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

Belén Díaz Díaz
Nicholas Capaldi
Samuel O. Idowu
René Schmidpeter *Editors*

Responsible Business in a Changing World

New Management Approaches for Sustainable Development

Springer

CSR, Sustainability, Ethics & Governance

Series Editors

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Dedicated to All Members of the Global Corporate Governance Institute Worldwide

Foreword

The International Conference on CSR, Sustainability, Ethics and Governance has become an increasingly influential outlet for dialogue, engagement and solutions as academics and policymakers grapple with the deep-rooted challenges and tensions facing sustainable development. I am therefore delighted that *Responsible Business in a Challenging World* has not only been published but has captured the essence of the conference's remit. Although our knowledge and understanding about the impacts of business activities, in both sustainable and unsustainable activities, have improved, especially within CSR research, there remains much to investigate, to decipher and to improve. Some businesses recognise these responsibilities within coherent and considered strategic programmes. By comparison other companies continue to operate in a manner that ultimately is about corporate greed often loosely disguised by a few throwaway references to isolated and disjointed acts of altruism. Arguably the majority of businesses fall somewhere in between these ir/responsible positions.

If the United Nations Agenda for Sustainable Development is to be achieved, there needs to be more extensive and urgent actions taken by multiple partners. With attention placed on the roles of international agencies and national governments, there can be a danger that the significance of business across the range of sustainable development goals is lost or underplayed. However, the concerns that were instrumental in the rise in popularity of CSR remain as prevalent when seeking to achieve SDGs. For example, the power and influence of global corporations continues to rise at the expense of national governments and local people; international regulations are often weak or non-existent while concerns about the abuse of the natural environmental have become daily experiences as people suffer from the consequences of climate change. Alongside these long-standing factors, we can add the resurgence of populism and the underpinning emphasis on local protection of the economic, political and cultural rights of particular groups often at the expense of the environment. Such narrow emphasis not only badly misrepresents the causes and solutions for the difficulties millions of people are facing but also denies or neglects wider impacts. Slogans such as 'America First' capture the isolationism and short termism that is translated into policies that overwhelmingly focus on our country and 'our people' with the consequences for other countries seemingly of little concern. However, these approaches are doomed to fail, not least because they do not or cannot recognise the underlying global causes of the challenges local people are facing. The consequences are also global as changes in extreme weather around the world are highlighting with the most vulnerable facing the most impact. Therefore, the solutions to global problems must also be global, more international cooperation not less and greater sharing of knowledge and expertise across national boundaries.

Books such *Responsible Business* are important steps on the road towards the internationalisation of greater understanding about how businesses are and can assume greater responsibility for the sustainability both of their products and services and of the resources and people affected by their operations. By focusing on high-profile areas that have proved challenging to business such as finance, corporate governance and CSR reporting across different parts of the world, this book helps to identify both problems that need to be addressed and solutions that are essential if sustainable development is to become a reality.

Robert Gordon University, Stephen Vertigans
Aberdeen, UK

Preface

This book has selected some of the best papers presented at the Fifth International Conference on CSR, Sustainability, Ethics and Governance on ‘Responsible Business in a Changing World’ held in Santander, Spain, in June 2018. The conference was held under the auspices of the Global Corporate Governance Institute and hosted by Santander Financial Institute (SANFI) and the University of Cantabria, being the fifth international gathering of this kind after successful events held in London, Nanjing, Cologne and Perth in previous years.

It was an excellent platform to deliberate on global themes of Corporate Social Responsibility, Sustainability, Ethics and Governance in all their various dimensions.

This event is one of the largest international conferences focusing on responsible business with delegates from over 20 nations that have presented their latest research and its practical implications for business, society, academia and politics. More than 80 papers were presented by academics and business representatives.

This publication collects 20 papers out of those presented at the conference that have been peer reviewed with the aim to share ideas and visions for a sustainable future.

The research on corporate social responsibility (CSR) has evolved and become globalised over the last three decades. However, there are still many unanswered questions, and further research studies are needed to understand the need for sustainability in business and society in general in an increasing changing world of the second millennium.

If most companies consider CSR as being valuable to their organisations, why is it that only 15% of them is systematically implementing social responsibility initiatives? If CSR is perceived as value adding by companies, why are they so reluctant to develop an active policy about CSR inside the company? Why are there differences across countries? Why was it necessary there to be a global economic crisis for politicians to react and regulate certain CSR-related issues?

This book explores the current state of corporate social responsibility from an international perspective with the aim to share ideas and visions for a sustainable future and to provide useful tips for academics, practitioners and policymakers in the context of the 2030 Agenda for Sustainable Development of the United Nations.

The editors hope their readers would find the book interesting and that the networks it has created allow all of us to continue generating contributions to achieve responsible businesses in a changing world.

Santander, Spain — Belén Díaz Díaz
New Orleans, USA — Nicholas Capaldi
London, United Kingdom — Samuel O. Idowu
Cologne, Germany — René Schmidpeter
Summer 2019

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We are eternally grateful to a number of people who have made the publication of this book on *Responsible Business in a Changing World* a reality. We express our thanks to all our contributors who have worked tirelessly despite their heavy professional commitments to put together their chapters. We also thank the anonymous peer reviewers of the chapters. Thank you to everyone. We are also grateful to Santander Financial Institute (SANFI), formed by the University of Cantabria and Santander Bank Plc, for supporting this publication in a number of ways. We are also grateful to Securitas (a global knowledge leader in security with more than 335,000 employees), who was the Silver Sponsor of the Fifth International Conference on CSR, Sustainability, Ethics and Governance held in 2018 in Santander (Spain).

We would also like to thank our publishing team at Springer headed by the Executive Editor, Christian Rauscher, Barbara Bethke, Phillip Baun, Abinay Subramaniam and other members who have supported this project and all our other projects.

We are also grateful to our respective families for bearing with us during periods when we should have been with them but chose to spend the time meeting our obligations to completing the book.

Finally, we apologise for any errors or omissions that may appear anywhere in the text; please be assured that no harm was intended to anybody. Causing harm or discomfort to others is simply not the spirit of corporate social responsibility.

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About the Editors

Belén Díaz Díaz is Ph.D. in Finance. She is Associate Professor of Finance at the University of Cantabria (Spain) and Academic Director at Santander Financial Institute (SANFI). Previously, she has been Vice-Dean of the Faculty of Economics and Business Administration and Director of Campus and Social Development at the University of Cantabria. She has been visiting researcher at the University of California in Berkeley, the London School of Economics and the University of Technology in Sydney. Professor Díaz is author of several papers about CSR, corporate governance, banking and corporate finance in academic journals and books. The quality of her research was recognised with the 'Sanchis Alcover Award', awarded by the Scientific Association of Economy and Management in 2006. Since 1996, she has written several reports and developed more than 35 R&D projects about different financial and economic issues commissioned by different public and private entities.

Nicholas Capaldi is Legendre-Soulé Distinguished Chair in Business Ethics at Loyola University New Orleans, where he also serves as Director of the Center for Spiritual Capital. He is the founder and President of the Global Corporate Governance Institute. He received his B.A. from the University of Pennsylvania and his Ph.D. from Columbia University. His principal research and teaching interest is in public policy and its intersection with political science, philosophy, law, religion and economics. He is the author of 8 books and over 100 articles, editor of six anthologies and member of the editorial board of six journals and has served as editor of *Public Affairs Quarterly*. He is Associate Editor of the *Encyclopedia of Corporate Social Responsibility* (Springer). His most recent book is *America's Spiritual Capital*, co-authored with Ted Malloch. He is the author of the Cambridge intellectual biography *John Stuart Mill*. Currently, he is writing a book entitled *The Rule of Law* with Nadia E. Nedzel.

Samuel O. Idowu is a Senior Lecturer in Accounting and Corporate Social Responsibility at London Guildhall School of Business and Law, London Metropolitan

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René Schmidpeter holds the Dr. Juergen Meyer Endowed Chair of International Business Ethics and Corporate Social Responsibility at Cologne Business School (CBS). He is also a professor at the Nanjing University of Finance and Economics as well as the director of the Center for Advanced Sustainable Management (CASM) at CBS. He is a series editor for Springer's CSR, Sustainability, Ethics and Governance books, a section editor of the *Encyclopedia of Corporate Social Responsibility* (ECSR) and an editor of the *Dictionary of Corporate Social Responsibility* (DCSR). His research and teaching activities focus on the management of corporate social responsibility, international perspectives on CSR, social innovation and sustainable entrepreneurship as well as the relationship between business and society. He has published widely and is the editor of the German management series on corporate social responsibility at Springer Gabler.

Responsible Business in a Changing World: An Introduction

Samuel O. Idowu, Belén Díaz Díaz, Nicholas Capaldi, and René Schmidpeter

Corporate Social Responsibility (CSR) and issues concerning Sustainable Development have transformed a number of our business and life practices and contributed positively to the need for businesses and citizens of the second millenium to organise themselves in being more responsible than ever before. Not only that, CSR has also been instrumental in bringing about the way business leaders, corporate managers, stakeholders and society in general perceive and understand how they must operate in order to make our world a more habitable and sustainable place for us all. If were continued operating this way, planet Earth can only be a better place for this generation and future generations to exist in.

The cost of being socially responsible and ethical is far less than the cost and consequences of being irresponsible and unethical. This is a fact, there are several practical examples around us we can cite globally in recent times. That individual citizens on planet Earth should act responsibly at all times has been part of humanity since the beginning of time, that was what all forms of religion have advocated and continue to advocate. CSR has taken this a step further to include acting responsibly towards the environment in general taking into consideration the needs of all its inhabitatants. CSR in its current understanding has been taken seriously by corporate entities for more than 40 years. Sustainable Development on the other hand has been in our consciousness for more than 30 years, to be precise since the Brundtland

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Report, 1987. The literature is full of the consequences corporate irresponsibility and acting unsustainably both for this generation and future generations. Sadly, many of us are too aware of our experiences of coming across irresposible and unethical attitudes by some so called leaders of entities who have no regard for the consequences of their actions on their critical and non-critical stakeholders and behave irresponsibly towards those who hold their licence to operate even in the twenty-first century, this sort of attitude is unsustainable. Needless to say, the days of such irresponsible leaders are surely numbered on corporate scene during the remaining years of the twenty-first century, unless they change. After all, we all live in a changing world; those unwilling to change from their old irresponsible and unsustanable ways do not deserve to continue to exist on this planet, that's our take on that.

Having said this, it must be noted that it has not all been doom and gloom in society in general, the actions of what one could group as those 'bad eggs in the basket' should not cloud all the successes which have emanated from the coming into being of CSR. CSR has made a number of differences and added value to how modern capitalism is perceived, understood and practiced see for example Shamir (2010), Porter and Kramer (2011), Idowu (2012). There is a large number of true and enviable leaders who are making our world a better place, they cannot be forgotten, they must be congratulated and celebrated.

Our world has continued to change in a number of ways. We live in a globalised world where we are all well connected to each other in most of the things we do and how we do them. Modern corporate entities are expected to innovate in their various sectors to bring on to the market new and improved products and services to serve the market, regardless of whether the market in question is Business to Business (B2B) or Business to Customer (B2C). These entities are similarly expected to innovate not only in terms of their core business operations but also in terms of their corporate social responsibility activities and sustainable issues. The main objective of this book therefore is to explore how businesses of the second millennium are embedding responsibility in their operational activities in the dynamic environment they operate in. The 21 chapters of the book from around the globe answer pertinent questions relevant to the title of the book—*Responsible Business in a Changing World.*

Moving on swiftly from the issue raised in the last paragraph, Idowu and Schmidpeter (2015) argue that there is no doubt that, in totality our world is now a better place for everyone barring a few still pressing issues we all need to continue to work on. These two scholars also note that one cannot attribute all the successes we have made and continue to make globally in all ramifications to CSR, frankly it must be acknowledged that CSR has played some part in changing and improving how we run the business, use resources, treat people, handle waste and treat the environment. All these are some of the tools which responsible businesses of our time are using to change how modern corporate managers run modern corporate organisations.

This book provides an insight into responsible business practices used by modern corporate entities in Europe, Asia, North America and Australia, the continents where contributors in the 21 chapter book are based. The book has been fortunate in the sense that contributors to its 21 chapters are either based or have connections with the 10 or so countries featured in the book. They are all CSR scholars of repute and have worked in the field of CSR and its related disciplines for a number of years; they are members of the Global Corporate Governance Institute (GCGI) who attended the 5th Conference in Santander, Spain in June 2018. The views many of them have expressed in their chapters are the results of their research studies on responsible business practices in the relevant countries featured in the book. We hope you will enjoy and find the chapters useful and understandable.

The book has been divided into four parts, each part focusing on issues relating to responsible business practices in the aforementioned continents. Part I—Looks at Responsible Finance in four chapters. Part II—Focuses on Corporate Governance in three chapters. Part III—Covers CSR Reporting in five chapters. Part IV—Looks at Global Perspectives and Cases in eight chapters. Let us now look briefly at each of the 21 chapters.

The very first chapter by Pardo and de la Cuesta González two Spanish scholars entitled "*Corporate Tax Responsibility: Do Investors Care?*" notes that the effect the increasing public awareness of corporate harmful tax practices on stakeholders and their impact on society. The two authors argue that corporate tax responsibility (CTR) is becoming more important to companies, stakeholders and scholars. Despite this, the authors argue that, the issue has not been fully explored in the academic literature and the few existing studies do not delve into the priorities of shareholders and investors. The research undertaken by them aims to fill the existing gap by exploring the importance of the main actors involved in investment decisions give to the corporate tax practices and policies of listed companies. Based on the main academic literature and public CTR initiatives such as the Base erosion and profit shifting project (BEPS), these two scholars embarked on a survey to obtain the opinion of asset owners, asset managers, listed companies, financial analysts, social rating agencies and proxy advisors/solicitors. The results of the study show that, although the investment community pays little attention to the (ir) responsibility of the taxation practices of listed companies, but the argue that this importance will increase noticeably in the coming years. According to respondents, the reasons for this change Pardo and de la Cuesta González note include diverse issues such as reputational and governance risks.

In the second chapter by Gogichadze and Tzavara two Georgian scholars of repute who delved into the issue of Georgian Bank customers' CSR preferences. In the chapter, these two scholars argue that CSR and environmental matters are which consequently affect banks brand image and the ability to improve their competitive advantage. Gogichadze and Tzavara note that the banking sector suffers from reduced customer loyalty due to the homogeneity among bank services and banks need to make substantial efforts to create competitive advantage generating brand preference and purchasing intentions among customers. They note that in Georgia, the banking industry is the largest contributor to CSR activities and various Georgian banks invest in CSR, in the form of societal and environmental initiatives. Considering the intensive efforts of Georgian banks to demonstrate a socially responsible face, it is interesting to know whether this type of engagement is at all appealing to Georgian bank customers, they set out to carry out the study. The findings of the study add to existing literature exploring the links between CSR and marketing outcomes and benefit Georgian banks and the banking sector in general, since it would make it possible for banks to evaluate whether their CSR investments have made positive effects on customer behaviour.

