before the project.* It is understood as a set of desirable results that leave the local community in the situation not worse than before the project. Energy projects very often face social dissent. Therefore, understanding the role and essence of social acceptance seems to be very important for their positive implementation.

3 Assessment of Shale Gas as a Source of Energy in Poland in View of Public Opinion Polls

In recent years Poland has faced new possibilities coming out from the information that large deposits of shale gas are located in its area. Economic benefits that resulted from exploitation of these deposits in the United States aroused high hopes related to the possibilities of mass exploitation of gas from shale deposits. Energy security and access to a cheap source of energy, which at the same time has lower environmental impact, are the perceived, largest benefits. The climate package adopted by the EU constitutes a challenge for the Polish economy, in which coal is the basic energy raw material, responsible for 82% of the energy demand of the country. High dependency of the Polish economy on fossil fuels makes both representatives of the energy industry and many opinion-forming and governmental centres believe that the ambitious EU policy on reduction of carbon dioxide will negatively affect competitiveness of Polish enterprises. Aside from assessment of the climate policy, the EU imposes specific obligations on Poland. However, the costs related to the transformation of the energy system cause the search for bridge solutions. Moreover, the intention to become independent of the import of gas from Russia and neutralisation of turbulence in the geopolitical scene have resulted in the increased interest in acquisition of deposits from shale as a prospective source of energy. One could thus consider that Poland experienced a sort of shale hysterics in the years 2012–2014. The reports presented by various centres (national and international entities representing both the oil and energy industry and ecological organisations) as regards the future of the energy policy in Poland[1] considered gas (including shale gas) as a significant part of the part of the future energy mix of the country. However, it is basically an additional source, a bridge between the transformation towards the nuclear energy or RSE (renewable sources of energy), which are regarded as mutually exclusive alternatives.[2] The advantage of gas is its low cost and short-term nature of the investment, medium level of CO_2 emission and flexibility and support for RSE (Czyżewski and Świeboda 2011; Gwiazdowicz et al. 2012). The negative aspect is, however, high dependence on supplies and prices of gas, which could overcome its own production. For this reason, the shale deposits issue excites such emotions in Poland.

The process of mining deposits in shale opens the discussion about environmental and social costs. Shale gas exploration based on the hydraulic fracturing technology is a very controversial issue due to the impact of the technology on the surroundings. The debate about fracturing is focused on its impact on water resources (Arthur et al. 2009; Kargbo et al. 2010; Osborn et al. 2011; EPA 2011; Merrill and Schizer 2013). Attention is also paid to the potential hazard to human health (AEA 2012) and social costs (ÈES 2014). Regardless of controversies, Polish citizens present a very positive attitude to the issue of shale gas mining. It is strongly related to the presentation of the issue in the media: full of high hopes and optimistic expectations for the "gas revolution of the Polish shale deposits" and becoming independent on supplies of gas from Russia. Majority of public opinion polls on shale gas or the energy industry present a very positive attitude of the Polish community to this source of energy. The poll conducted in 2013 by the European Committee (UE Report 2012) featured high representation of respondents from five EU countries (Poland, France, Romania, Spain and Germany), including Poland that provided 90% of the individual responses. The scale of the responses from the individual countries showed presence of mobilisation campaigns and reflects the presence of the active public debate and information about unconventional fossil fuels at the national level. Individual respondents from Poland constituted half of the whole participation (51%) and institutional respondents about 40%. The ratio of the respondents from Poland was favourable for unconventional fossil fuels, of whom over 59% respondents believed that unconventional fossil fuels should be mined in Europe irrespective of costs. In comparison with 30% respondents from other EU countries who expressed a similar opinion, only 2% of the Polish respondents were against mining unconventional fuels, with 33% of the

[1]Majority of the reports relate to the 2030 time horizon. The forecasts of ARE- Agencja Rynku Energii (2009 and 2011); MAE Scenario 460 (2010) Alternatywna Polityka Energetyczna/Alternative Energy Policy (2009) were developed by the Institute for Sustainable Development in Poland; EnergySys—Report 2030, 2050 (2008 and 2010). World Bank drafted of the report *Transformacja w kierunku gospodarki niskoemisyjnej w Polsce* (2011), which included the works: McKinsey—MAC Curve, macroeconomic analysis based on the ROCA model (Regional Options for Carbon Abatement), analyses based on IBS CAST (Climate Assessment Stimulation Toolbox), Greenpeace—[r]evolution of energy (2008).

[2]One should add here that energy efficiency is pursued as the basis, the core of the energy transformation in Poland.

respondents from the EU. The rest were responses in support of mining with close monitoring of the environmental impact.

A similar study about public opinion was conducted in the same year by the Polish centre for public opinion polls TSN (2013), but they were related directly to mining shale gas in the areas of the concessions, this being conducted on the order of the Polish Ministry of the Environment. 73% of the respondents were for mining of shale deposits gas, 4% were against, and 23% had no definite opinion. However, the NIMBY effect was apparent. The number of followers becomes lower when the respondents were to take into account the location of the mining platform close to their place of residence. This was the situation of 56% of the respondents, 21% were against, and 23% did not state the position in this case. This shows that 17% of Poles support shale gas mining, but not in their surroundings. Acceptance of development of a new branch of the energy industry favour more those living in larger cities, in a better economic situation and rarely declared participation in religious practices. Energy security is considered to be the main benefit of shale gas mining. Majority of the respondents cannot specify their position as regards the effect of shale gas mining on the environment (41%) or on human health (45%). 43% of the respondents believe it to be safe for the environment, but only 12% are absolutely certain of it, and 31% chose the option that it is rather safe. 16% of the respondents believe that shale gas mining is not safe, 2% of them being certain of it. A year later, the CBOS centre for public opinion polls in Poland, conducted a general poll about the directions of development of the energy industry (CBOS 2014). The first rank with the highest support was taken by RSE: 86% as the main direction of development of the energy industry in Poland. Shale gas ranked second in the opinion of the subjects, with 78% of the respondents being in favour, 8% being opposed and 14% reporting no opinion of their own. The last rank was for hard coal and brown coal (32%) and nuclear energy (40%).

The studies presented above clearly show the positive attitude to mining of shale gas in Poland. However, appearance of active opposition against mining in south-eastern Poland created the basis for further in-depth studies and analyses of the attitude of Poles to this source of energy and to the technology used for its mining.

4 Shale Gas in Poland: Qualitative Research

The full understanding of the energy issues in Poland, and social acceptance for energy projects, required supplementation of the all-Poland qualitative studies. Quality studies were conducted for this purpose, the objective of which was the in-depth study of the attitude of Polish citizens to the energy issues, including gas from shale deposits, and the analysis of the conflict and active opposition against mining in one of the Polish locations.

Methodology The study consisted of two stages in which two qualitative methods were, respectively, used: in-depth interview and case study. The selection of the respondents for the quality study with the use was deliberate and concentrated

Table 1 The structure of the respondents in the quality study in terms of age, education and place of residence

Feature	Characteristic
Age	30 respondents were below 30 years of age 22 respondents were in the age range 25–45 years 14 respondents were above 45 years of age
Education	4 respondents had primary education 22 respondents had secondary education 20 respondents had higher education
Place of residence	27 respondents lived in the countryside 14 respondents lived in a city of less than 500,000 inhabitants 4 respondents lived in a city of more than 500,000 inhabitants

Source: Own research

around the areas of the conflict. The respondents came from the areas of south-eastern Poland. The scenario of the interview consisted of 16 open questions. The time of the study: April to May 2015. The total of 46 interviews were conducted. Women constituted half of the respondents. Table 1 presents the characteristics of the respondents in terms of age, education and place of residence.

The second part of the studies was conducted based on the case study method, and its objective was the analysis of the conflict between the Chevron enterprise and the residents of Żurawlów as regards gas mining. Analysis of secondary sources and in-depth interviews were used within the study. The period of the analyses covered the period from 2012 until the end of 2014.

The Results of the Studies: In-Depth Interviews The qualitative studies showed that the respondents had little knowledge about the energy industry, especially as regards the cause and effect relations. It seems to be a collection of second-hand various pieces of information. The geopolitical situation has the strongest effect on perception of the respondents as regards the energy issues. The historical and geographical conditions, as well as the specific nature of the main supplier (Russia), cause increase of the weight of the perceived threat. And this is what makes the issues of mining own gas, thus including shale deposits gas, being perceived so positively. On the other hand, the respondents did not have knowledge about hydraulic fracturing which is why not being aware of hazards, they were not in a position to determine prospective negative consequences. However, along with such knowledge coming up, their attitude to mining was changing. And it can change, as was the case of the inhabitants of Żurawlów, into active resistance. The results of the studies related to the issues of mining shale deposits gas of the study are presented in Table 2.

Case Study: Żurawlów Community About Shale Gas The Chevron Group conducted exploration in shale gas deposits in south-eastern Poland. In 2009, Chevron obtained four exploration licences in the areas of Frampol, Grabowiec, Kraśnik and Zwierzyniec. They authorised the company to execute drills in the leased plots to the depth of 1000 m and perform tests and run test drills. One of the

Table 2 Presentation of the results of the quality study about shale deposits gas mining in Poland

The attitude of the respondents to shale gas mining with justification	Majority of the respondents have positive attitude to shale gas mining or neutral with repeated emphasising that if it is economically beneficial, their attitude is positive. At times, a respondent stated support for mining if it is not harmful. The main justification is independence of the import of gas from Russia and prospective economic benefits. However, majority of the respondents—42—admit to little orientation about the issue and lack of sufficient knowledge. Only four respondents were against. These were two women and two men. Higher and secondary education in both gender groups. Age 35, 41, 47 and 72 years. Income in three cases above the national mean. These were residents of a village, a small city and a city with more than 500,000, so it is a completely non-uniform group. All of them indicated prospective environmental hazard as an objection The samples of justification of a positive opinion about shale deposit gas mining: • *It is a novelty, it should be supported. Shale gas may constitute an alternative for importing very expensive gas from Russia* • *Very positive. Shale gas is a huge chance for Poland for development of the energy industry and becoming independent of the supplies of gas from Russia* • *I believe that becoming independent of Russia is necessary, Poland would then had more to say in political issues. This is why investments in shale gas mining should be done even though it is not a safe form, but we do not have any other choice as gas is necessary*
Knowledge about hydraulic fracturing technology and its environmental impact	All the respondents believe that they do not have knowledge about hydraulic fracturing. Almost 40 persons admitted that they have not heard anything specific about potential hazards. The negative impact on the environment was reported mostly by the respondents opposing this activity The sample response of an opponent of mining: • *Much is being said about it recently. I have decided to learn something more about. However, from what I often read in newspapers or in the Internet I am starting to have doubts about benefits of this method. I think no. We are not certain about the quantity explorable*

(continued)

Table 2 (continued)

	in the territory of Poland. I have not read anything pleasant about hydraulic fracturing. I think that if I had not become interested in this issue, I could not express opinion about this • *If I learned that it is terribly threatening to health, I would rather not to have it and if it were relatively safe, I don't see any obstacles*
The strongest challenges for the energy industry in Poland	The strongest threat to the energy industry in Poland in the opinion of the respondents is dependence on import of gas from Russia. Fourteen respondents indicated this threat, and 11 stated only this one. The second important threat is increase in energy prices, that is, economic issues. Then the threat of depletion of coal resources and inept policy of the government in the energy issues, including lack of a long-term and strategic vision. The other items include outdated technologies and slow modernisation of the energy sector, lack of support for RSE and other types of energy production, concentration only on the interest of large concerns and the mining lobby and lack of development of awareness as regards energy technology in the public
Knowledge about the energy industry	The respondents assessed their knowledge about the energy industry as poor or average. Only one person assessed this status as good, mostly due to the professional work related to the energy sector. The state of knowledge of the Polish public about the energy industry was similarly assessed: as very poor, poor or average
Community consultations and taking into consideration opinions of the public in making decisions as regards the energy industry	Forty-three of the respondents believe that the energy issues should be consulted with the public. Only three persons stated that it is not necessary due to needless wasting of funds. According to them, these are the issues for experts

Source: Own research

concessions was in the area of the Żurawlów village located in south-eastern Poland. This area is known for fertile soil, virgin nature with unique habitats. The activities of the local community in these areas are concentrated around agriculture. Roztocze[3]

[3]The size of the protected area is 103,503.33 ha.

is located close by, the area that is part of the network of the 2000[4] protection areas. The official objection of the residents of the Żurawlów village and the nearby places of Miączyn, Rogowo and Grabowiec against the planned wells to be executed by the Chevron company started on 3 June 2013 and lasted 13 months. The residents of the areas neighbouring with the area of the planned shale gas wells entered the area of the plots leased by the concern in order to express objection against the actions planned by the enterprise. On 7 July 2014, after 400 days of the protest of the residents of Żurawlów and the nearby villages, the company left the leased area at 4:00 in the morning. There were six court sessions in the district court in Hrubieszów against the farmers from Żurawlów and the nearby locations. They were mostly dedicated to unfounded calling of the police or violating of the property of the Chevron company in the area of the plots leased by them. The first sentence in these cases was issued on 18 July 2014, acquitting 12 farmers from the Lubelskie region. The Chevron company, after withdrawing from Żurawlów, admitted unreasonable nature of its actions. The whole action and events were recorded on the ongoing basis in social media portals (occupychevron.tumblr.com and www.facebook.com/OccupyChevronPL). During the dissent action against the activities of the Chevron company in the area of Żurawlów, the "Zielony Żurawlów" association was established, which has been conducting activities related to the objection against extraction of shale gas, broadly understood protection of the environment and protection of human rights and public interests. In the most feverish year of the protest (2013), there was a marketing campaign of the concern in the media, addressed to Poles. Its objective was to evoke positive attitude to exploration of natural gas in Poland. The company presents itself as the undertaking that operates in line with the natural environment, and energy resulting from its work will be the beginning of independence from import of gas from Russia. Moreover, mass production will create new places of work. The history of the conflict is presented in Table 3.