Arraiano, a renown Portuguese scholar in third chapter explores whether there is value creation in Banks listed on Dow Jones Sustainability Index, Europe. Arraiano notes that the banking sector since 2001 has seen an increasing evolution in the number of banks that engage in sustainability in Europe. This evolution, Arraiano argues has been slower when compared to the other sectors of activity. The number of empirical studies in this particular sector in the region covering a specific period of study, which includes the global financial crisis, is limited Arraiano notes. This scholar evaluates the value relevance of banks listed on the Dow Jones Sustainability Index Europe using a sample of 66 European banks in the stock markets of France, Germany, Italy, the Netherlands, Norway, Spain and the United Kingdom. Arraiano notes that from 2001 to 2013, the period under review, presented a major growth in sustainable investments. Considering the global financial crisis, it was studied in two subperiods, pre and post crisis. Using a modified Ohlson model and applying a panel data methodology for the empirical research, consisting of a combination of time series and cross-sectional data in a joint test, it enabled the researcher to control individual unobservable heterogeneity as well as the endogenous nature of the explanatory variables. The study reveals that banks listed on the Dow Jones Sustainability Index Europe are associated with higher market valuations and have a direct effect on stock prices by modifying the value-relevance of financial information. These findings have important information for both investors and stakeholders, as well as market regulators and policymakers. This empirical study contributes to the existing literature and encourages investors to play a significant role in the sustainable development of such an important sector of society. A recommended reading for those interested in the area.

In the last chapter of Part I, Andy Mullineux a renowned British Professor of Financial Economics takes a look at "*Making British Banking Better*". In the chapter, Mullineux considers whether actions taken by banks and policy makers since the 2007–9 financial crisis have made British banks and banking 'better' through the restoration of public trust that banks serve the public good and are 'socially useful'; and by protecting taxpayers against having to bail-out banks again in the future. With regard to the restoration of trust, Mullineux explores the issues considered in the deliberations of a Panel addressing the question: 'Have we made banking good?' The chapter also reports on the findings of the 'Taxing Banks Fairly' work stream of an AHRC project completed in February 2016 that considered the balancing of the regulation and taxation of banking as a means of protecting taxpayers from bank bail-outs. The chapter also explores the question of whether the 'regulatory' cycle in the UK has turned, from tightening to relaxation, too soon: before banks have demonstrably improved their liberalization; before competition in UK retail banking has been enhanced significantly; and before taxpayers are protected properly. Mullineux in the final section of the chapter, considers whether the Banking

Standards Board, established in 2015, will be able to raise banking standards: and whether 'Open Banking' initiative, imposed from January 2018 by the UK's Competition and Markets Authority (and conformable with the EU's Payments Services Directive, PSD2), will deliver better financial services to the banks' retail consumers (households and small and medium sized enterprises, SMEs). The chapter concludes that a new social compact for retail banking in the UK seems to be required.

The very first chapter of Part II the one on *Corporate Governance* by three excellent scholars from the University of Cantabria, Santander, Spain on the performance of SRI fund investment analyses comparatively the effectiveness of different tactics of social activism that conscientious investors (as SRI funds) can apply on the firms they invest in order to increase firms' corporate social performance (CSP). The three scholars note that although some papers on shareholder social activism have been published in the last few years, these studies have not analysed its effectiveness on firms' CSP, so that this effect remains unclear and there is even some disagreement as to whether it can be an effective tool for changing corporate social behaviour. In the attempt to conduct this research, a sample of 299 international firms drawn from a database of 238 equity SRI funds operating in Europe in the period 2006–2007 was used to estimate hierarchically a multivariate model. Their findings support the *stakeholder salience theory*, where power is an important driver of salience, being shareholders' relative economic power an important moderating factor in the relationship between shareholder social activism and firms' CSP. These scholars' conclusion does not seem to support the postulates favouring the voluntary application of CSR by firms so that it raises questions about the social and environmental accountability of those firms in which SRI funds are investing in.

Gehard Kosinowski a German scholar devotes his chapter on Cooperative Social Responsibility. In the chapter, he explores that the governance structure of cooperatives and their relation to the concept of corporate social responsibility (CSR). Kosinowski notes that historical perspective illustrates that the governance structure which traces back to the nineteenth century has been influenced by the economic, political and social circumstances since inception. Values, like democracy, self-help and solidarity, are essential elements of present-day cooperatives although the relevance of these values has experienced volatility over time. Kosinowski focusing on European cooperative banks and the management concept of member value, notes that his explorative case illustration shows how the traditional values and principles manifest into a modern business strategy. While the focus is on the members, he notes that cooperative activities also benefit the society. Although they have similar inspirational roots and are both characterised by a variety of interpretations, there is one major difference between corporate and cooperative social responsibility: The orientation towards the local community and the society has always been part of the cooperative DNA, he argues. In this sense, cooperatives serve as role models of a democratically-organised and socially responsible way of doing business. Consequently, using the example of financial cooperatives, the author argues that it is upon the management of those organisations to turn the unique governance structure into a competitive advantage in order to benefit from the cooperative social responsibility.

The last chapter of Part II by two Italian scholars—Giammarco and Casalegno on "Managing Intangibles and Improving Governance Through the Theory of Complexity" notes that modern companies face a hard challenge. These companies they argue have to ensure they must survive amidst global competition, whilst ensuring, that they stand out as an agent with unique and attractive ways of management and making a difference. In a similar context, intangible assets have a central role, but their management, if handled by traditional, deterministic, and reductionist techniques, can have paradoxical and dangerous effects for the company, both internally and externally, they argue. The chapter attempts to present an intangible management model based on the theory of complexity. The model views intangible assets according to their classification in the literature, but its underlying hypothesis is that intangibles are complex objects that are, in turn, composed of other complex objects that establish dynamics among them characterised by an effect–feedback relationship (also known as dynamic and generative feedback loop). The model Giammarco and Casalegno present focuses on the relationships among the elements constituting the intangible assets to build a network of links between the objects at the system's base. A similar approach highlights the channels on which the effects of actions are felt, including their speed, intensity, and the probable impact on the whole structure. Finally, through various case scenarios, the model could help managers perform a forecast analysis to evaluate different modes of behavior, they conclude.

Moving swiftly on to the first chapter of Part III, the eighth chapter of the book by Phoprachak and Buntornwon on the influence of firm size on the environmental disclosure and performance of listed companies on the Stock Exchange of Thailand. These two Thai scholars carried out their research in an attempt to investigate the relationship between environmental disclosure and financial performance of different firm sizes listed on the stock exchange of Thailand. This was achieved through the multiple indicator and multiple cases model (MIMIC) of 402 companies listed on the stock exchange of Thailand. Their findings reveal that firm size influences the environmental disclosure (ENVD) of firms. Furthermore, environmental disclosure has a positive effect on firm performance, with a significance level of 0.01 and correlation coefficient of 0.51. The analysis of firm size in the study indicates that small-sized (SIZES) firms have low levels of environmental disclosure. The statistical result indicates that the environmental disclosure mechanism of small-sized firms has an indirect, negative effect on financial performance, with a significance level of 0.01 and correlation coefficient of 2.36. In comparison, medium (SIZEM) and large-sized (SIZEL) firms are increasingly trending towards environmental disclosure. The statistical result indicates that the effect of size on environmental disclosure in medium and large companies has an indirect, positive effect on firms' financial performance, with a significance level of 0.01 and correlation coefficient of 1.00 and 2.35 respectively. The findings of this research are expected to increase opportunities for firms of various sizes (as listed on the Stock Exchange of Thailand) to improve financial performance through the use of environmental disclosure, they conclude.

In the second chapter of Part III also from Thailand, Klaprabchone devotes the chapter on "The Impact of Environmental Management Accounting Practices on Organisational Sustainability to the ISO 14001 Companies in Thailand". In the chapter, this Thai scholar talked about the research that was carried out which aimed at indicating the impact of environmental management accounting practices on organizational sustainability of the certified ISO 14001 companies in Thailand. This study, she notes; adopted a questionnaire survey of 400 samples and analysed data through Multiple Indicators and Multiple Causes Model (MIMIC). The results showed that the driving force of stakeholders (SDP) and environmental CSR (CSR) possessed a negative impact on environmental management accounting practices (EAP) with coefficient values at $0.38**$ and $0.42**$, respectively at the significance level of 0.01. On the contrary, accountant expertise (ACE) and accounting policy on environmental aspect from leaders (POL) possessed a positive impact on environmental management accounting practices (EAP) with coefficient values at $1.14**$ and 1.33, respectively at the significance level of 0.01. Also, environmental management accounting practices (EAP) and competitive financial advantage (CAF) possessed a positive impact on organizational sustainability (OST) with coefficient values at $0.63**$ and $0.70**$, respectively at the significance level of 0.01. The findings of this research were aimed at increasing an opportunity of the certified ISO 14001 companies in Thailand in organizational sustainability improvement through the use of environmental management accounting practices, the scholar notes.

Charoenkitthanalap, Kradphet, Phoprachak and Buntornwon another set of Thai scholars are the authors of the tenth chapter of the book. Their chapter entitled "The Impact of Environmental Accountants' Ability on CSR Disclosure and Profitability of the Listed Companies on the Stock Exchange of Thailand". The chapter explains the outcome of a study accountants' recognition of environmental items influencing profitability, through the disclosure of corporate social responsibility (CSR) information of 150 companies listed on the stock exchange of Thailand in 2017. The results of the study show that accountants' recognition of environmental items has a positive influence on profitability, based on the disclosure of corporate social responsibility information of 0.17, at a statistical significance level of 0.05. Environmental accountants' ability to recognize environmental items (EARE) has a positive influence on corporate social responsibility disclosure (CSRD) of 0.33, at a statistical significance level of 0.01. Environmental accountants' ability to recognize environmental items (EARE) has a positive influence on profitability (PFBL) of 0.31, and corporate social responsibility disclosure (CSRD) has a positive influence on profitability (PFBL) of 0.51, at a statistical significance level of 0.05. The implication of this research is that environmental accountants' abilities can enhance the opportunity of firms to improve profitability through the use of CSR disclosure, a very interesting read.

The eleventh chapter of the book by three Italian scholars—Imane Allam, Simone Scagnelli and Laura Corazza focuses on "Sustainability Reporting, a New Type of Companies' Hypocrisy: Zara and Volkswagen Cases". The chapter argues that over the recent years, there has been increasing attention to sustainability management and reporting. Sustainability reporting is adopted by companies to communicate their impact on sustainability, and it is defined as economic, social, and environmental responsibilities. Its final goal is to depict the implementation of policies, plans, process, and products in respect of social and environmental issues. The purpose of this chapter these authors argue is to critically compare sustainability reporting and real practices of sustainability management by focusing on two companies. The study applies a multiple typical case study approach, thus focusing on two companies—the Volkswagen emissions scandal and Zara's unpaid labourers' issue. The three Italian scholars went on to evaluate the sustainable reports and the code of conduct of the two companies, they compared the discrepancies between reports and companies' performance. The analysis of the two cases studies, and the related companies' scandals reveals a disconcerting situation shedding light on the gap between what it has been reported and disclosed by the companies and what their actual practices are. To overcome such problems, further study on the implementation of a knowledge management strategy could drive transparency and enable effective reporting on sustainability.

The final chapter of Part III entitled "Does Intangible Intensity Affect Analyst Accuracy? Some Evidence from Spanish Firms" by three Spanish scholars—Ferrer, Santamaria (deceased) and Suárez which examines the impact of firms' intangible intensity on analyst forecast accuracy. The study used data drawn from a sample of 87 Spanish industrial firms over the period 2000–2016. Its results show that higher intangible intensity is associated with lower analyst forecast accuracy. This result holds true after taking into account additional firm-level characteristics that define the set of hard-to-value and difficult-to-arbitrage firms (HVDA), the effects of both the global financial crisis and sovereign debt crisis in the Spanish economy, and variables affecting the degree of information asymmetries among the firm's main stakeholders, the study notes.

The final Part of the book commences with the thirteenth chapter of the book entitled "Unwritten Rules in Social Partnerships: Defining Corporate Social Responsibility Through Institutional Theory in the Peruvian Mining Industry" by Gustavo R. Espinoza-Ramos. Espinoza-Ramos argues that since the 1990s, the mining sector in Peru has been one of the most important industries that contribute to the economic development of the country. However, it has also led to the environmental disruption and social conflict. This situation has forced the companies to reconsider the development of social partnerships between businesses and the civil society in order to tackle social issues including social justice and the environmental protection, Espinoza-Ramos notes. Consequently, Espinoza-Ramos notes that the object of the study involves mining companies, peasant communities, government and non-profit organisations and seeks to answer the question: How do institutional forces contribute to the development of Corporate Social Responsibilities (CSR) initiatives through social partnerships in the Peruvian mining industry? Social partnerships, Espinoza-Ramos argues require companies to understand not only the market but also the distinctive socio-economic, legal and cultural forces that represent social norms known as institutions. The theoretical framework of this study is based on the new institutional theory that establishes three pillars of institutional order; cognitive, normative and regulative. This framework represents a holistic approach that provides new lenses to understand CSR in a developing country. This exploratory qualitative research conducted by the scholar consists of 53 interviews and a focus group during a communal assembly. In addition, indigenous methodology has been implemented in order to unleash the unheard voices from peasant communities based on observation and witnessing of verbal traditions. The fieldwork was carried out in August 2016 and from June to September 2017 in the regions of Lima and Ancash in Peru. The secondary research is based on the study of 25 sustainability reports and the analysis of three partnership agreements between peasant communities and mining companies. Some early findings have revealed that non compliance with communities has led to distrust towards mining companies, government and NGOs; and protests have been used by peasant communities as a legitimate instrument in order to manage an unbalance power.

The fourteenth chapter of the book by two scholars—Radavoi and Bian who are based in Australia and China respectively entitled “Isomorphic Mutation and Strategic Adaptation in China’s CSR Standards for Overseas Investors”. Radavoi and Bian argue that at the beginning of the present decade, China has shown preoccupation with its overseas investors’ behaviour in fields like labour, human rights or the environment. Comprehensive, OECD-style environmental, social and governance standards were issued in 2012 by the overseas contractors’ association. One year later, however, the government issued specific, sectorial guidelines for the field of environmental protection only. The divide between industry associations’ approach, favouring comprehensive CSR, and the state’s, paying more attention to the field of environment in its guidelines for overseas operations, is also visible in other normative documents. The chapter focuses on the fields of contracting and mining, as among the most prone to environmental and social wrongdoing by corporations. It first reveals the different CSR approaches at government and industry level as paradoxical, since in China, the government is behind the business associations. The chapter then explains the differences using a theoretic framework that combines sociological neo-institutionalism, with its focus on isomorphism and mechanical alignment to taken-for-granted models, with more recent theories focused on agency. In this context, the two scholars discuss the suspicion of decoupling.

Moving on swiftly to Canada where Patricia MacNeil and Maggie Matear delved into “Getting personal about corporate social responsibility: Exploring the values that motivate leaders to be responsible”. The chapter set out to understand why one company is socially responsible and another is not, they went on to examine its leadership. MacNeil and Matear argue that in corporate entities, senior leaders not only make decisions that drive organisational performance, but also they establish rules and norms for corporate social responsibility. They decide to be ethical (or not), to engage stakeholders (or not), and to balance financial, social, and environmental interests (or not). Unfortunately, MacNeil and Matear explain that not much is known about *how* leaders make their decisions, except that they are informed by personal values. The study MacNeil and Matear carried out attempts to bridge the gap in our understanding by exploring the practices and motivations of senior leaders. Examining leaders’ values-based decisions may also be a pathway to understanding incidents of corporate social irresponsibility, they argue. Using criteria from emerging research on responsible leadership, they identified a sample of senior leaders from a list of top employers in Canada during 2016. Top employers are recognised nationally in Canada for their success in providing quality workplaces and engaging with the community. Given their achievements as top employers, MacNeil and Matear proposed that these leaders would also be responsible leaders, i.e., they would define responsibility broadly, and consider the interests of multiple stakeholders in corporate decisions and actions.

MacNeil and Matear note that the literature describes two general types of responsible leaders: integrative and instrumental. The integrative leader takes a broad approach to responsibility and is accountable to multiple stakeholders; the instrumental leader is financially focused and accountable primarily to shareholders. Most of the leaders in this study demonstrated the characteristics and practices of the integrative leader, a mindset considered the gold standard of socially responsible leadership. However, these individuals were not perfectly aligned with that standard because they also showed a trait more often associated with the instrumental leader: competitiveness. The findings led MacNeil and Matear to conclude that competition is also a necessary component of the contemporary integrative leader's mindset. But it is *how* these individuals compete that places them more on the integrative end of the continuum, as opposed to the instrumental end, they conclude. The value dimensions the study explored are preliminary and in need of further development, yet they shed light on the challenges and realities that leaders face in the global marketplace. The findings may inform current research frameworks for responsible leadership and spark discussions around our expectations for leaders in a competitive corporate environment. A must read chapter.

The sixteenth chapter of the book focuses on "Mission-Based Corporate Sustainability: The Aigües de Barcelona Model" by Bastons, Bengura, Armengo and Rey four Spanish scholars of repute. Their chapter presents both the theoretical and practical aspects of a model for the effective development of a sustainability strategy in companies which include sustainable development in their mission statement. These scholars spent time in their chapter to revise the meaning of corporate sustainability, and the conditions for an effective rollout of the strategy are examined. The chapter is based on the case study of Aigües de Barcelona, a water management company of Suez Group company, which has centred its mission on sustainable development and applies a three-dimensional model for rolling out the mission, namely statement, motivation and practice. This case helps to identify the main problems faced by companies in rolling out a sustainability strategy and how these problems can be resolved from the perspective of the corporate mission. The difficulties encountered in ensuring that the sustainability strategy is effective in the company's daily business are also covered, and some questions that remain unanswered are identified in the chapter.

Choudhary and Singh, two Indian scholars in their chapter on "Exploring the Impact of Corporate Social Responsibility on Poverty Reduction" argue in their pilot study before conducting a large-scale PhD research on exploring the impact of the CSR initiatives of Tata Steel on poverty reduction and development of income generating opportunities for local communities in the Joda block of Odisha in

India. Tata Steel has mining operations based in Joda which is rich in mineral resources, they note. The study uses the survey method for data collection and the data was analysed using the statistical package for social sciences (SPSS). The findings reveal that the CSR initiatives by the Tata Steel Group has a positive impact on facilitating development opportunities for local communities in the Joda block and the model of CSR adopted by the company has the potential to act as a tool for achieving development goals and poverty reduction.

Albahlal, Issa, Issa and Chang four Australian scholars in their chapter on Green IT in the Gulf Cooperation Council (GCC) countries note that recent years, the GCC countries have introduced various plans and projects for revenue diversification, as the largest source of revenue for these countries to date is oil. This new direction taken by the GCC countries has been welcomed by large foreign companies willing to invest in the region. However, large-scale foreign companies have established certain standards in terms of using sustainable products, reflecting society's increasing awareness of sustainability. The chapter examines how managers in the GCC countries are currently incorporating Green IT practices in their business strategies. First, the researchers explain what is meant by 'GCC' countries and explores their current situation regarding the issue of sustainability. The researchers then explore the factors which are used to measure the prevailing attitudes derived from the data collected from interviews with 17 senior managers in the GCC countries. NVivo application was used as the primary tool for data analysis. The interview questions touched on several themes: governance, social and cultural, Green IT, and green management. These scholars note that, the scope of the chapter is limited to discussing and addressing the current managers' attitude of GCC organisations toward the Green IT concept and its adoption. The interview data indicated that there are different considerations and deliberations about various aspects of the Green IT issue. For instance, social media is a powerful tool that can be used by organisations to transform people's attitudes and increase their awareness of sustainability. This revolution is much needed in the GCC countries, as new regulations for the disposal of waste. The adoption of Green IT will raise public and industry awareness of sustainability in the GCC countries. Employees could be given guidelines for adopting and integrating sustainability in the workplace, and encouraged to incorporate CSR in their organisations, supported by GCC governments.

In the penultimate chapter of the book, Dameski an Italian scholar of repute explores "Avoiding Corporate Armagedon: The Need for Comprehensive Ethical Framework for AI and Automation in Business". The chapter predicts developments with the widespread introduction of artificial intelligence and automation in society, alongside the role business(es) will play in this process, are likely to bring morally problematic developments in the near future, Dameski argues. These developments, if not managed in a morally sound manner, may cause significant disruptions and societal crises that will negatively affect all market participants, including business (es), academia, government(s), policy-makers, and consumers, the chapter notes. However, involved parties are unable to positively manage such developments if they lack the tools and methodologies to understand, predict, and manage them. Thus, there is a clear moral need for the establishment of a comprehensive ethical framework for artificial intelligence and automation in the business world, that can serve as a tool to achieve exactly this. The author argues for the existence of such need, and of the attributes such a framework should embody to be implemented by all relevant parties in a successful and sustainable manner.

The final chapter of the book from Ukraine by Oleh Hlushko on SMBs' perception of corporate social responsibility (CSR) and pivot motives of CSR performances. To achieve the objective of the paper, several analytical researches as well as reports concerning SMB's attitude towards social and environmental performances were considered. The paper puts special emphasis on the good practices of CSR applicable to small and medium-sized companies. Both general and specific attempts within CSR performances are included in the list of good practices for small and medium-sized entities. The author notes that the contribution of the paper into the subject area is demonstrated by analyzing costs of CSR performances and barriers of utilizing social and environmental actions by the SMB. At the same time, the chapter shows motives and benefits derivable from being socially responsible by small or medium-sized enterprise. In addition, this paper shares some of the highlights concerning SMB's requirements in the attempt to improve their CSR practices. In the meanwhile, the chapter looks into aspects of CSR strategy that will be beneficial to SMB owners, stakeholders, in particular local communities and society in general.

The 21 chapters of the book from across the globe in our view have made immense contributions to improving our understanding of a number of things that stakeholders of the second millennium need to do in order to make our world a better place not only for this generation but more importantly for future generations of the occupants of this planet. It is hoped that the book goes on to make the required difference expected in what our readers go on to do from here on.

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Part I
Responsible Finance

Corporate Tax Responsibility: Do Investors Care?

Eva Pardo and Marta de la Cuesta-González

1 Introduction

In recent years the economic dimension of corporate social responsibility (CSR) has attracted more public attention, particularly with regard to issues concerning the contribution of large corporations to public finances and wealth. The weakening of public finances due to the last economic crisis has made aggressive tax practices to be increasingly considered as irresponsible and "illegitimate" (Lanis and Richardson 2015). In this context, tax responsibility is becoming more important to companies, governments, stakeholders and scholars.

In 2013 the OECD and the G-20 jointly launched the BEPS project with the aim of preventing corporate tax practices that allow the erosion of the tax base and the transfer of benefits (OECD 2013). NGOs such as Oxfam, Christian Aid and ActionAid have launched initiatives to foster tax responsible corporate practices, identifying key areas that companies should consider in their taxation (Boerrild et al. 2015). Growing public and regulatory pressure has led to an increase in the risk associated with the tax practices of companies and their negative effects on the value of companies. The United Nations' Principles for Responsible Investment (PRI) have published a guide for fostering and helping investors to engage in corporate tax responsibility with their investee companies (PRI 2015). Some companies have even been involved in the development of specific principles on corporate taxation (The B Team 2018) and their approaches to taxes are evolving from a cost to be minimized to a moral duty to be paid according to the economic value generated in each jurisdiction in which the company operates (PRI 2015; OCDE 2015). As a result, corporate tax responsibility is becoming more and more important in both public and private CSR agendas (Boerrild et al. 2015; De la Cuesta-González et al. 2018; European Commission 2011; OCDE 2013).

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Nevertheless, this issue has not yet been fully explored in the academic literature. In recent years there have been certain advances regarding corporate tax responsibility (CTR) (De la Cuesta-González and Pardo 2019; De la Cuesta-González et al. 2018; Hardeck and Kirn 2016; Lanis and Richardson 2013; Ylönen and Laine 2015). Some of these studies have considered the opinion of companies and stakeholders (Hillenbrand et al. 2017), but to our knowledge none of them have thoroughly examined the priorities of shareholders and investors regarding corporate tax responsibility. Our research aims to fill this gap by exploring the importance that the main actors involved in investment decisions give to the corporate tax practices of listed companies.

The chapter proceeds as follows. Section 2 reviews previous literature on corporate tax responsibility. Section 3 describes the methodology used in this study. Section 4 concludes with the main results and findings, as well as future lines of research.

2 A New Approach to Corporate Taxation: Corporate Tax Responsibility

Corporate taxation is highly controversial, and this controversy has increased in recent years. Much of this controversy relies on a financial conceptualization of the firm, on the basis of which: (1) taxes can be considered as a cost to be minimized in order to maximize profits, thus fulfilling a firm's fiduciary duties towards their shareholders (Friedman 1970) and (2) it would be natural to integrate corporate profits into owners' personal income taxes to prevent double taxation of shareholder income, as companies are not separate entities from their owners (Avi-Yonah 2014).

Under these premises, some governments have established special arrangements to attract companies' domiciles for taxation purposes. Among these actions are the full or partial elimination of the double taxation of dividends in many countries and reductions in their corporate tax rates.

All of this has favoured aggressive tax planning by corporations, i.e. "transactions that are not motivated by a valid business purpose" (Avi-Yonah 2014). Some examples of these practices are the use of instrumental companies in tax havens (Preuss 2010, 2012) or the establishment of transfer prices in transactions carried out between companies in the same group (Ylönen and Laine 2015). All of these practices are associated with both tax evasion and avoidance; concepts that some authors like Dowling (2014) consider synonymous, while others emphasize their differences (Hasseldine and Morris 2013). The OCDE (2015) estimates that aggressive tax practices aimed at eroding the taxable base of international corporations generate an income loss of between 4 and 10% of their revenues for corporate tax (between US$100 and US$240 billion).

From a CSR perspective, stakeholders and scholars consider that these practices are no longer acceptable because of their negative impacts on society and public budgets (Boerrild et al. 2015; Lanis and Richardson 2015; among others). Thus, corporate taxation is becoming a material issue in Corporate Social Responsibility and Socially Responsible Investment (De la Cuesta-González et al. 2018; De la Cuesta-González and Pardo 2018).

From a stakeholder perspective (Freeman 1984), the enterprise is a nexus of contracts that requires the company to adapt to the societal and moral rules on corporate tax responsibility where it operates (Donaldson and Dunfee 1994). From a legitimacy perspective, the implicit social contract between the company and society is based on the expectations of many stakeholder groups (Deegan 2002). Furthermore, legitimacy can be considered an operational resource (Tilling and Tilt 2010) whose value must be preserved.

According to some scholars, paying taxes is a primary social responsibility of companies and, therefore, corporate tax aggressiveness, tax evasion and tax avoidance are socially irresponsible and illegitimate actions (Lanis and Richardson 2013; Bird and Davis-Nozemack 2016; Hillenbrand et al. 2017). As stated by Laguir et al. (2015), taxation and CSR have been separate fields of research until the 2010s. Recently, Hillenbrand et al. (2017) have included corporate tax in theoretical frameworks, highlighting the need to link corporate tax to stakeholders' expectations. In a study carried out in Spain with the support of the IEF De la Cuesta-González and Pardo (2019) after a qualitative analysis based on interviews with relevant experts from different institutions, CTR was defined as "the set of tax-related practices and policies that allow companies to pay a fair share of taxes as a function of the generated value in each jurisdiction in which they operate and to then publicly disclose them".

The debate on corporate tax responsibility has mainly been led by NGOs and multilateral entities (Boerrild et al. 2015, Ylönen and Laine 2015). Traditionally it focused on the negative impact of MNEs on developing countries through practices related to corruption and the non-payment of taxes. However, the negative effects of the last economic crisis have extended this debate to developed countries, increasing the pressure by governments and society for greater corporate tax responsibility. Among the proposals of civil society is the report "Getting to Good. Towards Responsible Corporate Tax Behavior "signed by the NGOs Oxfam, Christian Aid and ActionAid (Boerrild et al. 2015). It identifies aspects that define a tax responsible company and cites eight key areas that should be considered in the process of responsible management of corporate taxation to advance in transparency, evaluation and progressive improvement.

Regarding the governmental sphere, the most relevant initiative is the BEPS project launched by the OECD and the G-20 in 2013 in which more than 100 countries and various institutions such as the World Bank and the International Monetary Fund have participated (OECD 2013). This project emerged with the aim of curbing corporate tax practices that allow the erosion of the tax base and the transfer of benefits. To achieve this, 15 actions were developed to reduce tax evasion, harmonize international tax regulations and promote tax transparency.