It is important to note that the Supreme Audit Office[5] inspected the exploration, extraction and management of gas from shale deposits in the years 2007–2012, during the period from 29 October 2012 to 2 July 2013, covering 19 entities.[6] The

[4]Natura 2000: the programme of a network of the areas covered with the protection of the natural environment in the territory of the European Union. The objective of the programme is to preserve specific types of natural habitats and the species that are considered to be precious and threatened with extinction in the scale of the whole Europe.

[5]The highest auditing authority inspecting the activities of all the enterprises and authorities in Poland.

[6]The Ministry of Economy in Warsaw, the Ministry of the Environment in Warsaw, Polish Geological Institute, National Research Institute in Warsaw, National Fund for Environmental Protection and Water Management in Warsaw, State Mining Authority with Regional Departments Górnicze in Warsaw, Lublin, Poznań, 11 entrepreneurs who were granted the concessions: Eco Energy 2010 Sp. z o.o. Spółka Komandytowo-Akcyjna in Gdańsk, Talisman Energy Polska Sp. z o.o. in Warsaw, Indiana Investments Sp. z o.o. in Warsaw, Chevron Polska Energy Resources Sp. z o.o. in Warsaw, DPV Service Sp. z o.o. in Warsaw, Maraton Oil Poland Sp. z o.o. in Warsaw, Silurian Sp. z o.o. in Warsaw, Exxon Mobil Exploration and Production Poland Sp. z o.o. in Warsaw, Orlen Upstream Sp. z o.o. in Warsaw, Polskie Górnictwo Naftowe i Gazownictwo S.A. in Warsaw, Wisent Oil & Gas Sp. z o.o. in Warsaw.

Table 3 History of the conflict between the Chevron company and the inhabitants of Żurawlów

06.12.2007	The Minister of the Environment award concessions to the Chevron Polska Energy Resources Sp. z o.o. company
15.12.2011	The educational trip to the drill rig in Horodysko with participation of representatives of the Żurawlów village
19.01.2012	The first community consultations: a meeting of the company with the residents of the Żurawlów and Szczelatyn communes with the authorities and representatives of the Chevron company
01.03.2012	Community consultations in the form of the letter of the Chevron company addressed to the residents of Żurawlów, Szczelatyn and Rogowo
13.03.2012	Blocking the access road to the drill rig near Żurawlów by the residents of Żurawlów
02.04.2012	The complaint of Stowarzyszenie Ekologiczne EKO-UNIA
06.06.2012	The validity of the Grabowiec concession expired
15.07.2012	Official withdrawal of the Chevron company from the location in Żurawlów
17.07.2012	The test borehole drilling in Ministrówka
03.06.2013	The beginning of the official protest of the residents of Żurawlów against the Chevron company in the area leased by the concern
18.06.2013	The complaint with GIODO (the Inspector General for the Protection of Personal Data) filed by the head of the Grabowiec Commune
19.06.2013	The Chevron employees intervene in the Żurawlów parish
20.06.2013	Geodetic surveying conducted without the permits to the order of the Chevron company
01.07.2013	The meeting of the head of the Grabowiec Commune with the residents: filing the application with the Ministry of the Environment to cancel the concession awarded to the Chevron company
06.07.2013	The solidarity process with the protesting inhabitants of Żurawlów, held in Lublin
12.07.2013	The reply from MŚ (the Ministry of the Environment) and filing another application by the opponents of gas extraction in the Lubelskie region
15.07.2013	A picket in Warsaw on “Solidarity with Żurawlów”
19.07.2013	Another application filed with MŚ
09.08.2013	The trial in the district court against a Chevron employee
30.08.2013	Illegal felling of trees, officially the perpetrator is not known. The Chevron company is the suspect
28.10.2013	The court sentence for the Chevron company employee
11.11.2013	The participation of the farmers of Żurawlów in the COP19 Climate Conference in Warsaw
14.11.2013	The visit of the member of the European Parliament from France, José Bové
06.12.2013	The validity of the concession of the Chevron company for the seismic tests in the area of 300 m^2 expired
07.02.2014	A negative decision, in the form of a resolution, of the Grabowiec Commune Board as regards the activities of the Chevron company
28.02.2014	The refusal of the Zamość Starost for the Chevron company
10.03.2014	The decision of the province head on the resolution of the Grabowiec Commune Board
13.03.2014	Praktibut (a subcontractor of Chevron) withdrew the construction equipment
09.04.2014	The ABW (Internal Security Agency) inspection in the Zamość County Starost Office

(continued)

Table 3 (continued)

07.06.2014	Chevron finally withdrew from the leased plot: the end of the protest
18.07.2014	The first sentence in the case of the protesting farmers: 12 persons acquitted
12.09.2014	The award in the contest organised by Greenpeace "Uwolnij Energię/Free Energy": the RSE micropower plant for the residents of Żurawlów

Source: Own research

result of the inspection was not positive. The environmental aspects were specifically assessed negatively, just like the procedures and the administrative proceedings. Critical information started to be published in the media as regards the possibility of extracting shale gas in Poland. The information mostly referred to economic aspects, that is, profitability of the extraction. This issue is currently almost non-existent in the Polish media. The result of the whole situation was related by one of the activists from Żurawlów: *I was originally against extraction of shale gas in the area of my commune. Now I am against extraction in Poland and anywhere in the world.*

It is important to notice that the hazard for the region related to shale gas mining is the reason why residents of Żurawlów decided to fight against the corporation. The area has resources of geothermal waters, and the residents live mostly from agriculture. The protected area is located nearby. Pollution of the nearby resources of water would destroy what is most important for the Lubelszczyzna region and would harm the development of agriculture from which the local residents draw profit. Prospective benefits would not be as large as losses, if any, which could be incurred as a result of pollution of the natural environment and destruction of the landscape. For this reason, the residents and the "Zielony Żurawlów" association become involved in the development of renewable energy, which they consider to be the most beneficial solution for their region. They support legislative initiatives in support of the prosumer energy industry. They want to consciously shape and cocreate the social, natural and economic environment.

5 Summary and Conclusions

The example of shale deposit gas mining in Poland shows that social acceptance is not a one-dimensional process in which the interested parties accept or reject the project. It cannot be reduced only to public opinion polls or justified mostly ideologically. The energy issues, of both large and small reach, should not be considered with the lack of understanding of the nature, traditions and heritage of the given country, as well as the region. The general awareness and knowledge of citizens as regards the energy issues is very low. The geopolitical and historical determinants are highly decisive about the level of understanding and sympathy for energy projects. The challenges related to climate changes and searching for more sustainable models of production and consumption demand, however, increased citizen and consumer awareness in terms of the energy issues. The institutional surroundings cocreate the public opinion as well as the relation of local circles to the occurring challenges. In Poland, local government authorities proved to have low knowledge of regulations. The local government staff often had lower awareness of the issues related to their area than the residents involved in the issue. Weakness and passivity of the institutional environment strengthened the opposition. Lack of trust to public institutions as the entity capable of the proper redistribution of benefits, political culture and administrative procedures shapes the level of social acceptance. In Poland, they definitely weaken it. However, it has to be emphasised that the above factors change over time. Social acceptance is a dynamic process, and not static one (Brohmann et al. 2007), striving to achieving balance. Additionally, development of ICT technologies supports democratic processes and protection of the public interest, especially in local communities. The advantage resulting from asymmetry of information in the digital community is easier to minimise. As Irwin (1995) stated, public reactions to controversial technologies are not based on irrationality or ignorance but are actually created around economic justification, based on the damages for reduction of usability of specific resources, which may result from using a new technology. A different vision of regional development was a significant element of objection in Żurawlów. The central administrative centres very often ignore the interests and needs of those smaller ones. However, the increasing possibilities of acquiring energy from renewable sources and development of distributed energy industry and prosumer energy industry constitute a real alternative for the traditional energy industry and methods of its organisation. Moreover, they are more friendly for the environment. It happens that when social and environmental costs are included in the total account, under specific local conditions, with the specific nature of the region taken into account, they may prove to be a more beneficial solution for the local community. The case of resistance against shale gas in Żurawlów is an example of this. It is not an opposition against or fear of the fracturing technology itself but active counteracting against the top-down vision of the development of the region, which is different from that of the people living in the given area, against its tradition, cultural and natural heritage. For this reason, the important question is whether the modern energy policy may continue on the paternalistic principles, without social acceptance. Changes and challenges facing the energy sector seem to increase the weight of social acceptance and the democratic model of the energy industry development. The healthy natural environment and counteracting climate changes form the basis for the formulation of a new logic of functioning of the industry. Groups and entities within this effect want to co-participate in the creation of the energy policy trying to eliminate in this way the uneven distribution of costs and benefits related to environmental changes. Therefore, the issues of role and significance of acceptance should be subject to further studies. Social acceptance and stakeholder engagement become the core of the decentralised, democratic energy policy and economic development.

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The Impact of CSR on Job Satisfaction and Employee Retention in Hungarian Hotels

Viktória Krémer

Abstract Corporate social responsibility is one of the most important concepts of our times. More and more companies recognise their responsibility towards their stakeholders, and the implementation of CSR has been proved to have several advantages. One of its benefits is the positive impact on job satisfaction. Studies on the topic have shown that this positive effect works in practice, in various sectors including tourism, but little information is available on the Hungarian hotel sector. Therefore, the aim of this research was to find out how CSR affects job satisfaction and how job satisfaction affects employee retention in Hungarian hotels. The research was conducted from April to June 2015 with 189 employees from front office, reservation and sales departments of Hungarian hotels filling out a questionnaire. The first part of the questionnaire measured the employees' perceptions of the hotel's CSR activities; the second part measured the job satisfaction and the intention of the respondents to remain the employee of the hotel. After reducing the large number of CSR and job satisfaction indicators used in the questionnaire, regression analysis was carried out to reveal the connection between CSR factors and job satisfaction factors and the connection between job satisfaction factors and employee retention. Based on the responses, CSR activities of Hungarian hotels could be categorised into four groups, namely, employee-centred CSR, consumer-centred CSR, social and environmental CSR and legal CSR. Analysis of the data showed that employee-centred CSR has the biggest positive impact on job satisfaction by affecting all of its aspects. However, the other three types also have a significant positive impact on certain elements of job satisfaction. The data also proved that employees with a higher level of job satisfaction are more likely to remain the employee of the hotel. As a conclusion, the results confirmed that CSR has significant positive impact on the job satisfaction of Hungarian hotel employees and indirectly, CSR activities can help retain employees. The findings show that CSR is worth to be dealt with seriously. Whether started in-house by introducing

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measures in favour of the employees or putting the emphasis on external issues, CSR is clearly beneficial for hotels in terms of employee retention.