These social and institutional pressures have put some restrictions on opportunism, moral hazard and the erosion of public and collective goods, i.e., institutions mitigate social irresponsible behaviour. Following Campbell (2007), this has also led to an increase in the number of risks associated with the tax practices of companies and their negative effects on their value. That is why investors have started to pressure companies towards more responsible tax behaviour and transparency (PRI 2015; Spainsif 2017).

2.1 Shareholders and Corporate Tax Responsibility

Among the different stakeholders, shareholders deserve special attention as the generation of value for shareholders has been one of the reasons traditionally argued by companies when implementing aggressive tax practices. As companies have traditionally considered taxes as a cost that reduces corporate profits (Avi-Yonah 2014), they have carried out tax practices with the sole objective of reducing the amount of taxes paid with no relation to the operation of the company.

Nevertheless, recent studies show that shareholders' approach towards taxation is changing. The underlying motivation of these aggressive tax practices has been questioned (Wahab and Holland 2012), and corporate tax aggressiveness is starting to be considered negative by investors and shareholders. Tax aggressiveness may cause falls in the combined market capitalization of companies (Choy et al. 2017) and shareholders consider that it is less risky to invest in companies that pay higher effective tax rates (Brooks et al. 2016). In a comprehensive study of the link between corporation tax payment and financial performance in the UK (Brooks et al. 2016), no discernible link was found between tax rates and stock returns. However, allowing for industry norms and a host of firm characteristics, companies with lower effective tax rates have significantly higher levels of stock market risk.

From the agency theory perspective, tax aggressiveness has important marginal company costs related to the potential penalties imposed by tax administrations, implementation costs (i.e., the time/effort and transaction costs of implementing complex tax strategies) and the agency costs that inevitably accompany tax-aggressive activities (Laguir et al. 2015).

Indeed, according to the PRI (2015), corporate taxation is a systemic key risk that could have a serious effect on a company's profitability and sustainability. These risks are grouped into three categories: (1) earnings risks caused by changes in tax regulations and enforcement; (2) reputational and brand risks; and (3) macroeconomic and societal risks derived from the potentially negative impacts of lower levels of public income on infrastructure, society, consumers and the workforce. Furthermore, the PRI recommends that investors be aware of corporate tax policies, tax governance issues, the management of tax-related risks, effective tax rates, tax gaps, tax havens, transfer pricing, tax incentives and reporting practices.

Shareholders are increasingly aware of the importance of managing all impacts and risks, not just financial risks, on the future value of companies and, therefore, of their investments. Therefore, they have started to exercise their rights as owners and require companies to render accounts that cover all the dimensions of their actions, i.e. financial, social, environmental and governance dimensions. This is known as socially responsible investment (SRI). Investors with this social orientation act on principles and not only for economic reasons (Chung and Talaulicar 2010; McLaren 2004), and they adopt a broader and longer-term perspective (Proffitt and Spicer 2006; Clark et al. 2008).

In order to reduce the costs and barriers associated with this direct dialogue with companies, some investors have decided to engage in an active dialogue with regulators and policy makers or even support associations or interest groups to act collectively on specific issues such as climate change, workers' rights, human rights, as well as international taxation, etc. This joint strategy seems to be more effective in raising some standards of awareness among the industry without having to act individually with each company (De la Cuesta-González and Pardo 2018).

The importance of adequate control of companies is especially evident for long-term investors, as they tend to remain in them for several economic cycles. This is also the case of large owners, such as sovereign wealth funds, pension funds and insurers, since many of them could be called "universal owners" (De la Cuesta-González and Pardo 2018), that is, investors who have such large portfolios that they have a minority stake in most companies listed on the stock exchange. These universal owners have very diversified portfolios, and they are more concerned with matters of general interest such as climate change, good governance, the welfare state, employment and inequality since these factors affect sustainable growth and therefore the profitability of their portfolios in the long term. Normally these investors do not seek to obtain returns above the market or make significant changes in the structure of their portfolios, but they generally try to have an influence on improving business practices (EUROSIF 2013).

All the above has led investors to impel new initiatives to promote CTR. As for the investment community, the greatest impulse for the promotion of corporate tax responsibility is that carried out within the scope of the PRI. With the support of 11 major investors, PRI published in 2015 a guide on shareholder engagement in the area of tax responsibility in which it establishes a series of issues associated with aggressive corporate tax practices and indicates aspects of management and corporate governance that investors should promote in the companies in which they invest to achieve more responsible tax behaviours (PRI 2015). In this document, the engagement process is structured in two major phases: (1) identifying the warning signs in investment portfolios (2) structuring the engagement process, identifying the aspects to be dealt with by the management team and the board of administration. The aspects included in both phases are related to strategies, risks and policies, as well as to the tax rates paid and transparency (Table 1).

Big institutional investors have also published their priorities regarding the tax behaviour of the companies in which they invest. For instance, in a recent publication Norges Bank Investment Management (NBIM) made public its expectations in this area and serves as a basis for dialogue with companies (engagement). NBIM is based on three basic principles: (1) companies must pay their taxes according to the

Table 1 PRI proposed steps on how to engage companies on tax-related topics

Step one—Identifying engagement candidate		
Red flag	Reason	
Large tax gap	Although the mismatch between the effective tax rate on a company's income statement and the weighted average of statutory rates based on the firm's geographic sales mix may be explained by factors unrelated to tax minimisation, such as tax credits, large and persistent tax gaps are generally the result of profit-shifting and aggressive tax planning	
Foreign effective tax rate	MNEs can choose to deem some deferred foreign profit as likely to be repatriated in an effort to cause their global tax rate to more closely resemble peers' or typical statutory rates, even though the company may not intend to actually repatriate the foreign cash. This decision will make the tax gap red flag outlined above appear acceptable, when the company may actually be highly aggressive in its tax planning	
Large or growing unrecognised tax benefits (UTB) balance	A large balance compared to peers (which can be calculated by dividing each company's UTBs by its enterprise value), or a growing balance, suggests a company that has recently adopted higher risk tax strategies	
New disclosures or changes in language used in tax footnotes	Some companies provide information regarding recent changes to their tax strategies that may not have been reviewed by tax authorities and hence may increase earnings risk in future	
Opaque disclosure of geographic revenue mix	Particularly when combined with any of the above red flags, poor disclosure of geographic revenues may hinder the ability of an analyst to assess the tax gap	
Media stories or government inquiries	Although these do not necessarily signify any wrongdoing, they are valuable in determining specific tax strategies used by a company—especially if there are repeated mentions—and are highly indicative of reputational risk. The company's response to any allegations may also be a good proxy for the board's risk tolerance related to tax practices	
Lack of a tax policy	Disclosure of how the company perceives and addresses tax-related risks, including information on overarching policies and governance of the issue, is critical. While many companies still do not provide any meaningful narrative or disclosure beyond numbers in their annual reporting, examples of good practices in this regard have emerged. Leading MNEs should be expected to follow this model	
Step two—structuring engagement: Questions for management and the board		
Issue	Check	Key question
Tax policy	If the company has a comprehensive tax policy publicly available.	Have you considered publishing tax policy/principles to indicate your approach towards taxation?
Tax governance	Whether the company provides disclosure on clear board level oversight of tax strategy	Is tax formally a part of the risk oversight mandate of the board? How often and for what reason is tax discussed at board/committee level?
Managing tax-related risk	Whether the company discloses any information on tax-related risks and how they are managed, including any discussion on pending investigations of tax positions	How do you define and manage tax-related risks? What are your top three tax-related risks?

(continued)

Table 1 (continued)

Step two—structuring engagement: Questions for management and the board		
Issue	Check	Key question
The effective tax rate	The company's global effective tax rate and if the origin of any significant difference versus its weighted average statutory tax rate is explained in detail	What drives the gap between your effective tax rate and your weighted average statutory rate based on your geographic sales mix?
Tax planning strategies		A. To what extent does your profit after tax rely on your presence in tax havens or incentives and structures that enable very low taxation (e.g. <15%) of profits? B. Have you reconsidered your tax planning strategies, or do you intend to reconsider them, in light of changes following the BEPS project?
	Corporate structure	How many separate legal entities (under common control) make up your corporate group, and do you disclose all of them?
	Intellectual property rights	What is the internal ownership structure that governs your firm's intellectual property assets?
	Financial structures—intra-company debt	Do you have subsidiaries in low tax jurisdictions that make intra-company loans?
	Trading company or marketing service structures	Have there been material changes to your corporate tax structure in the past 4 years (e.g. separation of high value-adding from routine functions)?
	Tax incentives	Are there any jurisdictions that have provided you with tax holidays or incentives?
Country by country reporting (CbCR)	–	How are you preparing for country by country reporting (CbCR)?

Source: PRI (2015). Engagement guidance on corporate tax responsibility why and how to engage with your investee companies

value generated in each jurisdiction, (2) the responsibility of the board of directors in corporate tax policies and practices, (3) the surrender of accounts in the fulfilment of their tax obligations through the publication of information about their tax contribution disaggregated in each country in which they operate (NBIM 2018).

The Committee on Workers' Capital (CWC 2015) has also called on members of pension funds to proactively consider the risks associated with the tax practices of the companies in which they invest. It proposes a series of steps focused on the development of a framework that allows the inclusion of tax aspects in its investment decisions, engagement with invested companies and communication of the principles that govern the policy and the activities carried out for its implementation. Among the most relevant aspects highlighted by the CWC in relation to corporate tax liability are: the treatment of tax aspects in boards of directors and the presence of companies in jurisdictions with low tax transparency and tax transparency, specifically citing the BEPS project and the disaggregation of tax information on a country-by-country basis.

The main initiatives of the investor area to promote corporate tax responsibility are oriented towards several key aspects: responsibility of the board of directors, transparency, country-by-country information and the payment of taxes based on the value generated in each jurisdiction in which the company operates. As CTR is an incipient aspect from an ESG perspective and taxation is a highly complex issue, it is important to clearly define the scope of concepts related to these key aspects. To favour the success of shareholder engagement practices in the tax field, it would be very positive if the initiatives undertaken by different actors and platforms continued to be based on the same principles and key aspects.

3 Methodology

Based on the main initiatives mentioned in Sect. 2, we designed a questionnaire asking about investors' approach towards CTR. Specifically, it included questions regarding the importance of responsible tax practices in investment decisions, the reasons for including CTR as an investment criterion, how to include CTR as an investment criterion (see Annex I) and specific questions for each typology of actor on the products they offer which include responsible taxation criteria/information. The questionnaire also included specific questions on the information requirements to allow investors to include corporate taxation as an investment criterion.

This questionnaire was answered between June and September 2017 by practitioners and scholars. The respondents were classified into the following groups, according to their typology: (1) Owners and asset managers; (2) Investment service providers including social analysis agencies, traditional financial analysts and proxy advisors/solicitors; (3) Listed companies; (4) Others, which includes institutions/people related to the world of investment that cannot be included in the previous groups (academics, consultants, etc.).

As a result, 45 complete answers were obtained, 80% of which belong to actors based in Spain and 20% in other European countries. With regard to their typology, 44% belong to the group of asset owners and managers, 11% to suppliers of investment services, 9% to listed companies and 36% belong to other types of actors related to sustainable investment.

4 Results and Conclusions

The results of our research confirm the increasing importance given by investors to responsible corporate tax practices, despite the little attention traditionally paid by the investment community to the social impacts of aggressive corporate tax strategies. According to 87% of the respondents, the importance given to corporate tax responsibility in investment decisions will increase in the short term. The remaining 13% consider that this importance will remain the same. None of the respondents consider that the importance of responsible corporate taxation will decrease (Table 2).

As seen in Table 3, the main reasons for this change are due to financial (80%), reputational (76%) and governance risks (64%). The occurrence of these risks can lead to results such as those identified by Brooks et al. (2016) and Choy et al. (2017), i.e.: considering that investing in companies that pay higher effective tax rates is less risky and that tax aggressiveness may cause falls in the combined market capitalization of companies.

These perceptions also show that the main drivers for changing investors' approach to corporate taxation are linked to institutional and reputational pressures. Governments exert great pressure on companies towards more responsible tax

Table 2 Importance of corporate tax responsibility in investing criteria

	n.	%
Current importance		
Very high	1	2.22
High	8	17.78
Medium	15	33.33
Low	16	35.56
None	5	11.11
In the following years		
Increase	39	86.67
Remain the same	6	13.33
Decrease	0	0.00

Table 3 Reasons for including corporate tax responsibility as an investment criterion

	None		Low		Medium		High		Very high	
	n.	%	n.	%	n.	%	n.	%	n.	%
Financial risks due to fines, etc.	1	2.22	0	0.00	8	17.78	23	51.11	13	28.89
Governance risks	0	0.00	2	4.44	14	31.11	17	37.78	12	26.67
Legal requirements	2	4.44	2	4.44	10	22.22	24	53.33	7	15.56
Macroeconomic and societal risks	0	0.00	14	31.11	14	31.11	13	28.89	4	8.89
Reputational risk	1	2.22	2	4.44	16	35.56	8	17.78	18	40.00

Table 4 Best SRI strategy for incorporating taxation criteria in investment decisions

	n.	%
Exclusion	17	37.78
Best in class	14	31.11
Norms-based screening	15	33.33
Sustainability-themed investments	9	20.00
Integration of ESG factors in financial analysis	12	26.67
Engagement and voting on sustainability matters	23	51.11

behaviours by the approval of mandatory taxation rules and regulations that are supervised by the national tax administrations and can lead to fines if the company does not comply with them. The increasing social awareness of companies' tax responsibility may result in an increase in the reputational risks of irresponsible tax practices. The importance of institutional and reputational pressures clash with the traditional financial perception that is still shown by 38% of the respondents who consider that corporate tax responsibility deteriorates financial performance.

As to how to include CTR in investments (Table 4), the most mentioned strategies are carrying out engagement processes with companies and exercising their voting rights (56%) and excluding companies involved in controversial tax practices (39%). The use of negative/exclusionary screening[1] when including CTR as an investment criterion is expected, as this is the strategy most used by socially responsible investors (EUROSIF 2016; GSIA 2017; Spainsif 2016). However, the high importance given by respondents to the use of engagement actions is noteworthy. For example, investors use their power as owners to influence the environmental, social and good corporate governance behaviour of the companies of which they are shareholders (De la Cuesta-González and Pardo 2018; EUROSIF 2016; GSIA 2017; Spainsif 2016). The importance of the use of engagement strategies shows the serious concern of the investment community about corporate tax practices and their great interest in being part of the change towards more responsible corporate tax practices. In fact, six of the respondents had taken part in processes of shareholder engagement in tax issues, mainly focused on corporate tax policies and tax disclosure but also, in a more marginal way, in the management of tax risks, tax havens and tax compliance.

Respondents are also aware of the main challenges that the investment community must face to include responsible corporate taxation as an investment criterion. The main reasons for these challenges are related to the complexity inherent to corporate taxation. In this sense, 62% of the answers highlighted legislative differences in tax regulations between countries as a barrier, but the main barrier is undoubtedly related to information. According to 98% of the respondents (i.e.: all but one), the aspects that make it more difficult for asset owners and managers to

[1] The Global Sustainable Investment Alliance defines negative/exclusionary screening as "exclusion from a fund or portfolio of certain sectors, companies or practices based on specific ESG criteria" (GSIA 2017, p. 7).

include specific criteria on taxation are related to the quantity/quality of the information required.

Our results show that investors demand more and better information on CTR. These information demands are major issues to be solved so that asset owners can include CTR as an investment criterion. Thus, 78% of the respondents consider that there is not enough available information on corporate taxation, and 55% consider that the existing information is insufficient to assess whether a listed/invested company is tax responsible. According to 70% of the respondents, this problem is aggravated by the scarce quality of the available information, and 52% attribute this low quality mainly to the lack of homogeneity, which makes it impossible to make comparisons between companies. Investors also highlighted the lack of adequate response from companies to their direct demands on tax-related issues, and some of them even stated that the answers they received were poor and elusive.

The inclusion of responsible taxation as an investment criterion can be fostered by measures such as the one approved by the European Union to increase transparency and the quality of information for investors. The Directive amending Directive 2007/36/EC, approved in March 2017 promotes the long-term involvement of investors and institutions in the operation of the companies in whose capital they participate; abandoning policies that pursue capital gains in the short term and that are considered to be at the origin of many of the evils revealed in the recent financial crisis.

The biggest differences in the responses of the different types of actors are found among invested companies. While 90% of the asset owners and managers consider that the importance given by investors and shareholders to responsible taxation will increase in the coming years, 50% of the companies consider that it will remain the same. It should also be highlighted that none of the listed companies' respondents consider that corporate tax responsibility deteriorates financial performance. There are also some differences according to the country where the respondent is based (Spain vs. other European countries), i.e.: all respondents of other European countries consider that the inclusion of responsible corporate taxation as an investment criterion will be more relevant in the coming years and they will mainly use an ESG integration strategy.[2]

These conclusions are the result of an exploratory analysis subject to various limitations. For instance, the sample size is limited, both in terms of the number of respondents and the geographical scope of the study (most of them are based in Spain and the remaining in other European countries). Another limiting factor that affects the results is the scarce degree of development and knowledge of CTR that currently exists among the investment community.

Further research on shareholders' approach towards corporate tax responsibility is needed, especially in three main areas: (1) broadening the sample and including other countries and regions, such as US and Australia; (2) providing inputs and tools

[2]The Global Sustainable Investment Alliance defines ESG integration as "the systematic and explicit inclusion by investment managers of environmental, social and governance factors into financial analysis" (GSIA 2017, p. 7).

that allow investors and shareholders to include responsible taxation criteria in their investment decisions; (3) analyse the inclusion of responsible taxation criteria in investments decisions and its implications for investors and shareholders.

Annex I. Questions on Corporate Taxation as Investment Criteria

1. Importance of corporate tax responsibility for investors/shareholders:
   (a) In your opinion, what importance do investors/shareholders currently give to corporate tax responsibility in their investment decisions? ∗ Rate from: 0 (Not important) to 4 (Extremely important)
   (b) In the following years this importance will: ∗ Select only one: □ Decrease; □ Remain the same; □ Increase
2. Inclusion of corporate tax responsibility as an investment criterion:
   (a) Which SRI strategy would you apply to incorporating taxation criteria in your investment decisions? ∗ Select all that apply: □ Exclusion; □ Best-in-Class investment selection; □ Norms-based screening; □ Sustainability-themed investments; □ Integration of ESG factors in financial analysis; □ Engagement and voting on sustainability matters; □ Other: (indicate)
   (b) Which tools/services would you use for incorporating taxation criteria in your investment decisions? ∗ Select all that apply: □ ESG Rating agencies; □ Traditional financial data providers; □ Proxy advisors/Proxy solicitors; □ Other: (indicate)
3. Reasons for including corporate tax responsibility as an investment criterion
   (a) Reputational risk ∗ Rate from: 0 (Not important) to 4 (Extremely important)
   (b) Financial risks due to fines, etc. ∗ Rate from: 0 (Not important) to 4 (Extremely important)
   (c) Governance risks ∗ Rate from: 0 (Not important) to 4 (Extremely important)
   (d) Macroeconomic and societal risks ∗ Rate from: 0 (Not important) to 4 (Extremely important)
   (e) Legal requirements ∗ Rate from: 0 (Not important) to 4 (Extremely important)
   (f) Would you add any other reason for including corporate tax responsibility as an investment criterion?
4. Barriers to including corporate tax responsibility as an investment criterion
   (a) In your opinion, which are the main barriers to including corporate tax responsibility as an investment criterion? ∗ Select all that apply: □ Loopholes in international tax frameworks; □ Corporate tax responsibility deteriorates financial performance; □ There is no tax information on listed companies; □ There is financial tax data but no information on corporate tax responsibility;

□ Available tax information does not allow corporate tax responsibility to be traced; □ Tax information is neither homogeneous nor comparable; □ There are no tools/indicators which allow corporate tax responsibility to be measured; □ Corporate tax responsibility is irrelevant to investors/shareholders; □ Other (indicate).

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Mapping Georgian Bank Customer's Preferences for Corporate Social Responsibility

Anna Gogichadze and Dionisia Tzavara

1 Introduction

Various banks in Georgia invest in Corporate Social Responsibility (CSR), which involves different societal, environmental and philanthropic campaigns (CSR Club n.d.). According to the World of Marketing media report (WoM 2016), which covers CSR activities by Georgian companies during the year 2015; Georgian banks communicated 42% of CSR business engagement in Georgia in 2015. The report emphasizes the volume and visibility of Georgian banks' CSR involvement and argues that banking is the sector that contributes the most to CSR in Georgia. Further, several Georgian banks are among the founders of the Social Responsibility Club established in 2015, "an unregistered union that aims to increase public awareness of corporate social responsibility in the community and promote sustainable development of the joint community with joint long-term partners/donors" (CiDA 2015). Georgian banks' CSR initiatives receive considerable coverage in the news and the question that arises is what is the impact of all this active involvement on bank customers' behavior?

Investing in CSR and supporting societal and environmental causes [such as charity, community development, environmental protection (Pérez and Rodriquez del Bosque 2014), endangered animal species protection (McDonald and Rundle-Thiele 2008) or endorsing protocols and initiatives like the UN Global Compact (Chomvilailuk and Butcher 2010), the Equator Principles the UNEP FI statements (Forcadell and Aracil 2017), just to give some examples] helps banks enhance their brand image, develop stronger relationships with their customers (McDonald and

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Rundle-Thiele 2008), improve their competitiveness (Sen and Bhattacharya 2001) and generate positive attitudes (Khan et al. 2015). Homogeneity among bank services impacts customer loyalty and customer attitudes towards banks (Mandhachitara and Poolthong 2011; Pérez et al. 2013) and banks need to make substantial efforts to create competitive advantage and generate brand preference and purchasing intentions among customers. According to Mohr et al. (2001), CSR campaigns can have a positive influence on customer attitude formation and consumption behavior. Further, the attitudes of ethically-minded customers, who are concerned on societal and environmental good, can be directed towards companies which are actively engaged in CSR (Laroche et al. 2001), and customer behavior can be highly affected by CSR efforts (Mohr and Webb 2005). Communicating their CSR campaigns is crucial for banks, as customer purchasing behaviors can be positively influenced by making customers aware of brands' CSR activities (Auger et al. 2008). Being informed about companies' CSR involvement assists customers in making purchasing decisions (Mohr et al. 2001), and bank customers are motivated to find out the banks' involvement in CSR initiatives (Pomering and Dolnicar 2009).

The aim of this research is to map Georgian bank customers' preferences for CSR and to look at whether CSR activities of Georgian banks have an impact on customer behavior. More specifically, we aim to look at developing Georgian banks' customers CSR profile by looking at brand preference, positive attitudes, purchasing intentions and evaluating alternatives among banks. Our research will shed light on bank customer preferences for CSR in Georgia and help Georgian banks evaluate customer responses to their CSR activities. The findings will benefit Georgian banks, as they will be able to understand how their customers respond to their CSR investments. Also, our findings will add to the body of knowledge about the impact of CSR on customer attitudes and intentions, as there exists only limited and scattered research in this area (Matute-Vallejo et al. 2011; Mandhachitara and Poolthong 2011; Khan et al. 2015). Also, according to Khan et al. (2015) previous research looking at the effect of CSR on customer attitudes and intentions focuses mainly on developing economies and there is a gap in the literature when it comes to developing countries like Georgia.

2 Theoretical Context, Research Design and Findings

2.1 Literature Review

Nowadays, socially responsible banking is developing into a strong concept, that is gaining considerable attention and entering banks' strategic considerations, and banks are increasingly investing on societal and environmental causes. The banking sector is a highly regulated sector and due to the impact that banks have on economic development and society, and the skepticism cast over banks as a result of the economic crisis, banks are expected to demonstrate a socially and environmentally responsible face (Pérez et al. 2013; Weber et al. 2014; Norberg 2015). Banks are spending huge amounts on societal and environmental causes to strengthen their image and build positive relationships with their stakeholders (McDonald and Rundle-Thiele 2008) and CSR schemes and strategies in the banking sector are becoming more transparent and more deeply integrated into the banking business (Scholtens 2009).

Corporate Social Responsibility (CSR) refers to the expectation that business attends to societal, environmental and philanthropic matters in order to cater to the interests of the communities and stakeholders who are impacted by and involved in their operation. According to Carroll (1979, 1991) business has a range of responsibilities which encompass economic, legal, ethical and discretionary obligations. Making profit is the bottom line of business and what business does for itself. Also, business has to operate within the remit of law and behave as good corporate citizens (Carroll 1999). Taking this into account, the term CSR evolved to incorporate obligations that go beyond meeting the mandate of stockholders and beyond legal obligations, and to encompass voluntarily adopted obligations toward society and stakeholders (Carroll 1999; McWilliams et al. 2006; Taghipour et al. 2016). CSR became part of the strategy with a focus on the profitability of business that adopts CSR practices and to the idea of strategic CSR (Carroll 1999; McWilliams et al. 2006). According to McWilliams et al. (2006, p. 4), "CSR can be an integral element of a firm's business and corporate-level differentiation strategies" and it "can be viewed as a form of reputation building or maintenance".

Consumer behavior, within all its aspects, is characterized by an ethical component (Vitell 2003). Scholars argue that CSR can generate positive perceptions among customers and it can positively influence customer behavior. Experimental studies have shown that consumers respond to CSR (Brown and Dacin 1997; Mohr and Webb 2005). CSR practices are considered as beneficial marketing tactics (Pirsch et al. 2007), as they may open the door to various opportunities, including enhancing company image and strengthening competitiveness (Sen and Bhattacharya 2001; Mohr and Webb 2005; Hsu 2012) and generating positive attitudes (Brown and Dacin 1997; Bhattacharya and Sen 2004; Pirsch et al. 2007). CSR efforts are influencing customers' purchasing intentions (Mohr and Webb 2005; Carvalho et al. 2010), contributing to enhancing brand preferences (Liu et al. 2014), and enhancing corporate identity attractiveness (Marin and Ruiz 2007). However, in many cases, it is difficult to evaluate the impact of CSR on consumer attitudes and behavior, as often consumers may not be reacting to CSR because they may be lacking information about companies' CSR efforts (Mohr et al. 2001; Bhattacharya and Sen 2004).

The recent increase of focus on analyzing the impact of CSR on customer outcomes in the banking sector and scholars have explored the links between banks' CSR efforts and customer outcomes such as loyalty, brand preference, customer attitudes, purchasing behavior etc. Retail banking is highly intangible and quite complex, there is a low differentiation between banks and homogeneity of services, and as a result banks suffer from low customer loyalty and they struggle to generate positive customer attitudes (Mandhachitara and Poolthong 2011). Past and recent scandals and unethical behavior in the banking sector have raised negative perceptions which encourage customers to evaluate new alternatives and consider competitors' comparative advantages in a CSR dimension (Pomering and Dolnicar 2009). CSR can help banks create differentiation (Pomering and Dolnicar 2009) and strengthen their corporate image (Garcia de los Salmones et al. 2005).

In a study of Spanish bank customers, Pérez and Rodriquez del Bosque (2014) find that bank customers have high CSR expectations, particularly for customer-centred CSR initiatives. McDonald and Lai (2011) also find that Taiwanese bank customers have a preference for CSR and that they adopt positive attitudes—in the form of positive feelings about the bank—and behaviors—willingness to recommend the bank and repeat visits—towards banks who engage in CSR, particularly in those initiatives that address customer concerns. Khan et al. (2015) also look at bank customer attitudes towards CSR in the Pakistani banking sector. In this study, customer attitudes are captured by perceived service quality, trust and repurchase and word of mouth and the authors find a positive impact of CSR on the selected attitudes. Pérez et al. (2013) develop a measurement scale to evaluate which dimensions of the banks' CSR engagement bank customers value the most and Pérez and Rodriguez del Bosque (2015a) use data from the Spanish banking sector to perform a classification of bank customers' CSR support and analyse how bank customers in the different classifications form CSR images for their banks. One step further, Pérez and Rodriguez del Bosque (2015b), find that the way bank customers perceive their bank's CSR image has an impact on customer attitudes such as identification with the bank, emotions, satisfaction, bank recommendations and repurchase behavior.

Focusing on brand equity, Fatma et al. (2015) look at the Indian banking sector and find that CSR has a positive impact on brand equity and corporate reputation and that trust has a mediating effect on the relationship between CSR and corporate reputation and brand quality. Chomvilailuk and Butcher (2010), collect data from bank customers in Thailand and look at the effect of CSR initiatives on brand preference. The authors find that CSR has "a modest but significant effect on brand preference" (397). Taghipour et al. (2016) reinforce this finding with their research on customers of an Iranian bank.