1 Introduction

Corporate social responsibility (CSR) is becoming a major issue in economics. It is not enough anymore for businesses to be profitable, but it is crucial to meet the triple bottom line where social and environmental aspects also have to be considered besides profitability. Without this approach no business can be sustainable. Tourism has several social and environmental impacts that must be dealt with. Therefore, tourism businesses especially have to operate in a responsible way. This is becoming a common view in several countries, but there is little information on the situation in the Hungarian hotel sector. It is also important to note that CSR does not mean benefits for the society and the environment only, and costs for the company, but the businesses involved in CSR activities can enjoy their advantages. As tourism is an industry that greatly relies on human resources and there is a strong relation between employee satisfaction and service quality, CSR can also be a means of caring about employees or motivating them and thus providing better services.

There is an extensive literature on CSR and job satisfaction worldwide. However, there is little research on CSR in Hungarian hotels. Therefore, one of the aims of this research is to find the connection between CSR activities of hotels in Hungary and job satisfaction. Thus, our first research question is: How does CSR affect job satisfaction in Hungarian hotels?

It is widely accepted that more satisfied employees tend to work longer at a specific company than those who are not satisfied with their jobs. Typically, tourism is a sector where companies have to deal with a great turnover. It is worth to examine whether job satisfaction in Hungarian hotels can affect employee retention. The second research question is: How does job satisfaction affect employee retention in Hungarian hotels?

1.1 Corporate Social Responsibility and Job Satisfaction

Corporate social responsibility has become one of the most discussed topics of the past few years. Despite of this, currently no single widely accepted definition of CSR exists. There are several definitions by various organisations and researchers (European Commission 2001; Kotler and Lee 2005; Tóth 2007; Szlávik 2009; Werther and Chandler 2011; Singal 2014). However, there are some important notions or concepts that appear in most of the definitions, namely, sustainability, triple bottom line and stakeholders. Based on these, the definition of CSR for the purposes of this research is the following: corporate social responsibility is a set of voluntary activities and measures that are integrated in the business activities of the firm, going beyond profit maximisation and taking environmental and social aspects into consideration in order to be sustainable.

There are two main reasons why CSR is very important or even crucial for all companies. On one hand, there are the expectations of the society; on the other hand, there is the possibility of turning CSR activities into competitive advantages.

According to Kotler and Lee (2005), the advantages of CSR are increased sales and market share, strengthened brand positioning, improved corporate image, increased ability to attract, motivate and retain employees, decreased operating costs and increased appeal to investors and financial analysts. Other authors list similar benefits of CSR. Several researchers have dealt specifically with the effects of CSR on employees. According to Tzirner (2013) CSR enhances employee attitudes, behaviours and productivity, contributing to the profitability of firms. He adds that there is a positive connection between CSR policies and organisational commitment among employees resulting in a higher level of employee performance and a drop in turnover. Furthermore, CSR has a significant effect on job satisfaction as well.

Senasu and Singhapakadi (2014) identified internal benefits of CSR which include improved employee motivation, morale and commitment, reduced turnover, requirement and training costs and a positive attitude of employees regarding their workplace. However, they found that CSR does not affect job satisfaction, which is affected only by quality of worklife, but it has an effect on organisational commitment. It means that involvement in CSR activities is perfect for boosting organisational commitment.

Chong's research (2009) proves that if a firm aligns its CSR strategy with its corporate identity, stronger employee participation and a higher level of commitment to its CSR programmes can be expected.

Chen et al. (2010) conducted research on the relationship between working satisfaction and turnover. They found that without providing career or advancement opportunities, employee retention is impossible. This is important from a CSR point of view as well, because providing career opportunities can be part of CSR. Another finding of the authors was that a mentoring programme can be helpful in decreasing turnover of small- and medium-sized hotels. They state that high-quality communication and pay and welfare are crucial factors, too. They also added that an encouragement system can increase job satisfaction, which positively affects employee retention.

Besides choosing the right activities, internal CSR communication is crucial for making sure that all employees know about the CSR strategy, policies and actions of the firm. Hwang and Chi (2005) found that internal marketing has a positive impact on job satisfaction which results in a positive impact on organisation performance. Vlachos et al. (2012) emphasise the role of a charismatic leader. These leaders can influence the employees' value-driven motivations. Therefore, if there is a CSR initiative, a charismatic leader is needed for the success.

Measuring the effects of CSR can be problematic, partly because CSR is difficult to be quantified. If we want to measure CSR, the main question is what the suitable indicators are and how to interpret them. Most research done on CSR is based on

CSR activities towards various groups of stakeholders such as shareholders, employees, consumers, suppliers, authorities, etc. (Turker 2009; Yin et al. 2013) or similar but broader categories such as social, environmental, economic, cultural, legal, etc. (Levy and Park 2011; Lee et al. 2012; Kucukusta et al. 2013; El-Garaihy et al. 2014; Farooq et al. 2014; Gallardo-Vázquez and Sanchez-Hernandez 2014). In some research a combination of these is used (Pérez and Rodríguez del Bosque 2014).

Measuring job satisfaction also requires several indicators with the help of which we can measure the main aspects of satisfaction such as the work environment, the type of work, compensation and personal status (Gallardo et al. 2010; Lee and Way 2010; Abdullah et al. 2011).

1.2 Research Model

Figure 1 shows the connection between the types of CSR, the aspects of job satisfaction and employee retention. All the possible connections are indicated in the figure. The hypotheses of this chapter are represented by the solid lines. Each element of the model is made up of several variables.

As it can be seen in the research model, first the connection between CSR and job satisfaction, then the connection between job satisfaction and employee retention will be tested. Based on the literature and on personal experience, the following hypotheses were made:

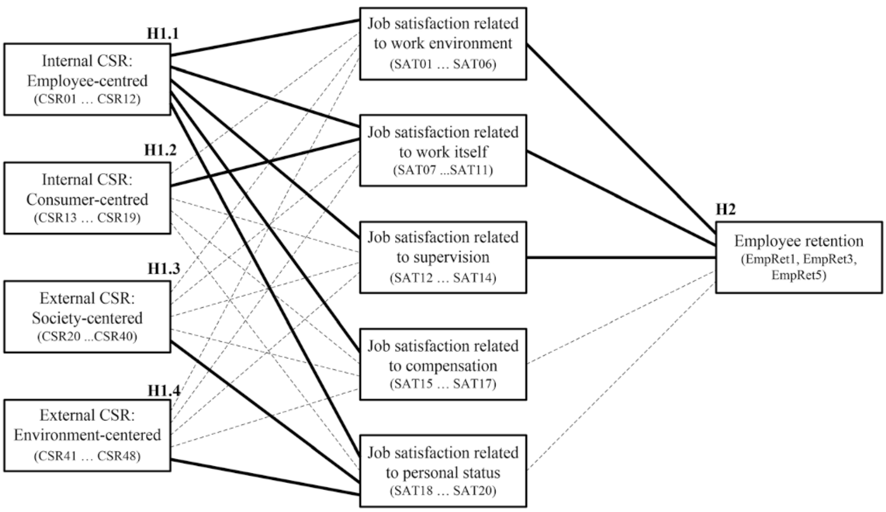

Fig. 1 The research model

Hypothesis 1.1: Employee-centred CSR has a significantly positive impact on job satisfaction by affecting all of its factors.

As this type of CSR is targeted towards the employees, all of the efforts are made in order to improve their work satisfaction. Therefore, this factor should have impact on all aspects of job satisfaction.

Hypothesis 1.2: Consumer-centred CSR has a significantly positive impact on satisfaction related to the work itself.

Consumer-centred CSR is primarily about making the guests satisfied, which, from the employees' point of view, is related to the work itself. Therefore a connection between these two was hypothesised.

Hypothesis 1.3: Society-centred CSR has a significantly positive impact on satisfaction related to personal status.

Society-centred CSR is extra organisational CSR, helping to solve issues outside the company. Employees can take part in it as well, by voluntary work, for example. Through these activities the individual can feel the importance of their work, which is why satisfaction related to personal status could be affected by society-centred CSR.

Hypothesis 1.4: Environment-centred CSR has a significantly positive impact on satisfaction related to personal status.

Similar to society-centred CSR, environment-centred CSR also goes beyond the company itself; thus the reasons for hypothesising this connection are the same as it was in the previous case.

Hypothesis 2: Job satisfaction related to work environment, supervision and the work itself has a significant impact on employee retention.

Previous literature proved the connection between employee retention and these three elements of job satisfaction; however, other connections are possible, too.

2 Methodology

2.1 Variables

In this research we use CSR activities as indicators of CSR that together can indicate the overall CSR attitude of the company. In line with the definition of CSR, CSR activity is defined as follows. CSR activity is any voluntary activity that is done by the firm due to environmental or social considerations, not aiming primarily to make more profit, but to make the business more sustainable. CSR variables (CSR_01 . . . CSR_48) are statements about CSR activities of the hotel, measured on a 6-score Likert scale, 1 meaning 'strongly disagree' and 6 meaning 'strongly agree'. The CSR variables were chosen based mainly on Turker's elements of CSR (2009).

The second construct to be measured is job satisfaction. Job satisfaction is a positive or negative evaluative judgement that one makes about their job or job situation. Job satisfaction variables (SAT_01 … SAT_20) are different indicators of job satisfaction, also measured on a 6-score Likert scale, 1 meaning ‘least satisfied’, 6 meaning ‘most satisfied’. The choice of job satisfaction indicators was based on Lee and Way (2010). Both for CSR and job satisfaction, some indicators were removed and some were added. Furthermore, other minor modifications necessary for making the indicators fit for the purposes of this research were made.

The third construct to be measured is employee retention. Employee retention is the ability of the firm to retain its employees. Employee retention variables (EmpRet1, EmpRet3 EmpRet5) show the intention of the respondent to remain the employee of the current hotel for 1 more year, 3 more years or 5 more years.

Further variables included in the research are HotSize, the size of the hotel expressed by the number of rooms; HotStar, the category of the hotel from 1* to 5* or not rated; HotRegion, the tourist region in which the hotel is situated; HotFamily, whether the hotel is owned by one particular family; HotChain, whether the hotel is member of a chain; EmpAge, year of birth of the respondent; and EmpSince, date since when the respondent has been working in the hotel.

2.2 Data Collection

Data were collected using a questionnaire. The population targeted by the research consisted of front office, reservation and sales employees of hotels in Hungary. All the questions in the questionnaire (except for the question on hotel size) were multiple choice questions. The questionnaire contained four question groups. The first group consisted of questions on the hotel’s CSR activities. Altogether there were 48 questions in this group. The questions were about four fields of CSR, based on the literature: employee-centred CSR and consumer-centred CSR, which are types of internal CSR activities, and social CSR and environmental CSR, which are types of external CSR activities. These subgroups could not be seen by the respondents; they could only see a set of 48 questions on the hotel’s social responsibility activities. The second part of the questionnaire consisted of 20 questions on job satisfaction and 3 questions on employee retention. The questions here as well can be classified into subgroups in accordance with the research model. These subgroups could not be seen by the respondents either. The third part of the questionnaire consisted of questions about the hotel, collecting data on hotel size, hotel category, locality, ownership and type of operation. Finally, respondents had to answer two questions about themselves, one about their age and one about the date since they had been working in the hotel.

The questionnaire was spread online through various channels from 31 March 2015 until 17 June 2015. The link to the questionnaire was sent directly to the e-mail addresses of 906 hotels, collected from the website of the Hotel Association of Hungary and from the websites of each hotel based on the list of hotels available on szallas.hu, the largest Hungarian accommodation booking portal. It was also sent to 91 DMOs and to the Hotel Association of Hungary asking them to promote the research among their members. Furthermore, the link was published on personal Facebook sites and groups and a Facebook group of hotel employees.

2.3 Methodology of the Analysis

The first step of the analysis was the reduction of data. Several indicators of CSR, job satisfaction and employee retention were included in the questionnaire in order to obtain as accurate information as possible; however, this amount of data is very difficult and unnecessary to analyse. Thus, in the beginning factor analysis was carried out. Assumptions on the classification of variables had been made in the research model. The results of the factor analysis show whether these assumptions were correct. The next step was the regression analysis of connections between CSR factors and job satisfaction factors and then the connections between job satisfaction factors and employee retention. After carrying out these analyses, a revised model was set up based on the final result of the research. The analyses were carried out with PASW Statistics 18.

3 Data Analysis and Results

3.1 Descriptive Statistics

The questionnaire was filled by 189 respondents. About a quarter of the responses came from the Budapest region (24.9%). Almost half of all responses (46.1%) came from Transdanubian regions of the country. The rest (29%) came from the Hungarian Plains and Northern Hungary. A reason for it might be that corporate social responsibility is more widespread in the better developed parts of the country. More than half of the respondents (106 of the 189, which is 56.1%) work at a family-owned hotel. The vast majority (145 people, which is 76.7%) of the respondents work in a hotel that is not a member of any hotel chains. Most questionnaires (46.6%) were filled by employees under the age of 30. Approximately this is the age group that is usually found at the reception or sales departments of hotels. If we consider hotel rating, we can see that nearly all of the respondents work in three (39.7%)- and four-star hotels (48.7%). Its main reason must be the larger number of hotels in these two categories.

3.2 Factor Analysis of CSR Variables

The analysis of data started with data reduction. In the research model, CSR and job satisfaction variables are grouped in a way that would possibly be confirmed by the result of the factor analysis. First, the factor analysis of CSR variables was carried out. Table 1 shows all the CSR variables grouped according to the factor they belong to.

During the analysis four variables had to be deleted, as their communalities were too low (below 0.5). These four variables were listed among social CSR indicators in the preliminary classification of the research model; however, results showed that these indicators do not fit in any of the four groups.

With the remaining variables, the value of KMO is 0.945. This value can be between 0 and 1, and it is best if it is closer to 1. The result means that there is correlation between the variables and factors can be created without much loss of information.

The variables were grouped into four factors. The principal component analysis method was used for the extraction with varimax rotation. Rotation converged in seven iterations. The results below are listed according to the logic of the research model, starting with internal CSR.

The variables that were expected to be indicators of internal, employee-centred CSR are all listed in the second factor. There are no differences in this case between the result of the factor analysis and the preliminary classification; thus this factor contains 12 variables. The weights in the rotated component matrix are all over 0.584, so all the values are acceptable, as they have to be over 0.45 at a sample of this size. The new variable created for indicating employee-centred CSR is FAC_CSR_employee.

The variables that were expected to be indicators of internal, consumer-centred CSR were all listed in the third factor. The only difference in the result of the factor analysis is one extra variable in this factor compared to the preliminary classification. CSR20 (The hotel is known as a respected and trustworthy company.) was originally listed among external CSR indicators; however, the factor analysis showed that it fits better in this group, being more closely related to consumer-centred CSR than to social CSR. Altogether there are eight variables in this factor. The weights in the rotated component matrix are over 0.709 with one exception (0.598) that is still well above 0.45. All the elements can be accepted in this group as well. The new variable created for indicating consumer-centred CSR is FAC_CSR_consumer.

The grouping of external CSR into social and environmental activities was not supported by the results of the factor analysis. The fourth factor consists of four variables that all are related with honesty, legality and fairness. This group is addressed as legal CSR from this point on. The remaining 20 variables—a mix of activities of social and environmental CSR—are listed in the first factor. This classification is a little different to the preliminary one, but it can also be interpreted. There are researchers who differentiate between social and legal CSR. In the research model, legal CSR was considered to be part of social CSR, and environmental CSR was differentiated as a separate group. However, results show that legal CSR is more important to deal with separately than environmental. As a result, instead of external society-centred CSR and external

Table 1 CSR variables

	Employee-centred CSR
CSR01	The employees in our hotel receive a reasonable salary to maintain an acceptable quality of life
CSR02	The hotel provides a wide range of indirect benefits to improve the quality of employees' lives
CSR03	The hotel's company policies provide a safe and healthy working environment to all its employees
CSR04	The hotel supports employees who want to acquire additional education
CSR05	There are sufficient numbers of opportunities to develop my skills in my current job
CSR06	The hotel's company policies encourage the employees to develop their skills and careers
CSR07	The hotel implements flexible policies to provide a good work and life balance for its employees
CSR08	The management of the hotel is primarily concerned with employees' needs and wants
CSR09	The managerial decisions related with the employees are usually fair
CSR10	I believe that our company provides equal opportunities to all its employees
CSR11	Our company encourages its employees to participate in voluntarily activities
CSR12	The hotel tries to inform all employees properly in its internal communication
	Consumer-centred CSR
CSR13	One of the main principles of the hotel is to provide high-quality services to its customers
CSR14	Our services comply with the national and international standards
CSR15	The hotel takes the responsibility for its services and compensate for the possible failures
CSR16	The hotel provides full and accurate information about its services to its customers
CSR17	The hotel respects consumer rights beyond the legal requirements
CSR18	Customer satisfaction is highly important for the hotel
CSR19	The hotel is responsive to the complaints of its customers
CSR20	The hotel is known as a respected and trustworthy company
	Social and environmental CSR
CSR21	The hotel emphasises the importance of its social responsibilities to the society
CSR22	The hotel contributes to public institutions (e.g. schools, hospitals) according to the needs of the society
CSR23	The hotel contributes to campaigns and projects that promote the well-being of the society
CSR27	The hotel takes part in government initiatives aiming to solve social problems
CSR30	The hotel cooperates with its competitors in social responsibility projects
CSR32	The hotel considers it to be important to draw the attention of guests to the importance of social responsibility
CSR34	The hotel makes sufficient monetary contributions to charities
CSR35	The hotel supports nongovernmental organisations working in problematic areas
CSR36	The hotel considers every warning of nongovernmental organisations
CSR38	The hotel makes CSR/sustainability reports
CSR39	The hotel is member of organisations that promote the socially responsible view
CSR40	The hotel requires its suppliers to comply with its ethical policies

(continued)

Table 1 (continued)

CSR41	The hotel participates in activities which aim to protect and improve the quality of the natural environment
CSR42	The hotel implements special programmes to minimise its negative impact on the natural environment
CSR43	The hotel has the necessary equipment to reduce its negative environmental impact
CSR44	The hotel makes well-planned investments to avoid environmental degradation
CSR45	The hotel targets sustainable growth which considers future generations
CSR46	The hotel makes investment to create a better life for future generations
CSR47	The hotel conducts research and development projects to improve the well-being of the society in the future
CSR48	The hotel tries to avoid the depletion of local resources
	Legal CSR
CSR26	The hotel complies with legal regulations completely and promptly
CSR28	The hotel acts legally on all matters
CSR29	The hotel's main principle is honesty in every business dealing
CSR31	The hotel always avoids unfair competition
	Deleted variables
CSR24	The hotel endeavours to create employment opportunities for all social groups
CSR25	The hotel always pays its taxes on a regular and continuing basis
CSR33	The hotel provides internship for students
CSR37	The hotel has a code of conduct

environment-centred CSR, there is a group of external social and environmental CSR activities and a group of external legal CSR activities. For the variables belonging to factor 1, all of the weights are above 0.45. The lowest value is 0.45, which is still acceptable. The new variable created for indicating social and environmental CSR is FAC_CSR_socienvi. For the variables in factor 4, the smallest value among the factor weights is 0.589; the others are above 0.7. This means that all the variables are acceptable in this group as well. The new variable created for indicating legal CSR is FAC_CSR_legal.

3.3 Factor Analysis of Job Satisfaction Variables

The next step of data reduction was the factor analysis of job satisfaction variables. Based on the literature, five groups were created in the preliminary classification for the research model. Therefore, during the factor analysis, five factors were created (listed in Table 2), which resulted in the confirmation of the original concept. There were some differences, but basically, the interpretation is the same for these groups.

No variables had to be ignored due to the low communality, so each of the 20 variables of job satisfaction is part of one of the factors. KMO is very high here as well (0.920), similar to the value at the factor analysis of CSR variables. This means

Table 2 Job satisfaction variables

	Job satisfaction related to work environment
SAT01	I am satisfied with physical work conditions
SAT02	I am satisfied with the atmosphere at my workplace
SAT03	I am satisfied with the safety of my workplace
SAT04	I am satisfied with the department where I work
SAT05	I am satisfied with communication between departments
SAT06	I am satisfied with communication between employees and managers
	Job satisfaction related to the work itself
SAT07	I am satisfied with working shifts
SAT08	I am satisfied with the training for daily tasks
SAT09	I am satisfied with job security
SAT17	I am satisfied with workload
	Job satisfaction related to compensation
SAT10	I am satisfied with the career advancement opportunities in the hotel
SAT11	I am satisfied with training opportunities provided by the hotel
SAT15	I am satisfied with my wage
SAT16	I am satisfied with my benefit package
	Job satisfaction related to supervision
SAT12	I am satisfied with my supervisor as a person
SAT13	I am satisfied with the work of my supervisor
SAT14	I am satisfied with the fairness of assessment
	Job satisfaction related to personal status
SAT18	I am satisfied with my importance in the hotel
SAT19	I am satisfied with the level of opportunity to supervise others
SAT20	I am satisfied with the level of different work duties

that our job satisfaction variables as well are especially suitable for factor analysis. Similar to the previous section, the factors will be introduced here in order of the logic of the research model.

Factor 1 contains exactly the same variables as the work environment group in the research model; therefore there is no question in the interpretation of this factor. There are six variables in this factor, and all the weights are above 0.665 here; thus every variable is acceptable. The new variable created for indicating satisfaction related to work environment is FAC_SAT_environment.

Variables in factor 5 and factor 2 are mixed in comparison with the original concept. In the preliminary classification, satisfaction with the work itself consisted of variables SAT07, SAT08 and SAT09, but not SAT17. However, SAT10 and SAT11 were also considered to be indicators of the work itself. Originally, compensation indicators were SAT15, SAT16 and SAT17 in the research model. The difference between the expectations and the results is not absolutely surprising. It is difficult to categorise job satisfaction indicators clearly. For each person, satisfaction depends on different factors, and the way of how one can be motivated also varies between individuals. Therefore, from one point of view, career advancement opportunities and training opportunities can be merely properties that characterise a workplace, but for others these are important parts of compensation. For some employees on the other hand, compensation means only money and other benefits such as meal vouchers or traveller's cheques. Workload can also be considered as a property of the job or an indicator that is closely related to compensation as any decent wage can be too low if the work to be done is too much and vice versa. Summarising this, it can be stated that in spite of the differences compared to the preliminary concept, the two factors still can be named as suggested in the research model.

Among the four variables that make up the factor regarding the work itself, there is one variable for which the weight is only 0.449; however, we can still accept it as it almost reaches 0.45. In addition to this, the larger the sample, the smaller weight is acceptable. 0.45 is acceptable at a sample of 150. Our sample is bigger, but it does not reach 200, where 0.40 could be acceptable. All of this means that there is no problem with 0.449 in this case. All the other weights here are above 0.643. The new variable created for indicating satisfaction related to work itself is FAC_SAT_workitself.

Four variables are listed in factor 2. All the weights here are above 0.695, meaning that every variable is acceptable here as well. The new variable created for indicating satisfaction related to compensation is FAC_SAT_compensation.

Factor 4 contains exactly the same variables as the supervision group in the research model; therefore, similar to factor 1, there is no question in the interpretation of this factor. There are three variables in this factor, and all the weights are above 0.562 here; thus every variable is acceptable. The new variable created for indicating satisfaction related to supervision is FAC_SAT_supervision.

Factor 3 contains three variables that are the same as the ones of the personal status group in the research model, meaning that no question arises regarding the interpretation of this factor either. All the weights are above 0.697 here; thus every variable is acceptable. The new variable created for indicating satisfaction related to personal status is FAC_SAT_personal.

3.4 Factor Analysis of Employee Retention Variables

The last step in data reduction was the creation of one factor from the three variables of employee retention. KMO is 0.613, which is not as perfect as in the previous two analyses; however, it is still acceptable as it is not lower than 0.5. All communalities are above 0.668, so none of the three variables had to be excluded. The weights in the component matrix are above 0.817, which are perfect values. All of these together mean that the employee retention factor created from the three variables is suitable for further use. The new variable created for indicating the employee retention ability of the hotel is FAC_EmpRet.