Banks' CSR engagement seems to have a positive, either direct or indirect impact on customer loyalty. Mandhachitara and Poolthong (2011), focus on the Thai banking sector and they find that CSR has both a direct impact on customer loyalty as well as an indirect impact through perceived service quality. Marin and Ruiz (2007) find a positive link between CSR and customer loyalty, through organization identity attractiveness. Matute-Vallejo et al. (2011) find that there is both a direct effect of CSR on Spanish bank customer loyalty as well as an indirect effect through the mediation of CSR on customer satisfaction and commitment. Garcia de los Salmones et al. (2009) look at determinants of customer loyalty such as perceived commercial performance, relational outcomes, relationship satisfaction, trust and identification with the bank and find an indirect relationship between CSR and customer loyalty, through perceived service quality and process quality and trust and identification. Also, Pérez and Rodriguez del Bosque (2015c) look at the Spanish banking sector and find a positive link between CSR and customer loyalty, through customer identification and satisfaction with the bank and through recommendation and repurchase.

Despite the increased focus on the link between CSR and marketing outcomes, the common consensus in the literature is that research is scattered and little is known about CSR influences customer attitudes and behavior and about how customers react to CSR efforts, and that further research is required to understand how and to what extent CSR affects marketing outcomes and measures (Mandhachitara and Poolthong 2011; Matute-Vallejo et al. 2011; McDonald and Lai 2011; Pérez and Rodriguez del Bosque 2015a, b; Khan et al. 2015). Also, although customers expect banks to be socially responsible, awareness of CSR engagement in the banking sector is low and customers want to be more informed about ongoing initiatives (Pomering and Dolnicar 2009; Mandhachitara and Poolthong 2011).

With this research our aim is to contribute to the understanding of the link between CSR and marketing outcomes by developing a profile of Georgian bank customers and their reactions to CSR. We do that by trying to understand Georgian bank customers' awareness of CSR and how CSR affects brand preference, purchasing intentions, positive attitudes and evaluation of alternatives. Given that CSR effectiveness towards influencing the consumer behavior may differ across nations and that a lot of the research is focusing on developed economies (Khan et al. 2015) we believe that our research will offer significant contribution to the current debate.

2.2 Research Methodology

As the study aims to map Georgian bank customers' preferences for CSR and to develop Georgian bank customers' CSR profile, the research was undertaken under the quantitative approach. The quantitative data was collected through an online survey hosted on SurveyMonkey. To promote the survey and to recruit participants, a special research page was created on Facebook, the social media network. Facebook was employed to recruit participants, as it is quite popular among Georgian citizens. According to Geostat (2018), there are approximately 2,000,000 local registered users in Georgia, with the total Georgian population being 3,718,000 citizens as of January 2017. The Facebook page provided general information about the aim and objectives of the research and it hosted the link to SurveyMonkey, where the survey was hosted along with additional information about the research. The participants to the research were randomly selected and we targeted participants: (1) who were over 18 years of age, (2) who lived in Georgia at the time of the research (3) who were consuming or planning to consume bank services. Our questionnaire was structured in two parts, one aiming to capture the CSR profile of Georgian banks customers, and a second part which included demographic questions. We piloted our questionnaire prior to launching the final version to participants to eliminate any ambiguity in the questions and to make sure that time of completion was reasonable.

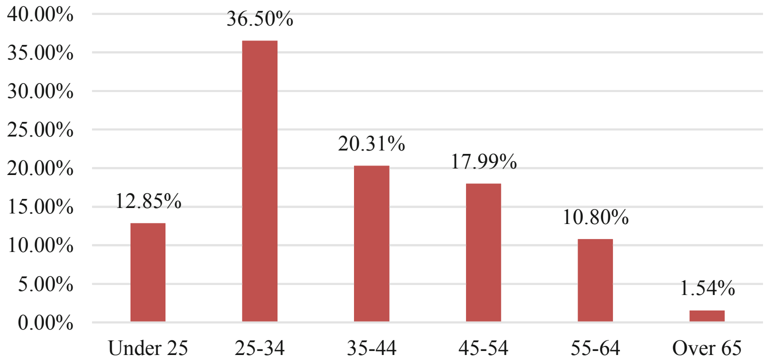

Fig. 1 Participants' age

2.3 Results

The online survey was employed to collect the data from Georgian bank customers. The geographic segmentation tool was employed to target Facebook users located in Georgia (the country). The dedicated Facebook page that hosted the link to the survey reached 21,406 Facebook users (who saw the link at least once). The online survey was open for 3 weeks during the month of October 2017. In total, 550 responses were collected during that time, from which 401 were complete and could be used for analysis. Out of those 401 complete responses 12 were disregarded because the participants answered "No" to question #8 (Have you ever consumed, or are you planning to consume bank services?) and/or question #20 (Do you live in Georgia, the country?). After exclusion of 12 responses, 389 responses were left for analysis, which satisfies the confidence level of 95% and is representative of the total population of Georgia. We tested the internal consistency of our questionnaire using Cronbach's alpha test. The test produced a Cronbach's alpha, $\alpha > 0.7$, which confirms that the data collected using the questionnaire is reliable.

2.3.1 Respondents' Demographics

The majority of our respondents were in the 25–34 (36.50%) and 35–44 (20.31%) age groups, female (76.09%), they identified themselves as 'employed' (75.84%) and earned either under 2000 GEL (38.60%) or between 2000 and 4000 GEL (36.53%). Keep in mind that 1 EUR = 3 GEL, so effectively, the majority of our participants earned either under 666 EUR or between 666 and 1332 EUR (Figs. 1, 2, 3 and 4).

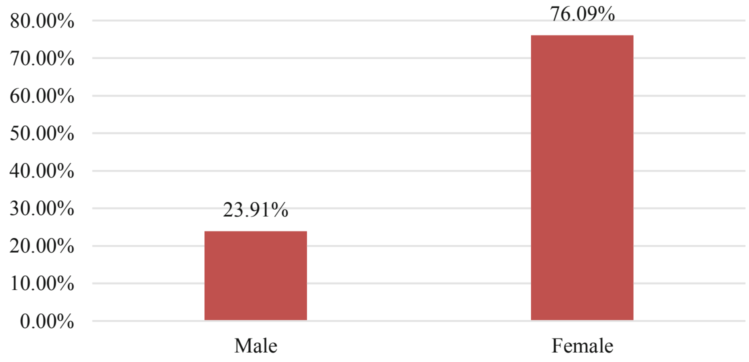

Fig. 2 Participants' gender

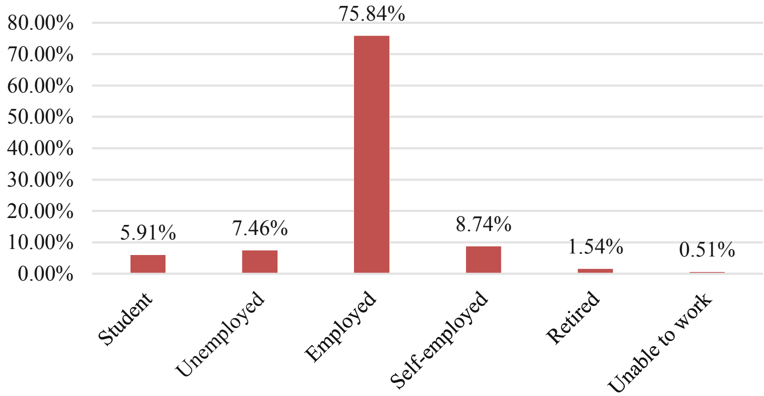

Fig. 3 Participants' occupation

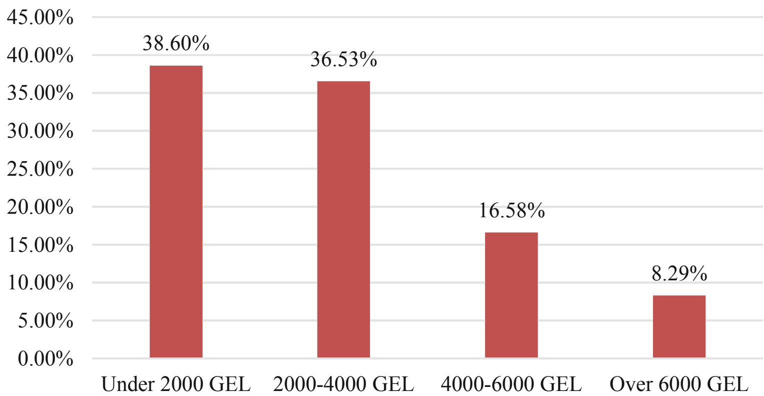

Fig. 4 Participants' income

2.3.2 Respondents' Knowledge of CSR and General Profile Towards Socially Responsible Business

We started by looking at our respondents' general concern about social and environmental good and at their awareness of the term CSR and found that 99% of our respondents are concerned about social and environmental causes in general but only 57.1% know the meaning of the term CSR. Then we looked at our respondents' general profile toward socially responsible business and found that 97.2% of the respondents think that it is important for business to be socially responsible. Also, 90.7% of respondents told us that they have positive attitudes towards socially responsible brands. The majority of our respondents (67.1%) told us that they prefer to consume products or services of CSR-active brands, but there was now 32.1% of the respondents who were indifferent towards brands' CSR practices when it comes to consumption of their products or services, and 0.8% of respondents who stated that they do not have a preference for consuming products and services of CSR-active brands. We finally asked our respondents whether they would make the effort to acquire information about brands' CSR efforts when evaluating alternatives and found that 43.7% of respondents do not know if they would make the effort to acquire information, 32.6% would make the effort and 23.7% would not.

2.3.3 Bank Involvement in Corporate Social Responsibility

After profiling the general attitudes of our respondents towards socially responsible business, we turned to questions specifically asking about their behavior as bank customers. We asked our respondents seven questions on this theme, two general questions to capture awareness and expectations and five questions aiming to capture behavior towards CSR-active banks. We looked at participants' responses in relation to their age, gender, occupation and income level.

As many as 92.54% of the Georgina bank customers that participated to our research indicated that the banks should be involved in CSR, while 6.94% demonstrated indifference towards the bank's CSR involvement, and 0.51% of the respondents said that banks should not be involved in CSR. However, only as many as 57.56% of the participants were aware if their bank is involved in CSR, including 3.06% of participants, who told us that their bank is not involved in CSR, while 42.42% did not know if their bank is undertaking any CSR activities (Figs. 5 and 6).

The vast majority of the participants (94.34%) told us that their attitude, in the form of general brank evaluations, consumer beliefs, associations, feelings and/or emotional responses, towards CSR-active banks is positive. When it comes to intentions to purchase bank services, only a small percentage of the participants (5.14%) told us that they would not be inclined to purchase the services of CSR-active banks, while the majority (64.01%) said that their purchasing intentions would be influenced by banks' CSR efforts. Still, this positive purchasing inclination was significantly lower than the positive attitude feeling (94.34%) (Figs. 7 and 8).

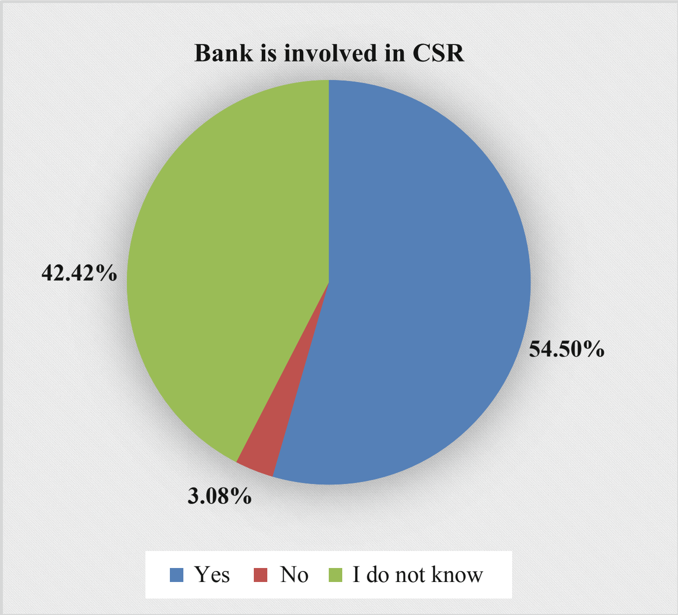

Fig. 5 CSR awareness

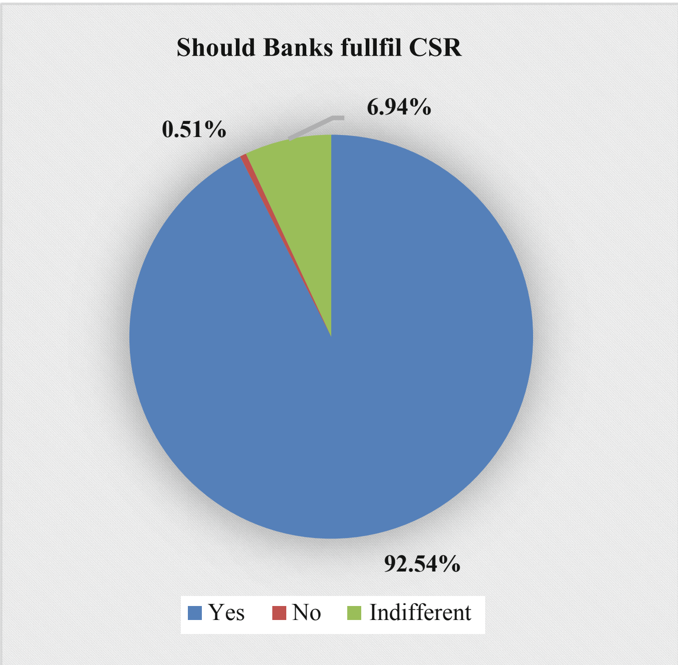

Fig. 6 CSR expectations

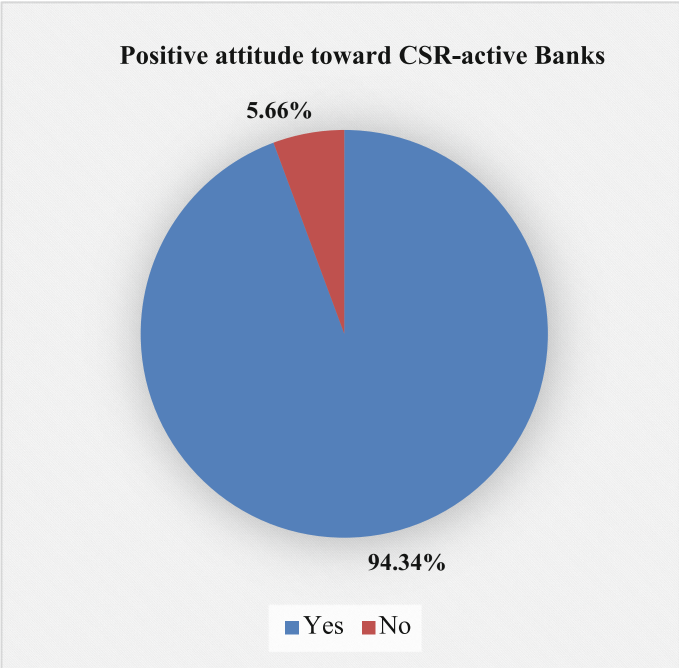

Fig. 7 CSR attitudes

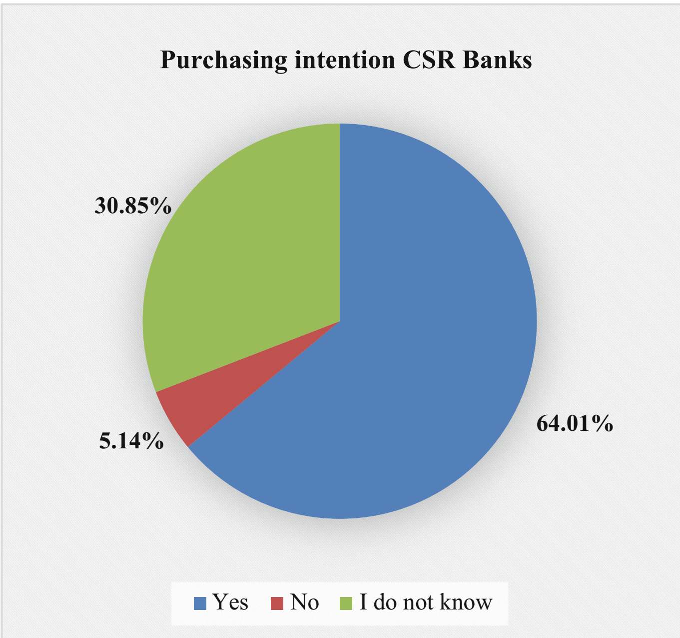

Fig. 8 CSR purchasing intentions

Our findings suggest that brand preference can be triggered by the bank's CSR activities, as 59.38% of the respondents answered positively to this question. But there was now 21.34% of respondents who said that CSR does not influence their brand preference and 19.28% of respondents were indifferent towards bank CSR efforts when it came to brand preference.

More than half of the respondents (54.76%) told us that they would be interested in the banks' CSR efforts when evaluating bank alternatives and 39.85% of the respondents said that they would search for information about banks' involvement in CSR initiatives when evaluating alternatives. The remaining of the participants did not know whether they would be interested in the banks' CSR when evaluating alternatives (34.19%), while 11.05% would not be interested in the banks' CSR efforts. In terms of information search, the remaining of the participants either would not search for information (20.57%) or they did not know whether they would search for information (39.59%). It appears that when it comes to expectations and positive attitudes, Georgian bank customers have very strong feelings about the banks' CSR engagement. When it comes to brand preference, purchasing intentions and evaluating alternatives, the preference for CSR remains strong but not as overwhelming as with expectations and attitudes. Interestingly our findings suggest that our participants would be more willing to search for information about their bank's CSR engagement when evaluating alternatives (39.59%) than they would be in the broader context of evaluating alternative products and services in general (32.65%). This could lead to the conclusion that customers consider CSR a more important part of banks' operations compared to companies operating in other sectors (Figs. 9, 10 and 11).

Looking at participant demographics (gender, age, occupation and income), we found that the groups most likely to be influenced by banks CSR efforts were participants over the age of 65 and retired participants. Note that these two groups were largely comprised of the same participants (66.67% of participants over 65 was also retired), but the two groups were not identical. These participants were more likely to consider it important for business to be socially responsible, they were more aware about the term CSR, their purchasing intentions were more likely to be influenced by the bank's CSR, they were more likely to form positive attitudes towards CSR-active banks (100% for both groups), they were more likely to consider the bank's CSR efforts when evaluating alternatives among banks and to search for information about CSR (83.33% for both groups), compared to all other age groups and occupations. When we asked about brand preference, the over 65 age group was the second most likely to be influenced by the bank's CSR efforts, while only half of the retired participants were aware of their bank's involvement in CSR (Table 1).

Our findings reveal that female Georgian bank customers were more likely to be influenced by banks' CSR engagement compared to male participants. To begin with, females were more likely to consider that being socially responsible is important for business, but they were less aware of the term CSR compared to male respondents and they were almost equally but only slightly less informed about their bank's CSR involvement compare to male participants. Females were more likely to form positive

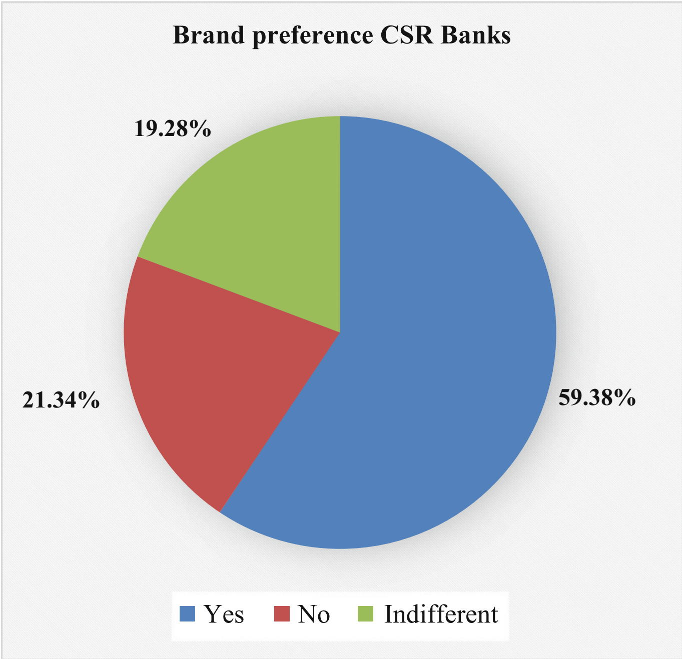

Fig. 9 Brand preferences

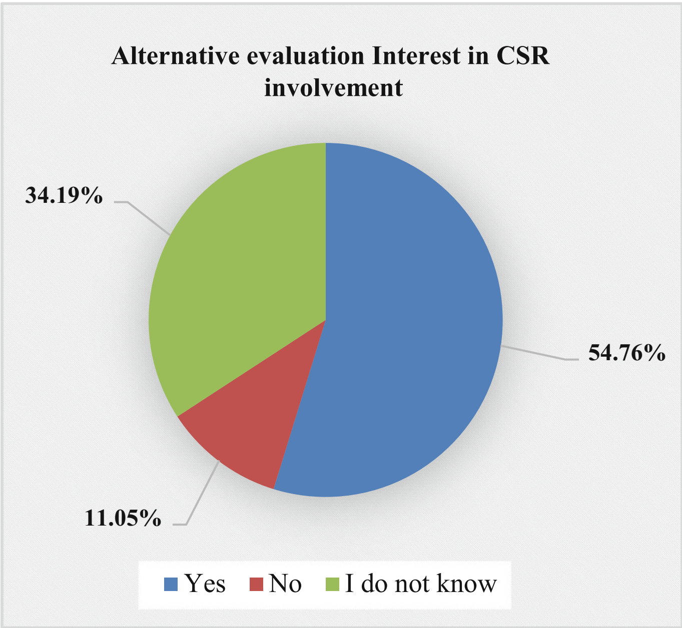

Fig. 10 Evaluation of alternatives

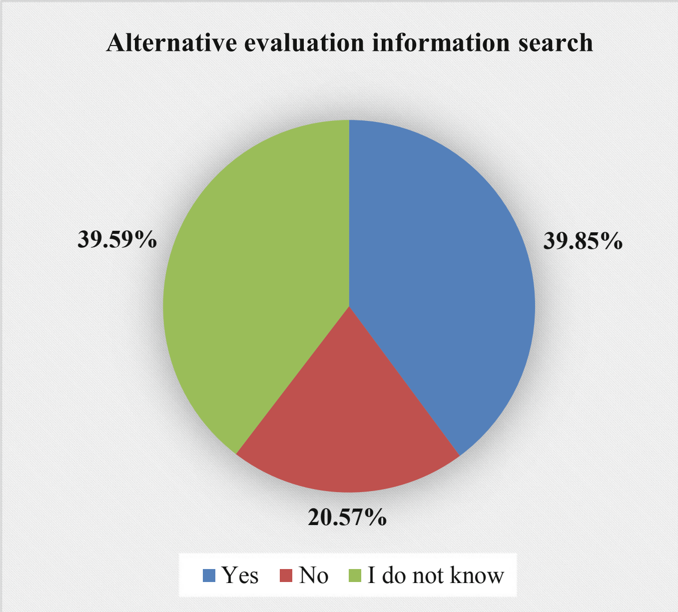

Fig. 11 Information search

attitudes towards CSR-active banks, more likely to be inclined to purchase the services of CSR-active banks, their brand preference was more likely to be influenced by CSR, they were more likely to consider CSR when evaluating bank alternatives and more likely to search for information about CSR when evaluating bank alternatives, compared to male Georgian bank customers (Table 1).

What we found interesting was that when we looked at income, it was the highest and the lowest income categories that demonstrated clearer preference for their bank's CSR. The over 6000 GEL group (highest income) was more aware of the term CSR and more aware about their bank's CSR engagement (in fact, we found that both awareness of the term CSR and of bank's CSR efforts grows with income), they were more likely to form positive attitudes towards CSR-active banks and they were those most likely to have their purchasing intentions influenced by the banks CSR efforts compared to the other income groups. The under 2000 GEL income group on the other hand was more likely to be influenced in their brand preference by the bank's CSR efforts, more likely to consider CSR when evaluating bank alternatives and more likely to search for information about the bank's CSR efforts (Table 1).

The group scoring consistently lower than the other groups was the 25–34 age group, who were the least likely to be influenced by CSR in the bank preference, the least likely to consider CSR when evaluating alternative banks and to search for CSR information when evaluating alternative banks, and the least likely form positive attitudes about CSR-active banks (Table 1).

Table 1 Group rankings relative to CSR

	Highest	Lowest
CSR important for business in general	Female (98.65%)	Male (92.47%)
	Over 65 (100%)/55–64 (100%)	45–54 (95.71%)
	Retired (100%)/Unable to work (100%)/Un employed (100%)/Student (100%)	Self-employed (91.17%)
	4000–6000 GEL(100%)	More than 6000 GEL (90.62%)
Aware of the term CSR	Male (60.21%)	Female (56.08%)
	Over 65 (83.33%)	Under 25(48%)
	Unable to work (100%)	Unemployed (37.93%)
	More than 6000 GEL (75%)	Less than 2000 GEL (49.34%)
Bank involved in CSR	Male (54.83%)	Female (54.39%)
	Over 65 (66.67%)	45–54 (41.42%)
	Student (69.56%)	Unemployed (0%)
	More than 6000 GEL (81.25%)	Less than 2000 GEL (41.44%)
Bank brand preference	Female (62.80%)	Male (50.53%)
	55–64 (78.57%)	25–34 (53.52%)
	Retired (83.33%)	Unable to work (50%)
	Less than 2000 GEL (64.47%)	4000–6000 GEL (50%)
Purchasing intentions	Female (67.56%)	Male (52.68%)
	Over 65 (83.33%)	25–34 (57.04%)
	Retired (100%)	Unable to work (50%)
	More than 6000 GEL (75%)	2000–4000 GEL (58.15%)
Positive attitudes	Female (96.28%)	Male (88.17%)
	Over 65 (100%)	25–34(92.25%)
	Unable to work (100%)/Retired (100%)	Student (91.30%)
	More than 6000 GEL (100%)	2000–4000 GEL (92.90%)
Evaluating alternatives	Female (58.02%)	Male (46.23%)
	Over 65 (83.33%)	25–34(43.66%)
	Retired (83.33%)	Student (47.82%)
	Less than 2000 GEL (66.44%)	4000–6000 GEL (47.51%)
Information search	Female (41.90%)	Male (33.33%)
	Over 65 (83.33%)	25–34(28.16%)
	Retired (83.33%)	Employed (38.64%)
	Less than 2000 GEL (55.26%)	More than 6000 GEL (21.87%)

3 Conclusions

The main finding of our research is that Georgian bank customers are profoundly influenced by banks' CSR efforts. Georgian bank customers are largely concerned on social and environmental good in and while a number of them do not know the meaning of the term CSR, they strongly feel that business in general has an obligation to be part of initiatives that support social and environmental good. This is not a surprising finding, as customers around the world prefer to consume offerings from CSR-involved companies (Seibly 2013). Bank customers expect their service providers to be CSR-active (Pérez and Rodriquez del Bosque 2014) and our research supports earlier findings that the expectation for CSR is higher in the banking sector (Seibly 2013; Pérez et al. 2013) as our respondents were more likely to expect that their banks to be CSR-active compared to business in general.

While there is an overwhelming feeling among Georgian bank customers that banks should be involved in CSR, only just above half of our respondents knew whether their bank service provider is involved in any CSR activities. It is encouraging however that our respondents were largely prepared to search for information about their bank's CSR involvement when evaluating alternatives, which resonates with earlier findings that CSR awareness among CSR customers is low and that customers are keen to know more about their service provider's social and environmental profile (Pomering and Dolnicar 2009; Mandhachitara and Poolthong 2011).

Georgian bank customers were found to have strong preferences for CSR, as this was demonstrated by positive attitude formation, brand preference, purchase intentions, evaluating alternatives and information search willingness in absence of information about banks' CSR activities. This is in line with the current debate about CSR and customer attitudes in the banking sector, according to which, there are high expectations and strong preferences from customers for their bank service providers to be involved in CSR (Pérez and Rodriguez del Bosque 2014) and CSR generates positive attitudes and behaviors (Chomvilailuk and Butcher 2010; Fatma et al. 2015; Khan et al. 2015; Mandhachitara and Poolthong 2011; Marin and Ruiz 2007; Matute-Vallejo et al. 2011; McDonald and Lai 2011; Pérez et al. 2013; Pérez and Rodriguez del Bosque 2014, 2015a, b, c; Pomering and Dolnicar 2009; Garcia de los Salmones et al. 2009; Taghipour et al. 2016).

The research revealed the customers who are more likely to be influenced by banks' CSR efforts are elderly and retired, female, and the higher and lower income bands. The findings resonate with the existing knowledge, as women and older people (Tian et al. 2011; Alonso-Almaida et al. 2015) are found to be more sensitive to CSR-related causes and more supporting toward those causes, and to form higher expectations regarding the organisations' CSR performance. Also, Tian et al. (2011) argue that high-income customers are more supportive towards CSR involvement and are the most inclined to consuming products and services from CSR-involved companies. Our findings also suggest that the low-income customers have a preference for CSR as their bank brand preference would be influenced by CSR and they would consider CSR and search for CSR-related information when evaluating alternatives, but as earlier literature argues customers perceive market offerings from CSR-oriented companies as expensive items and, although they may perceive CSR companies as responsible, they also associate them with higher prices (Loussaief et al. 2014).