3.5 Testing the Hypotheses

The hypotheses were tested by regression analyses. The results of these regression models are summarised in Table 3. First, the effect of CSR on satisfaction related to work environment was tested. It was hypothesised (H1.1) that employee-centred CSR has a positively significant effect on all job satisfaction factors, including this one. Other connections between CSR and work environment were not assumed. Results first of all support this aspect of Hypothesis 1.1. However, all the CSR variables were entered in the model, and from the significances, we can see that all of these variables affect satisfaction related to work environment. The model's goodness of fit is 27.2% as it is indicated by the value of the adjusted R^2 in the model summary. This value is high enough for accepting the model. The connection for all the four independent variables is significant. As it can be seen from the β values, out of the four independent variables, employee-centred CSR has the largest impact on the dependent variable. All of the four independent variables have a positive impact on satisfaction related to work environment.

The second step was the examination of the effect of CSR on satisfaction related to work itself. It was hypothesised (H1.1) that employee-centred CSR has a positively significant effect on all job satisfaction factors, including this one. Another hypothesis regarding the 'work itself' variable was H1.2 supposing that consumer-centred CSR has a significantly positive impact on satisfaction related to the work itself. Results support this aspect of Hypothesis 1.1. On the other hand, Hypothesis 1.2 was not supported as FAC_CSR_cutomer variable was removed from the model. Another variable, FAC_CSR_socienvi was removed as

Table 3 Results of the regression analyses

Dependent variable	Coefficients	Beta	Sig	Adjusted R^2
FAC_SAT_environment	FAC_CSR_socienvi	0.276	0.000	0.272
	FAC_CSR_employee	0.316	0.000	
	FAC_CSR_consumer	0.259	0.000	
	FAC_CSR_legal	0.210	0.001	
FAC_SAT_workitself	FAC_CSR_employee	0.295	0.000	0.113
	FAC_CSR_legal	0.190	0.006	
FAC_SAT_supervision	FAC_CSR_employee	0.198	0.006	0.043
	FAC_CSR_legal	0.119	0.098	
FAC_SAT_compensation	FAC_CSR_socienvi	0.359	0.000	0.390
	FAC_CSR_employee	0.517	0.000	
FAC_SAT_personal	FAC_CSR_employee	0.150	0.028	0.135
	FAC_CSR_consumer	0.349	0.000	
FAC_EmpRet	FAC_SAT_environment	0.263	0.000	0.509
	FAC_SAT_compensation	0.486	0.000	
	FAC_SAT_personal	0.247	0.000	
	FAC_SAT_supervision	0.220	0.000	
	FAC_SAT_workitself	0.326	0.000	

well, and only FAC_CSR_legal and FAC_CSR_employee remained. The model's goodness of fit is 11.3% as it is indicated by the value of the adjusted R^2 in the model summary. This value is very low, but we can still accept the model. The connection for the two independent variables of the model is significant. As it can be seen from the β values, both of the independent variables have a positive impact on satisfaction related to the work itself. However, employee-centred CSR has a much stronger effect on the dependent variable than legal CSR.

Third, the effect of CSR on satisfaction related to supervision was examined. It was hypothesised (H1.1) that employee-centred CSR has a positively significant effect on all job satisfaction factors, including this one. There was no other hypothesis regarding this variable. FAC_CSR_socienvi and FAC_CSR_consumer were removed from the model, and out of the remaining two, only the effect of FAC_CSR_employee was significant and has a positive impact on the dependent variable. However, the goodness of fit of the model is so low 4.3% that we cannot accept it.

Next, the effect of CSR on satisfaction related to compensation was tested. It was hypothesised (H1.1) that employee-centred CSR has a positively significant effect on all job satisfaction factors, including this one. No other connections were supposed to exist. Results support this aspect of Hypothesis 1.1. Besides this finding, it can be seen that social and environmental CSR also influences job satisfaction related to compensation. FAC_CSR_consumer and FAC_CSR_legal were removed from the model. The model's goodness of fit is very good, the best of all the models set up in this research, 39.0% as it is indicated by the value of the adjusted R^2 in the model summary. The connection for the two independent variables of the model is significant. As it can be seen from the β values, both of the independent variables have a positive impact on satisfaction related to the work itself. The effect of employee-centred CSR on the dependent variable is the strongest here.

The last regression analysis for this group of hypotheses was the impact of CSR activities on satisfaction related to personal status. Hypothesis 1.1 has to be tested here as well. The other hypotheses concerning personal status were H1.3 and H1.4, but because of the result of the factor analysis, these hypotheses do not make sense any more. Results support this aspect of Hypothesis 1.1. It can also be seen that consumer-centred CSR is part of the model, so it also affects personal status-related satisfaction. FAC_CSR_socienvi and FAC_CSR_legal were excluded from the model. The model's goodness of fit is only 13.5%, which is low, but as in the other case, we accept it here as well. The connection for the two independent variables of the model is significant. As it can be seen from the β values, both of the independent variables have a positive impact on satisfaction related to personal status. The effect of consumer-centred CSR is stronger here than the effect of employee-centred CSR.

Hypothesis 2 supposes that three of the job satisfaction factors, namely, FAC_SAT_environment, FAC_SAT_workitself and FAC_SAT_supervision, influence the ability of the hotel to retain employees. In order to test this hypothesis, another regression analysis was carried out. The results of the regression support this hypothesis. All the three independent variables have a significant and positive impact on the dependent variable. It also has to be noted that there are further existing connections. None of the variables were excluded from the model, and all the connections were significant. It means that FAC_SAT_compensation and FAC_SAT_personal also have significant impact on employee retention. The goodness of fit of the model is much better than in the case of the other regressions. It is 50.9%, which is a very good value. Out of the independent variables, compensation has the strongest effect on employee retention, followed by work itself. Work environment, personal status and supervision have similar, less strong but still notable impact.

3.6 Summary of the Results

The hypotheses are summarised in Table 4. Hypothesis 1.1 was supported by all the regression models. However, the goodness of fit of the model where supervision was the dependent variable was so low that we cannot state with absolute confidence that employee-centred CSR or any other type of CSR could make a change in satisfaction related to supervision. Therefore, hypothesis 1.1 is partially supported by the results of the regressions. Hypothesis 1.2 was not supported, as consumer-centred CSR was removed from the model. Counter to the expectations, it has no effect on satisfaction related to work itself. Hypotheses 1.3 and 1.4 could not be tested as the factor analysis of CSR variables provided a different classification. Hypothesis 2 was supported.

There are some additional findings. No significant connections were hypothesised between consumer-centred CSR and satisfaction related to work environment and between consumer-centred CSR and satisfaction related to personal status, although there is a significantly positive connection in both cases.

The two CSR factors that replaced the ones in the original research model also have impact on job satisfaction. Social and environmental CSR influences satisfaction related to work environment and satisfaction related to compensation positively. Legal CSR has a positive effect on satisfaction related to work environment and satisfaction related to the work itself. It was also found that employee retention is not

Table 4 Summary of the results

No.	Hypothesis	Supported
H1.1	Employee-centred CSR has a significantly positive impact on job satisfaction by affecting all of its factors	Partially
H1.2	Consumer-centred CSR has a significantly positive impact on satisfaction related to the work itself	Not
H1.3	Society-centred CSR has a significantly positive impact on satisfaction related to personal status	Could not be tested (no such variable could be created)
H1.4	Environment-centred CSR has a significantly positive impact on satisfaction related to personal status	Could not be tested (no such variable could be created)
H2	Job satisfaction related to work environment, supervision and the work itself has a significant impact on employee retention	Yes

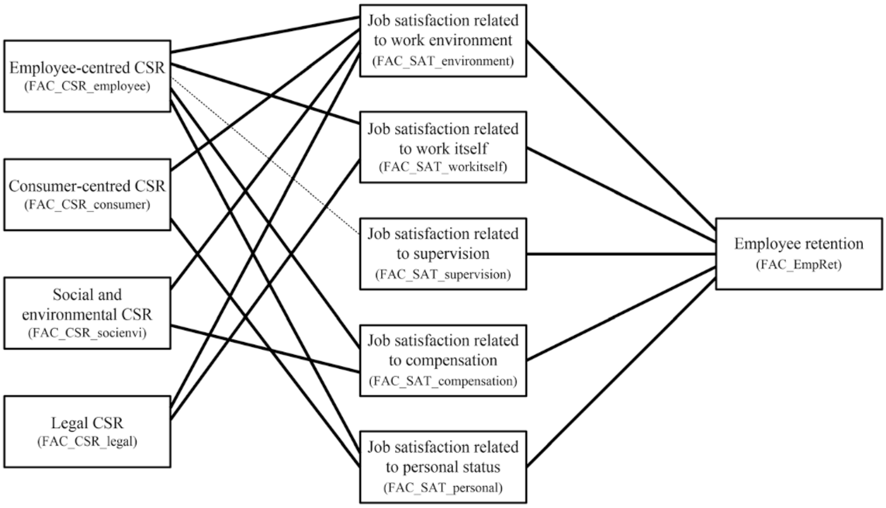

Fig. 2 The revised model

only affected by the three variables included in Hypothesis 2 but by the other two variables as well.

Having analysed all of the possible connections between CSR, job satisfaction and employee retention, a revised model can be created. All the significant connections that were found are depicted in Fig. 2. The model could be developed further by using path analysis, but in this case, this analysis could not be carried out because the sample (189 responses) was too small for it. Path analysis requires a large sample, the very minimum is 200, but more is better.

4 Discussion and Implications

4.1 Findings of the Research

The results of the analyses showed without doubt that CSR activities have a great influence on job satisfaction.

The group of CSR activities with the largest influence is employee-centred CSR. Such activities belong to this factor, as providing sufficient wages, supporting the development of employees' skills, providing equal opportunities and transparent flow of information, etc. Only by knowing what employee-centred CSR consists of, it can be assumed that at any company where there is a high level of employee-centred CSR, employees are more satisfied than elsewhere. Analysis clearly pointed it out that the positive effects of this CSR type appear in almost every aspect of job satisfaction.

If a company considers getting involved in CSR activities, they should start it in-house. With a satisfied and happy staff, the company will be more successful, and new opportunities and resources for supporting other causes will be available soon. Turning it the other way round, if a company supports several different charities and other causes but does nothing for its own employees, it does not only result in employee dissatisfaction but harms the reputation of the company too. In the tourism sector, unfortunately there are several companies that do not respect employees' needs and rights. Employee-centred CSR could help a lot in solving this situation, but unfortunately it is only possible if the company itself is willing to change.

Consumer-centred CSR was proved to have a positive effect on job satisfaction related to work environment and job satisfaction related to personal status. It is possibly because hotel employees work more happily if they know that the service they provide is good and there is no pressure on them to lie or conceal certain things. The atmosphere in all is much better if guests are happy with the service, and this is reflected in the satisfaction related to work environment. Employees are able to enjoy their status and duties in the hotel if the hotel deals honestly with guests, which is why satisfaction related to personal status is positively influenced by consumer-centred CSR.

Social and environmental CSR affects work environment- and compensation-related satisfaction. Evidently, when the hotel cares about its natural environment, it is not only advantageous for the guests or the environment itself but for the employees as well. What is more, these CSR activities provide a great chance for employee involvement in CSR. Clearing a problematic spot in the area from waste can even be a good team building task. Compensation-related satisfaction may be influenced by these types of CSR because the engagement of the company in solving social and environmental issues and the possible opportunities for the employees to join these efforts can be motivating for a lot of people, which can be considered as a type of compensation. However, it also has to be noted that it does not work in the case of every worker. Usually employees with higher levels of education are more open for forms of compensation other than wage and the usual benefits.

Legal CSR influences job satisfaction related to work environment and job satisfaction related to work itself. If a company operates legally and ethically on all matters, it gives stability to work as well. With such a stable background, working environment is more pleasant, and the work to be done is more predictable, which helps to avoid a lot of stressful situations.

The ability of hotels to retain their employees is affected by all factors of job satisfaction, as it turned out from the analysis. Thus, if the company is able to improve satisfaction in at least one area, it is already one more reason for staying rather than looking for a better workplace. There are several ways of improving job satisfaction; CSR is only one of them, but it is worth trying it—not only as window-dressing but being truly involved in it. It definitely pays off after some time, and along with a consistent HR strategy, it might even solve the problem of high turnover rate which is one of the biggest problems that employers in the tourism sector face.

4.2 Proposals

As it was emphasised in the discussion of the results, all types of CSR activities have a significantly positive impact on at least one aspect of job satisfaction and, through this, on the retention of employees. In the literature review, many other advantages were mentioned as well. However, there is still a lot to improve in CSR worldwide and in Hungary as well. The keywords for making these improvements are knowledge sharing and cooperation. In this section, actions for enhancing CSR involvement of Hungarian hotels are proposed.

First and foremost knowledge on CSR has to be spread among hotels and their guests as well. Informing hotels about CSR is important because there may be confusions and misunderstanding that have to be fixed. It is typical that companies think of CSR as yet another cost. It has to be clarified that CSR might require investments of various volumes, but due to the advantages, it pays off. In addition, there are activities that do not generate any costs. They certainly require resources, but not necessarily financial resources. In many cases nothing more than a little time or some extra work is needed. This information campaign should be conducted by the Hotel Association of Hungary and EMVFE, an organisation that deals with CSR in Hungary. The Hotel Association could easily reach its members, while other hotels outside the association can be approached by EMVFE.

These two organisations should organise CSR events together on a regular basis especially for hotel managers and employees. Conferences, meetings and roadshows can be suitable for promoting the concept of CSR. It would also be important to actively involve responsible hotels in the promotion so that their best practices and positive experiences would persuade others to implement certain elements of CSR. This involvement can happen by media appearances, talks on conferences or providing locations for the road shows.

Not only hotels but also guests have to be informed, as it was mentioned previously. Several notoriously irresponsible companies exist that will never change their attitudes if there are no strong and confident groups of stakeholders who can put pressure on them. Therefore, the education of guests is also important. An online platform would be perfectly suitable for it. In addition, firms could also benefit from the existence of such a website. This site should be modern, interactive and attractive for people of various age and interest groups. If EMVFE came up with a plan for developing such a website, it would be a viable option to split the costs of development and maintenance among companies (not only from the tourism sector) joining the initiative of creating this online base of CSR knowledge. This would be a perfect place to share CSR best practices with each other.

These were the steps that should be taken in cooperation with other organisations, but there is another part that has to be carried out in-house. This is the creation of a CSR strategy. CSR can be really effective only if there is a well-planned strategy that complies with the overall strategy of the company. It is important to involve employees in the strategy creation as well. First of all a research should be conducted on their opinion about CSR and their job satisfaction. This can be the basis of further work. During the strategy creation process, employees should be able to share their opinion with the management. When choosing CSR activities, employees could propose a few ideas. It is important to choose activities that fit the values and the profile of the hotel, and also resource allocation has to be planned. When the strategy is ready, implementation should start by training managers and employees. It is important that the strategy should be in focus all the time. A CSR strategy covered with dust in the bottom drawer is not very efficient.

4.3 Limitations and Future Research

There are several limitations to this research; however, these can serve as the basis for future research. First of all, this research was conducted among the front office, reservation and sales employees of Hungarian hotels. Therefore, results cannot be generalised to all hotel workers. Presumably including employees from other departments such as housekeeping or F&B, some of the results would change. In the future this research could be extended to include all hotel employees. In that case the department of the employee would also be an important variable to consider as there might be big differences in the views and motivations of employees from very different departments. A similar study could be conducted in other Hungarian tourism companies such as tour operators, restaurants or adventure parks, too. All of these firms have issues, specific to their area of operation that could be solved at least partly by CSR.

The number of respondents was much lower than expected. As a result, path analysis could not be conducted although it could have provided some very useful information in addition to the ones that have been discussed earlier in this paper. If more resources (people, money, time) could be allocated for a similar research, hotel workers could be reached more effectively.

This research was based only on the viewpoint of employees. In a more complex study, besides employees, top managers of the hotels could be asked about the CSR strategy. This way it would be possible to analyse the gaps between managerial intention and employee perception. In line with this, the internal communication, with special regard to the communication of CSR, might be analysed. Many of the abovementioned gaps may be caused by improper communication or the complete lack of it. A research on internal CSR communication of hotels could reveal the core of these problems.

Finally, a comparison of Hungarian and a foreign country's hotel industry from a CSR aspect would also provide interesting and useful data. If choosing a country with similar culture and level of development as Hungary, it could be seen what we are good at and in which aspects we are lagging behind. If choosing a much better developed country where companies have a long history with CSR, several best practices could be collected during the research.

Altogether, it is desirable to conduct research on CSR in different fields of tourism. Gaining more knowledge about responsibility contributes to its better promotion as well.

5 Summary

The aim of this research was to find out how CSR activities of hotels affect employee satisfaction. In previous studies, there have been several examples of the positive connection. However, in Hungary, especially in the tourism sector, there is no information about those effects. Therefore, a survey was conducted among front office, reservation and sales employees of Hungarian hotels.

Five hypotheses were set up during the creation of the research model. Four of the hypotheses are about the effect of different kinds of CSR activities on various aspects of job satisfaction. The fifth hypothesis is about the effect of job satisfaction on employee retention. Data were first reduced because the large number of indicators would have made proper analysis impossible. Four CSR factors and five job satisfaction factors were created. Data reduction was followed by the regression analysis. During the analysis, some of these hypotheses were rejected, or analysis could not be carried out. Other hypotheses were confirmed, and, besides that, connections that were not assumed to be significant were found. All in all; the result of analysis was that CSR affects job satisfaction very positively, which also has a positive impact on employee retention.

The last part of this chapter evaluated the results, which definitely show that CSR is worth to deal with seriously. All firms including hotels in Hungary are encouraged to get involved in CSR activities. Some proposals were also made on spreading the knowledge on CSR by creating an online knowledge base and organising events with the involvement of the Hotel Association. Proposals were made on creating CSR strategies for hotels.

This research had several limitations, but the results and experiences provide a good starting point for a larger volume research in the future. There are a lot of interesting questions in this topic, still open to answer.

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Corporate Social Responsibility as a Source of Innovation: Company Practices in Poland

Adrian Pyszka

Abstract Most companies realize some form of corporate social responsibility (CSR) activities with increasing pressure to deliver business results. These companies are usually looking for CSR as a tool to recognize and develop initiatives that align with their business purpose and core values, but also usually to mitigate risk or promote philanthropy and ethical behaviors. However, for some CSR programs, companies refocus their activities to create CSR-driven innovations that produce real shared value. The purpose of this chapter is to define the nature of the link between CSR and innovation, with special attention to increasing awareness of responsible innovations as sources of real value to the business and their stakeholders. The chapter presents findings from theoretical and desk research on innovative practices of responsible corporations and small and medium-sized enterprises in the Polish market, and some propositions to introduce successful and sustainable CSR innovations with higher value.

1 Introduction

From a review of the literature and various reports it can be seen that corporate social responsibility (CSR) is currently changing its nature from being reactive and oriented toward defending the interests of corporations to proactively supporting implementation of social, environmental, and—increasingly—economic objectives. According to MacGregor et al. (2007), companies that do not increase the importance of responsibility may not survive in the same way as those who fail to innovate. They found that companies who have been most proactive in their CSR activities are the best-performing companies in their sector. As McGregor et al. (2007) suggested it does not mean that more CSR will lead to more success or innovations, rather when companies achieve a certain degree of success, they tend to implement more responsible actions.

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To achieve a greater degree of innovativeness, it could be important to try different CSR activities in the company strategy to generate real value (MacGregor et al. 2007). In this regard, many proactive companies use "shared value" as a portal to generate more innovations. Similarly, Porter and Kramer (2006, 2011) have claimed that companies can create economic value by creating societal value in three distinct ways: by reconceiving products and markets, by redefining productivity in the value chain, and by building supportive industry clusters at the company's locations. As assumed by Porter and Kramer (2011), each of these is part of a virtuous circle of shared value, and improving value in one area gives rise to opportunities in others, i.e., refocusing from quantity to quality of products, using resources differently not only to develop more powerful products but also to use this power to develop less harmful environmental solutions, and not draining customers' wallets but also educating them to be more conscious and better manage their budgets to pay off debt. These approaches could drive companies to innovate and find solutions that dramatically change ways to compete. Companies willing to look for a competitive advantage by seeking opportunities in less traditional ways (e.g., through CSR) can use three dimensions of corporate social opportunity (CSO): innovating products and services, serving unserved markets, and building new business models (Jenkins 2009).

Moreover, innovation is a process rather than a single event; therefore, innovation in CSR can be incremental, especially in small and medium-sized enterprises (SMEs), and it does not necessarily involve the adoption of radical new technology or the introduction of major new products, services, or processes. It could be—for example—new and more flexible patterns of work. The purpose of this chapter is to present CSR as an opportunity or even a driving force to generate innovations. There is a lack of information. What kind of innovations can be created with the use of CSR, and how can CSR drive innovations? For this purpose, a review of selected good practices is presented from responsible companies in Poland. Information on their practices was collected by the Responsible Business Forum in 2015 and published as a summary report.

2 CSR or Opportunity?

Most authors rely on an understanding of corporate responsibility in line with the famous formulation of the well-known economist Friedman (1970), according to which "The social responsibility of business is to make a profit." Unfortunately, this statement is close to the beliefs of many managers, because they believe that corporations are created to make a profit and not to engage in charity or social problems. Despite the above, the increase in the number of corporate mishaps in connection with bankruptcies, accounting scams (e.g., those involving Lehman Brothers Bank and the Enron Corporation), and increasing stakeholder pressure (e.g., as a result of the BP oil spill in the Mexican Gulf) has meant that although CSR is not obligatory, it has become a required part of the operations, especially in large enterprises. Many stock exchanges today compile indices of responsible companies based on valuation of the companies meeting the requirements of CSR (e.g., the FTSE4Good Index).

Despite an emphasis on responsibility, many authors have shown how to transmute obligations into opportunities and make that become a source of competitive advantage rather than a burden on corporate budgets. Porter and van der Linde (1995) state that environmental issues can lead to opportunities, and rising competitive advantage and innovation can stem from it. They argue that environmental goals involve a trade-off between social benefits and private costs. The same notion has been applied to CSR by Porter and Kramer (2006). They argue that a disconnect between companies' CSR approaches and their business strategies disrupts the opportunities for companies to benefit society and for themselves to achieve a competitive advantage. Porter and Kramer (2006) have introduced a framework that companies can use to identify the effects on society, determine which ones to address, and suggest effective ways to do so.

Marom (2006) has pointed out some important issues, particularly to consolidate a social approach and economic development. He stresses that this is analyzed from the perspective of two concepts—CSR and stakeholder theory—although both concepts confirm a positive impact on the company's financial results. According to CSR, corporations have a moral responsibility to society for their activities, which goes beyond generating profits for owners and shareholders. The reason for this state of affairs has a dual basis: the normative responsibility of companies for generated social problems and their removal, and instrumental responsibility for undertaking voluntary CSR activities. According to these assumptions, this attitude pays, from the perspective of organizations, translating into improved financial results due to increases in interest and appreciation from customers and employees, improving the organizations' reputations and access to the financial market (increased reliability). With regard to stakeholders, this theory mainly refers to proper mapping, segregation, and managing of stakeholder relationships, focusing on stakeholders' needs and expectations, reducing negative impacts, and increasing positive impacts.

It can be really important for organizations to use stakeholders to develop their responsible activities. Employees and their engagement are especially important to build a strong commitment to the organization, and their rating of the organisation's level of social responsibility is important (Brammer et al. 2007). There is also a strong relationship between employee engagement and a company's stock price, income growth, and overall financial performance (Edmans 2011). Companies engage employees in three ways: (1) by striving to be a responsible employer, (2) by creating portfolio programs and developing a reputation for demonstrating their commitment to CSR, and (3) by engaging employees in voluntary and on-the-job CSR-related activities. In the psychological contract between a firm and its employees, there are three models of engagement (Mirvis 2012): transactional, relational, and developmental. In the case of innovations, only the third approach guarantees that the company will more fully activate and develop its employees to produce greater value for the business and society. It is because the strategic intent of this approach is sociocommercial and there is pressure to innovate with enhanced impacts on the business and society. The key consideration is to challenge and to empower employees, even when consciousness raising is being done, and they ask questions that can be challenging, but also they can be a source of further innovation.

This is possible especially in SMEs, because they have fewer limitations in their use of CSR as an opportunity (Jenkins 2009). SMEs are more flexible and adaptable, creative, and innovative, which is important for survival. The owner–manager is closer to the organization and the day-to-day operations of the company. SMEs also have fluid and open communication and leaner and less hierarchical management structures; therefore, they feel the benefits of any actions more immediately, which is a powerful tool to raise the personal satisfaction and motivation of employees.

In a case study of British Telecom, Blake (2007) stated that responsible business not only reduces costs and mitigates risk but also improves the reputation of the company, motivates employees, drives innovation, and boosts performance. The ultimate CSR goal is to become an innovator—the top of the evolutionary scale to date. At this stage, CSR becomes a creative stimulus for developing new business, strengthening strategic relationships, and building marketplace diversity. CSR allows building of sustainable and long-term partnerships with stakeholders across the value chain. To become innovators, companies have to develop through three phases: (1) protection—health and safety, corruption, privacy, ethical procurement, customer exclusion, pollution, and discrimination; (2) building—flexible working, diversity, community investment, charity support, and resource efficiency; and (3) innovation—sustainable solutions, marketplace diversity, strategic relations, and bid support. All of these phases are accompanied by five steps in value creation. From the first phase, the main value drivers are risk management, license to operate/ reputation, cost reduction, employer motivation, and marketplace innovation.

Referring to the above, five propositions can be put forward, the first two of which are as follows:

Proposition 1: CSR has to use a transformative approach to look at problems as challenges for innovations, not just as costly and difficult situations that need resources and time to be solved.

Proposition 2: Organizations have to develop CSR activities evolutionarily in partnership with stakeholders—especially employees—to build appropriate levels of their engagement and develop bolder CSR solutions.

3 CSR-Driven Innovation or Innovation-Driven CSR?

Currently, there is a strong emphasis on innovation in the European Union (EU), especially in supporting the creation and diffusion of innovation. There is pressure from the EU to get more value from innovation and incorporate it within the processes and structures that support both the creation of innovations and their commercialization in the market. Firms that do not innovate and adapt to rapidly changing business environments are less likely to be sustainable (Schumacher and Wasieleski 2013). According to Van de Ven (1986), inventiveness or a creative dream does not become an innovation until it is implemented or institutionalized. Brazeal and Herbert (1999) assume that innovation as a process is structured, where new ideas are developed and there are possibilities to convert these into opportunities in the business of generating money. As stated by Hitt et al. (2001), innovation can be seen as the sum of inventions and commercialization, including both possession and exploitation of opportunities for commercialization, using a combination of new materials, processes, markets, and organizational forms.

Therefore, innovation is based rather on the level of groups and organizations, where environmental factors affect the process variables and human behavior, especially at the level of groups and organizations, including the culture and organizational climate (Pretorius et al. 2006). Innovation moving from the individual level (the relationship between the creator and the creation) to the organizational level (the relationships between the creator and the audience and between the product and the audience) is sometimes equated with organizational creativity, especially in relation to cooperation and development of organizational structures and dynamics that could strengthen the potential of individuals and the profitability of the organization. This is because the heterogeneous nature of creativity and its product in the form of innovation can be achieved only through sociocultural judgment, which makes it dependent on the context, located within the interaction between the creator and the people responsible for product management (Cardoso de Sousa et al. 2012).

Design and implementation of tasks in the area of CSR should not forget about the specifics of innovation (West 2002), viewed from an internal perspective, i.e., the work environment means the introduction of new and improved ways of doing things at work. To put it more broadly, innovation is the intentional introduction and application in the context of work, the team, or the organization of certain ideas, processes, products, and procedures that are innovative and designed to increase in value as a result of this work. Innovation, from the external perspective, is presented as a result of internal interaction and relationship with the environment, through which new products, services, and business models are created.

Research at the interface between innovation and CSR has also indicated that the essential features of companies can differentiate the approaches used for linking CSR. Thus, for example, studies (Bocquet and Mothe 2010) have shown that a strategic approach to CSR enables better innovation, but in the case of large companies, CSR has a more formal character. It is similar to the description given by Schumacher and Wasieleski (2013), who developed the Innovation–Ethic Duality Model to demonstrate the long-term orientation and strategic role of moral rules in the change process in organizations and that long-term innovation decisions can mandate the need for institutionalization of ethics.

MacGregor and Fontrodona (2008) confirm that the perception of CSR and adaptation depend on the size of the company, the sector, and the country of origin of the capital. Many companies, especially those in the SME sector, implement CSR unconsciously, while others have a lack of knowledge on how to implement the approach in a more strategic way to guarantee getting added value. In general, the main obstacles to the implementation of CSR are lack of knowledge and awareness of CSR, not perceiving the relationship between costs and benefits, lack of appropriate measures, lack of time, and human pressure (the need to meet daily operations). There is a lack of integration of sustainable CSR policies and a lack of an adequate level of value. In conclusion, MacGregor and Fontrodona (2008) suggest that CSR is a process of innovation, where small companies still have a problem because of a lack of formalization and a lack of proactive behavior. For SMEs that want to turn chaos into sustainable value creation, CSR can act as a proactive mechanism for providing value and innovations in small businesses in the twenty-first century. Small and medium-sized companies note the positive effects of CSR when it is carried out informally, but only in conjunction with the vision and the will of the leaders. In owner-managed SMEs, the CSR direction taken will depend greatly on personal values and context (Jenkins 2009). Korschun et al. (2014) have shown that innovative companies achieve a greater rate of return on investment in CSR than companies considered to be less innovative. In addition, customers are more likely to choose product if the company is perceived as socially responsible. However, this works only when the quality of the product is better than, or comparable to, that of products from less responsible companies. As stated by Schumacher and Wasieleski (2013), creation of social value alongside economics is a completely new direction today, which can provide the basis for socially responsible activities by increasing the level of efficiency and redirecting the efforts of enterprises to be more innovative and ethical, and therefore better suited to addressing problems and social needs.

However, as emphasized by some authors, restrictions in interactions between CSR and innovation can manifest themselves in a lack of adequate dynamics and viability (Midttun 2007), especially in the case of entrepreneurial innovation, which can be dealt with by using a dynamic capability approach (DCA). In the dynamic capability process, CSR can influence the creation of socially responsible innovation by acting through different channels: managerial creativity, dynamic sustainability, cost effectiveness, and a reputational approach, among others (Mahlouji and Anaraki 2009).

Research on 129 companies in the European market (Louche et al. 2010, pp. 300–301) shows that most innovations in CSR relate to environmental issues or the fight against poverty; the majority also are exploitative than explorative, meaning they are not groundbreaking and do not reach sufficient capacity to bring appropriate value, which is a challenge for the future—as is the challenge of changing the mentality of the boards of these companies. Louche et al. (2010, p. 316) highlight the dual nature of innovation created with the participation of CSR, i.e., innovation-driven CSR (doing the right things) and CSR-driven innovation (doing things in the right way). The first of these is driven by value and the specific social objectives leading to the formation of products and services. The second serves to create value-driven social processes and involves employees and suppliers.

Topic adjustment relates to the research of MacGregor and Fontrodona (2008), which shows that innovative organizations seeking innovation in contact with social responsibility are usually proactive in CSR, aimed at anticipation of future trends and influence on other companies in the industry, as opinion leaders (diffusion of innovation). This will result in the search for matches between innovation and CSR, which can be carried out through a circle assuming the existence of the two aforementioned states, i.e., CSR-driven innovation and innovation-driven CSR. The result of the first relation is the creation of value by the creation of social products and services. The second relation is focused on social processes and the output could be developed by employee or supplier actions which is more socially responsible. This can be done in four areas: process, organizational, relational, and social. However, innovation will form a reference value following from the process and starting with the analysis of social needs—for example, by using prosumers to create new products and services. This process of innovation of a social nature requires several steps: (1) understanding the organization, (2) identifying the existing condition, (3) designing the ideal state on the basis of strategic plans and expectations of stakeholders, (4) comparing them with the existing state, (5) identifying opportunities and risks, and (6) taking action. Then the process returns to the first step of assuming the process of learning through gained experience.

Further analysis of the relation between value and innovation points to the dual nature of this relationship. On the one hand, there is the materialization of the values resulting from the actions of socially responsible companies in the form of innovation. On the other hand, innovation and generated value influence the approach towards the CSR. This dual dependency is seen differently. In studies on companies from the Down Jones Sustainability Index (DJSI), leading investments in research and development (R&D) were not explicitly confirmed, but a dual relationship between innovation and CSR was not ruled out (Gallego-Álvarez et al. 2011). The problems were the long time taken to generate value from the above relationship (approximately 3 years) and the ambiguity of the results and course of action in various sectors. As part of the practical implications, it was found that companies did not implement innovations that coincided with the issues of sustainable development, and there was a lack of compatibility between the realized investments in R&D and the behavior stimulated in the field of CSR and sustainable development. It was also found that the measurement value should cover a longer period of time.

Proposition 3: CSR drives innovation when initiatives and activities are fitted to the core business activity of the company.

Proposition 4: Innovations are more responsible when there is pressure for societal and environmental value and economic value is a side result of the activity.

Proposition 5: Innovations are more ethical and guarantee higher value creation when there is a strategic long-term view of them with institutionalization into organization and measurement.

4 Innovations Implemented Within a Socially Responsible Context: Overview of Practices in the Polish Market

Online desk research was used in this study to capture important relations from qualitative data included in the Socially Responsible Practices Report published by the Responsible Business Forum (Polish abbreviation: FOB)—a nongovernmental organization, which is the most influential opinion leader in CSR in Poland. This was an organizational, not individual, study. The research consisted of five steps. They pertained to (1) sample selection, (2) data gathering, (3) selecting core concepts for observing responsible innovations, (4) identifying and comparing alternative models to explain observed practices, and (5) addressing problems and analysis to test alternative models.

Each practice was selected for relevance. Firstly, 452 practices from 132 companies (with an average of 4683 employees, in different industries: banking, energy and fuel distributors, telecommunications, chemical producers, and huge retailers) were published in a collective report by the FOB; and secondly, researcher selection of the 32 most innovative practices was performed. Because of volume-of-text limitations, the final statement included an average of two practices from each analyzed area.

Data were gathered from the report and the attached information on companies that reported CSR practices. The data included practices implemented by the companies in 2015.

For better selection of CSR practices with the characteristics of innovation, two methods of selection were used. The first method used the distribution of thematic areas proposed in the report, i.e., using seven core subjects from the international standard ISO 26000. Chart below (Fig. 1) presents the percentages of all practices divided into key areas of ISO 26000, i.e.: social engagement and community, consumer problems, fair operating practices, environment, workplace, human rights and governance.

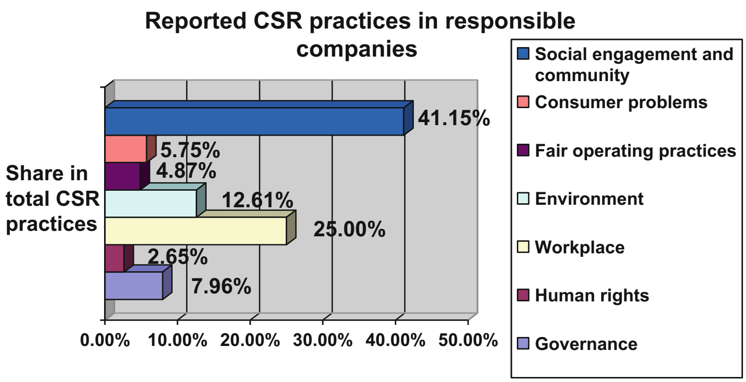

Fig. 1 Types and numbers of corporate social responsibility (CSR) practices in the surveyed enterprises in relation to the key subjects of the international standard ISO 26000

Table 1 Selected examples of responsible innovations and overview of results from the report titled *Responsible Business in Poland: Best Practices 2015*

CSR core subject as per ISO 26000	Description of innovation	Type of innovation[a]						Results
		Radical	Incremental	Technology	Value	Product	Process	
Organizational governance	*Ethics*: ING Bank (8500 employees) created the “Orange Code”—a set of values and behaviors that support organizational culture and strategy implementation—and organized more than 400 workshops, a website, a quiz for employees, and an Academy of Skills for manager training in Orange Code principles		✓		✓		✓	Faster understanding of the company’s values, increased involvement in their cultivation and use
	Reporting: PKN Orlen (4543 employees; fuel industry) issued a report, integrated for 2014, when it joined the Global Reporting Initiative for financial reporting and compliance with International Integrated Reporting Council guidelines. The report, titled *Driving the Future*, was released exclusively online in the English and Polish languages, combining information on financial and nonfinancial aspects of the Orlen Group to build the company’s value. The report also included interactive tools: key performance		✓	✓	✓		✓	Raised consciousness about the influence of responsibility on the company’s financial and nonfinancial results; tools for faster use and analysis of collected data

(continued)

Table 1 (continued)

CSR core subject as per ISO 26000	Description of innovation	Type of innovation[a]						Results
		Radical	Incremental	Technology	Value	Product	Process	
	indicators, a business model, a matrix of materiality, a stakeholder map, videos, a data comparison engine, an interactive glossary, a Global Reporting Initiative table, and an online survey tool							
Human rights	*Women in business*: BPH Bank (5424 employees) facilitated the emergence of the Women's Network organization, promoting participation of women in managerial positions and ideas of diversity in the company. This organization promotes development of women, improves their managerial skills, and helps in planning career paths. The network's activities enabling women to establish contacts with each other through workshops and participate in training programs, development programs, and meetings have been successful. The activities in the framework are financed by BPH Bank		✓		✓		✓	Strengthened position of woman in the organization and network building inside the company, which could be useful for other changes for wider diversity
	Human rights violations: Aterima Group (115 employees; recruitment agency) developed a		✓		✓		✓	Increased awareness about trafficking; lower risk for employees

	publication titled *Prevention of Trafficking Among Employees Delegated to Work Abroad*. This casebook for employers is based on workshops with nongovernmental organizations and governmental specialists working in this field							
Labor practices	Orange Poland (17,000 employees; telecommunications industry) uses gamification to encourage learning. It has developed the following games in three areas: The City of Orange (communication and involvement), Diversity Management (a business and managerial game, combined with sessions with a coach), and The Game of the District (introducing sales staff to a new business model)		✓	✓	✓	✓	✓	Increased concentration and involvement in learning new things; interest in the organizational strategy—18,000 active players, 1600 meetings around the strategy
	Employee participation: PKO (26,000 employees; banking industry) has used crowdsourcing to create the Innovation Center, which uses a specially created internet tool to collect ideas from employees, which are then presented and evaluated. The ideas relate to a specific problem defined by the manager (the sponsor) and the Office of Innovation and Customer Experience	✓		✓	✓		✓	Greater employee activity and better solutions; greater engagement with incentives linked to results in the form of specific innovations

(continued)

Table 1 (continued)

CSR core subject as per ISO 26000	Description of innovation	Type of innovation[a]						Results
		Radical	Incremental	Technology	Value	Product	Process	
Environment	*Eco-office*: ING Bank Śląski (8500 employees) has implemented technology to reduce energy consumption in 64 branches and its head office, replaced Freon-based air conditioners with a newer type of air conditioning, installed water filters to produce drinking water straight from the tap instead of using bottled water, and installed energy-efficient dishwashers. Additionally, e-documentation for internal and external e-newspapers, e-tickets for train and air transport, e-HR solutions, e-delegations, and e-attendance lists have been introduced		✓	✓	✓		✓	Reduced CO_2 and greenhouse gas emissions, water and paper consumption, and costs for the company; raised consciousness of employees
	Eco-products: Oak Bags (1 employee) produces bags with a V certificate (where V = 100% vegan/vegetarian), which involve no animal use. The bags are made of cork fabric produced from the bark of cork oaks, which is harvested once every 7 years without harming the trees		✓	✓		✓		Reduced CO_2 emissions; no harm to animals; very good-quality material; shared value

Fair operating practices	Credit Agricole Bank Poland SA (5300 employees), in the process of selecting suppliers, is guided by their level of CSR, where, at the tender stage, the level of advancement of CSR is evaluated. The bank also organizes "supplier days" at which company specialists discuss issues of CSR importance in relation to suppliers		✓		✓		✓	Reduced CO_2 emissions and risk; higher-quality suppliers and better communication with them
Consumer issues	*Availability of products and services*: BPH Bank (5424 employees), in cooperation with the Social Insurance Institution (ZUS), has created the "capital account" to address the problem of financial exclusion of elderly people. The account is simple, with free services, insurance assistance, reduced fees for account maintenance, and a refund of 5% of pharmacy expenditure to users using payment cards. An additional goal of the account is to encourage elderly clients to adopt noncash collection of their pension benefits		✓		✓	✓		Reduced costs of cash transfer; reduced risk of robbery of elderly customers; greater customer loyalty with regular cash inflows into accounts; lower transaction costs for the banking institution; enhanced PR; good relations with governmental institutions
	Kampania Piwowarska (2985 employees, brewery industry), as part of its educational activities for customers, provides a "sober		✓	✓	✓		✓	Raised consciousness of customers; lower level of risk associated with irresponsible use of products; enhanced PR;

(continued)

Table 1 (continued)

CSR core subject as per ISO 26000	Description of innovation	Type of innovation[a]						Results
		Radical	Incremental	Technology	Value	Product	Process	
	bus" (*trzeźwobus*) at the biggest music festivals, the aim of which is mobile sobriety testing and encouragement to not drive home by car. Additionally, users can try out "alco-goggles" there and consult a special mobile application (called "Check your promils"), which helps the user to check the alcohol content in the body in the absence of a breathalyzer							marketing tool; funny solutions that address important problems
	Idea Bank (1600 employees, financial institution) decided to support microentrepreneurs in their company management by creating "Idea Hubs" in four cities in Poland. These are innovative coworking spaces where entrepreneurs are free to work and to use office equipment (scanners, printers, copiers, etc.). Entrepreneurs also have access to meeting rooms with a mobile reservation system, as well as cafes. There are daily newspapers, free Wi-Fi internet, and opportunities to meet with a bank	✓	✓		✓	✓	✓	Possibilities to attract entrepreneurs to the bank (they have to open an account), sell more services, and encourage entrepreneurs to allocate money to the Idea Bank; good PR and marketing tool; shared value for the company and entrepreneurs

	advisor. Additionally, to help enable microentrepreneurs in five cities to accept noncash payments, Idea Bank provides a special car, with a built-in mobile money deposit facility, that commutes to the customer							
Community involvement and development	Nivea Poland (200 employees, chemical products) created a project called the "Yard Nivea—Family Place" playground. The aim was to create 40 playgrounds. A competition activated local communities throughout Poland to attract votes for a given location		✓		✓		✓	The competition was entered by 1117 municipalities and cooperatives, which gave a total of 18 million votes; huge PR and marketing tool; strengthened Nivea brand loyalty; enhanced perception of company responsibility
	Bibus Menos (110 employees, 3D printing), together with doctors from the Department of Orthopedics and Traumatology of Movement at the Medical University of Gdansk, used 3D printing to make one of the first prosthetic hands for 17-years-old boy	✓		✓		✓		Revolutionary idea; great opportunity for prosthesis market changes; publicity for the company; possibility of dynamic development

3D three-dimensional, *CSR* corporate social responsibility, *HR* human resources, *PR* public relations
[a]Innovation typology as used by Schumacher and Wasieleski (2013)

Table 2 Types of innovation based on 32 identified innovative corporate social responsibility (CSR) practices

CSR core subject as per ISO 26000	Type of innovation (%)						Total (%)
	Radical	Incremental	Technology	Value	Product	Process	
Organizational governance	0.0	100.0	40.0	60.0	0.0	100.0	15.6
Human rights	0.0	100.0	0.0	100.0	0.0	100.0	9.4
Labor practices	11.1	88.9	44.4	55.6	22.2	77.8	28.1
Environment	0.0	100.0	44.4	55.6	33.3	66.7	18.8
Fair operating practices	0.0	100.0	0.0	100.0	100.0	0.0	3.1
Consumer issues	25.0	75.0	50.0	50.0	50.0	50.0	12.5
Community involvement and development	25.0	75.0	50.0	50.0	50.0	50.0	12.5

Secondly, practices mentioned in Fig. 1 were reviewed in terms of the features that characterized the innovation, the type of innovation, and its potential or declared effects. Table 1 lists 13 selected CSR innovations from the 32 innovations identified in the FOB report. In addition, it was verified whether the practice was matched to the type of activity of the company.

Presented below Table 2 shows that a vast number of CSR innovations (such as the examples from the Table 1) are created within organizations. Issues i.e. labor practices, organizational governance, and environmental concerns account for most innovations. This is a sign that organizations are investing in human resources (HR) and regulations to lower operational risk and increase levels of employee competencies, engagement, and health. This is confirmed by audited practices, where the majority concern training activities, strengthening of the employer image and value of employees, or the process of changing the organization. There is a tendency to use incremental, value-driven, and process-oriented innovations as opposed to external practices. It is also interesting that external practices are more differentiated and use mixed types of innovations, especially technology with value innovations and product with process innovations. External innovations are more radical in nature; this suggests that such innovations are geared more closely to experimental solutions and maybe real Schumpeterian “creative destruction.”

Despite the foregoing, it appears that many innovations are shallow in nature and designed even as a template, which makes them interesting, but, if they do become routine, they probably do not cause major breakthroughs in the organization and its environment. In this type of innovation, there is an impression that they were expected by society and do not constitute a novelty, which innovations should. This type of innovation is transferred between companies, becoming a required standard to be upheld. A good example of such an innovation is a solution that provides support for deaf people (470,000 people in Poland), developed and implemented by Orange Poland (telecommunications), T-Mobile Poland (telecommunications), and PKP (the Polish national rail company). The main advantages of such a solution are a better quality of service, raised consciousness of employees and society, and shared value for company and customers. It is also good for HR and public relations (PR) to enable the possibility to create and test new technology and processes.

Of the majority of the presented innovations that are CSR driven, only two—those by Bibus Menos (a medium-sized company) and Oak Bags (an entrepreneur)—are driven by technology innovation (enabling production of a 3D-printed prosthetic hand and cork-based bags). Other practices use technology that supports training and development (T&D) processes and cultural changes within the organization or in cooperation with stakeholders.

It should be noted that more and more companies are opening up to co-create innovations with other companies or even encouraging them to report and implement specific projects. This kind of operation has the hallmarks of open innovation. It is usually a result of increased participation in decision making by employees, e.g., PKO (a huge national Polish bank with 26,000 employees) has used crowdsourcing to create the Innovation Center, which, through a specially created internet tool, collects ideas from employees, which are then presented and evaluated. The ideas relate to a specific problem defined by the manager (the sponsor) and the Office of Innovation and Customer Experience. However, there is a lack of real "open innovations" as described by Chesbrough (2011), with many other actors that fall far outside traditional supply chains (such as universities or individuals), and these participants in open innovation can be influenced but often are not actually directed or managed.

5 Conclusions, Implications, and Limitations

This study of innovations in the corporate social responsibility (CSR) context among organizations in Poland supports the assumption that innovations can be facilitated not only by technology or entrepreneurial initiatives. The investigated companies seem to have realized innovations as being strategically dependent on social and environmental issues. Some of these innovations could be called social innovations or even corporate social innovations (Pyszka 2013).

There have been other investigations suggesting positive results and stronger relations with the internal change management perspective of CSR, which could be interpreted as evidence of the importance played by organizational capabilities in the management of internal change, referred to by Teece et al. (1997) as "dynamic capabilities." This could support the process of identifying the nature of dynamic capabilities and the transition to CSR practices being fully integrated within operating routines and strategy making. This kind of firm may develop better cognitive alignment as a result, and firms with better cognitive alignment may be more inclined to integrate CSR into business processes (Zollo et al. 2009).

The main limitation of this study is a lack of wider information about the quantifiable effects of CSR innovations. It would be important to know the return on investment or other measures helpful for recognizing the outcomes of such CSR initiatives. Only some of these practices have the necessary information built in. One measure of success could be survival of the innovation and repetition of it in subsequent years or perpetuation of it as an organizational routine. Apart from the 420 cases listed in the report titled *Responsible Business in Poland: Best Practices 2015*, there are many other CSR practices repeated annually by organizations.

Future research will have to use more differentiated research tools—both qualitative and quantitative—to better capture the context of innovations and their fit with CSR strategies and goals. There is also a need to study the relationships between innovations and CSR in companies outside the audited report.

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