We believe that our research contributes to understanding the influence of CSR in the banking sector on customer attitudes and purchasing behavior. Particularly, our research is a useful tool for the Georgian banking sector that banks can use to understand the CSR profile of their customers. Georgian banks can use this research to understand customer preferences for CSR and to identify those customers who they can influence most with their social and environmental good efforts. The results will enable banks to review their CSR activities and make modifications or use the research outcomes for further planning. Also, given that there is considerable number of Georgian bank customers who are not aware of their bank's CSR efforts, our research can serve as confirmation that Georgian banks should intensify their CSR communication and communicate the CSR message that matches the interests of their target customers to increase communication effectiveness. As suggested by Tian et al. (2011), when customers are aware of CSR meaning and importance, they better understand the CSR activities undertaken by companies and are more influenced by CSR efforts in terms of positive attitude formation. As CSR was found to be more important for banks rather than companies in general, banks should develop intensive campaigns to communicate their CSR to their customers and to raise the awareness of their involvement among target segments.

Having developed a basic understanding of Georgian bank customers' CSR profile and preferences toward CSR, more research is required to measure the impact of CSR on Georgian bank customer attitudes and behaviors. Also, future research may involve understanding the customer motivations and interests towards the CSR activities undertaken by banks, which may involve finding the most attractive and interesting CSR-dimensions for Georgian customers. This will help organizations identify those fields, that are mostly interesting for customers, and therefore address these issues with their CSR efforts. As stated by McDonald and Lai (2011), customers prefer those CSR efforts, which address their needs and deliver benefits to their concerns. Understanding customers' needs and wants better, and addressing these issues, could help banks generate better results in terms of customer behavior.

We acknowledge that our research has some limitations and that extending this research would add further to the understanding of bank customer preferences toward CSR. Because our study was a first attempt to capture Georgian bank customers' preferences for CSR, some concepts may not have been pursued in as much detail as a more in-depth investigation might call for. For example, we recognise that the concept of 'positive attitude toward CSR', which we have asked our respondents about is a broad term. Although we define this concept in the questionnaire as "general brank evaluations, consumer beliefs, associations, feelings and/or emotional responses, towards CSR-active banks is positive", we acknowledge that different respondents may have different understanding. Further research would help de-compose this term and provide a more in-depth understanding of these positive attitudes. Also, we acknowledge that we have used on online survey which was promoted on Facebook to collect our data. Although the use of Facebook is quite high in Georgia, which allows us some confidence that our data is quite representative, we believe that including offline bank customers to the sample would strengthen the outcome of the study. Also, our study does not include qualitative data, which we believe would help enhance our understanding of the customers' motivations and thoughts.

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Is There Value Creation in the Banks Listed in the Dow Jones Sustainability Index Europe?

Irene Guia Arraiano

Abbreviations

CFP	Corporate Financial Performance
CSP	Corporate Social Performance
CSR	Corporate Social Responsibility
DJSI	Dow Jones Sustainability Index
EIRIS	Ethical Investment Research Service
GMM	Generalized Method of Moments
SAM	Sustainability Asset Management

1 Introduction

Sustainable development has emerged both as a principle and a guideline for long-term global development, focusing on three fundamental pillars that it aims to achieve: economic, social and environmental protection, in a balanced way. In 1987, the United Nations in the World Commission on Environment and Development (WCED) published a report entitled "Our common future" which resulted in a document known as the "Brundtland Report" after the chairwoman, Gro Harlem Brundtland, developed guiding principles for sustainable development as it is generally understood today. It is this document that contains the first definition of sustainability (WCED 1987), however, many other definitions followed it.

Despite all the arguments against it, sustainability has been adopted either voluntarily by companies or due to the legislation which has been forced on them.

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As the pressures on this issue increase, companies are also beginning to understand the advantages they gain in adopting sustainability practices. Companies benefit in a number of ways, such as attracting investors and green consumers, reducing costs, improving brand image and a substantial increase in their reputation (Tran 2014).

Taking into account that in the last decade, the world is witnessing a growing trend in sustainability, particularly in Europe (Eurosif 2014), this theme is part of the global agenda of various entities, governments, regulators, investors, society and academics, among others. However, sustainability in the banking sector in the European stock markets has seen an increasing but very slow evolution when compared to the other sectors of activity. In 2008 the largest bank in the United States, Lehman Brothers could not resist the subprime crisis and staged the biggest bankruptcy. The world woke up to the sound of the alarms triggered by contagion in particular in the European stock markets, and consequently the global collapse of both investor and customer confidence. Since 2008 several legal reforms have enacted new corporate governance codes and European countries also developed regulations to improve the governance of banks (Díaz Díaz et al. 2018).

Although the definition of sustainability in the banking sector is still being developed, the banking sector started to have sustainability strategies in its management and gain the trust of stakeholders and, as a consequence the number of banks in sustainability ratings increased. In this sense, the global financial crisis has had a positive effect on the growth of sustainability in this sector.

However, until now, the research on sustainability leadership in the banking sector and its interaction with value creation is very scarce. These limited studies have focused on assessing the efforts of financial institutions in order to promote sustainable development (Jeucken 2001; Scholtens 2009, 2011; Hu and Scholtens 2014; Weber et al. 2014) analysing the relationship between social responsibility policies and the financial performance of banks (Wu and Shen 2013; Wu et al. 2017; Shen et al. 2016; Forcadell and Aracil 2017) as well as studying the reaction of the stock markets to social and environmental disclosures (Carnevale et al. 2012; Carnevale and Mazzuca 2014).

In line with the above, the main objective of this study is to investigate whether the banks included in the largest and pioneer sustainability index of Europe in a period of 13 years, from 2001 to 2013, create shareholder value and what was its direct and indirect effect on stock price. The analysis finds a significant relation between sustainability in the banking sector and accounting variables across this troubled period of economic crisis.

The remainder of the paper is organized as follows. Section two includes a literature review about sustainability in banks. Section three describes the database and methodology employed in the current research. Section four presents the empirical results. Finally, section five discusses the main conclusions of this investigation.

2 Literature Review

One of the first studies to address corporate social responsibility (CSR) in the banking sector worldwide was carried out by Jeucken (2001). The author has analysed 34 banks from Germany, USA, The Netherlands, Switzerland and the United Kingdom. The analysis was descriptive and based on a score attributed by the author to the performance of said entities. However, the difference between the legislation of each country in this particular sector led to the study carried out by Scholtens (2009) who assigned a CSR score in 2005, compared to the score obtained in 2000 by Jeucken (2001). The study carries out a correlation analysis between financial and non-financial variables and concludes that there are significant differences between 32 banks in 15 countries and three regions. Banks in Germany, France, the Netherlands and the United Kingdom earn the highest score on average, while in Italy, Japan and Sweden this figure is the lowest. The study demonstrates the increase in social responsibility practices in 2000 compared to 2005. The relationship between the social responsibility score and the differences between countries continued to be investigated by Hu and Scholtens (2014). In this case, the sample focused on commercial banks in 44 developing countries and the significant difference between the characteristics of the bank and the country in relation to CSR scores is relevant. The association between CSR policies and characteristics of banks is positive and significant, such as the total assets and the return on assets as well as specific characteristics of each country.

In another context some studies focus on the relationship between Corporate Social Performance (CSP) and Corporate Financial Performance (CFP), but the results obtained are not always consensual, although the majority of them are positive, others are negative or non-existent. Within this scope of studies are Soana (2011) that investigate the relationship between CSP and CFP in international and Italian banks rated by Ethibel and Axia, respectively, during 2005. Using correlation methodology, the results show that there is no statistically significant link that indicates any positive or negative correlation between CSP and CFP. Still in this field, Wu and Shen (2013) investigate the same relation between banks by employing the Ethical Investment Research Service (EIRIS) database from 22 countries included in different regions, North America, West Europe, South Europe and Asia during 2003–2009. Applying the two-stage procedure (Wu et al. 2017) and considering the subperiods before and after the subprime crisis, the authors conclude the relationship between CSP and CFP is significantly positive for profitability measures by return on equity in both periods. Applying a multi-level matching method and considering the banks of 22 countries Wu et al. (2017) conclude that CSR rated by EIRIS has a strong positive influence on bank financial performance. Lastly, but still in this line of research Ara et al. (2018) evaluated the relationship between the performance of sustainability in Turkish banks during 2013 and 2015, and the market value has shown that there is a significant and positive relationship in the long run.

The inclusion or exclusion of banks in the DJSI Europe was analysed by Forcadell and Aracil (2017) who test the relationship of sustainability and economic performance by applying a linear regression model estimated by a balanced panel of 18 European banks included in DJSI Europe during the period 2003–2013 which captures the effects of the turmoil of the financial crisis. The study results show that banks investing in sustainability, based on inclusion in DJSI, improved returns only before the financial crisis. Moreover, the size of the bank is inversely related to its economic performance.

Another group of empirical studies points to the value creation that socially responsible firms provide to the investor. In line with this, Carnevale and Mazzuca (Carnevale et al. 2012; Carnevale and Mazzuca 2014), analysed the socially responsible European banking sector, excluding the Nordic markets, in the period from 2002 to 2011 based on considering the social responsibility reports published on the website of the banking institutions. By applying the Ohlson model, the study revealed that, depending of the type of bank, investors considered relevant the non-financial information published on the bank website. Moreover, the relationship between financial and non-financial information is not consistent for Europe and depends on the regulations of each country and its governance. Following this line of research, Miralles-Quirós, Miralles-Quirós and Arraiano (2018) examine whether shareholders in the ten most prominent European stock markets value non-financial information in the banking sector assessed by the Global Reporting Initiative during a period that includes the global financial crisis. The results demonstrate that non-financial information is important to investors' strategies in decision making in their investment. Moreover, this research shows that disclosure of social responsibility is positive and significant for continental European banks, unlike what happens with other systems.

Considering the previous section, it is opportune to analyse if there is value creation for the shareholders when the banks are listed in the leading sustainability index, and the link between value creation and bank size—subject much discussed after the 2008 financial crisis.

3 Methodology

The present study applies the Ohlson models (Ohlson 1995, 2001), which are based on the assumption that the market value of a company is a function of its book value and annual earnings, as well as other non-accounting information that can be added and is relevant to explain the value of a company. The model based on share prices (Barth and Clinch 2009) to mitigate the potential incorrect scale effect as pointed out by Reverte (2016) is also used. The first model therefore is as follows:

$$P_{i,t} = \alpha_0 + \alpha_1 BVPS_{i,t} + \alpha_2 EPS_{i,t} + \varepsilon_{i,t} \tag{1}$$

Where

$P_{i,\ t}$ is the stock price for bank i at the end of year t,
$BVPS_{i,\ t}$ is the book value per share of bank i in year t
$EPS_{i,\ t}$ is the earnings per share of bank i for the year t
$\varepsilon_{i,\ t}$ is the error term.

To measure the sustainability adopted by banks, follows Humphrey et al. (2012) and Lourenço et al. (2012) the study uses a dummy variable DJSI. To analyse the impact in terms of value creation resulting from the inclusion of a bank in the DJSI index, the following regression equation was considered:

$$P_{i,t} = \alpha_0 + \alpha_1 BVPS_{i,t} + \alpha_2 EPS_{i,t} + \alpha_3 DJSI_{i,t} + \varepsilon_{i,t} \tag{2}$$

$DJSI_{i,\ t}$ is a dummy variable for bank i in year t, equal to 1 if the bank i is included in Dow Jones Sustainability Index in year t or 0 if it is not.

To test the effect that the DJSI variable has on the relevance of accounting information, the study adds the interaction variables BVPS × DJSI and EPS × DJSI. The specification of the model through the introduction of these terms of interaction allows us to elucidate the effect that a bank included in this sustainability best-in-class index produces on the valuation that investors attribute to BVPS and EPS increasing or not its significance. In this case the Eq. (3) was considered.

Size is a relevant variable because there is some evidence that smaller firms may not exhibit as many over socially responsible behaviors as do larger firms (Waddock and Graves 1997). So considering that firm's size plays an important role in sustainability, since it is a factor influences the reputation, according to some studies (Waddock and Graves 1997; Brammer and Pavelin 2005; Carnevale and Mazzuca 2014; Forcadell and Aracil 2017; Udayasankar 2008), this study analysis relationship between creation value and bank's size.

Additionally, to capture the bank size, the present study follows Carnevale and Mazzuca (2014), which highlight a positive relationship between CSR voluntary disclosure and bank size. The firm size is measured by the Napierian logarithm of total assets (ln TA) and is expected that the DJSI is more significant for larger banks. In line with this premise, the variable ln TA was added too as a control variable, the model (3) is expanded and origin model (4) as follows:

$$\begin{aligned} P_{i,t} = \alpha_0 + \alpha_1 BVPS_{i,t} + \alpha_2 EPS_{i,t} + \alpha_3 DJSI_{i,t} + \alpha_4 BVPS_{i,t} \times DJSI_{i,t} \\ + \alpha_5 EPS_{i,t} \times DJSI_{i,t} + \varepsilon_{i,t} \end{aligned} \tag{3}$$

$$\begin{aligned} P_{i,t} = \alpha_0 + \alpha_1 BVPS_{i,t} + \alpha_2 EPS_{i,t} + \alpha_3 DJSI_{i,t} + \alpha_4 BVPS_{i,t} \times DJSI_{i,t} + \alpha_5 EPS_{i,t} \times DJSI_{i,t} \\ + \alpha_6 \ln TA_{i,t} + \alpha_7 \ln TA_{i,t} \times DJSI_{i,t} + \varepsilon_{i,t} \end{aligned} \tag{4}$$

Where $\ln TA_{i,\ t}$ is the *Napierian logarithm* of total assets value as reported by bank *i* in year *t*. α is the intercept; α_i, i = 1, . . ., 7 are the regression coefficients and $\varepsilon_{i,\ t}$ is the error term.

According to previous studies in other sectors of activity, it is expected that the coefficients associated with the DJSI variables will be positive and significant for the banking sector.

4 Data Sources and Statistics

The database used in this study consists in a sample of the European banks in each stock market of the seven countries, France, Germany, Italy, the Netherlands, Norway, Spain and the United Kingdom from 2001 to 2013. The data dating back to 2001, because it was from this year that there was a sufficient number of sustainable banks listed in DJSI in the European stock markets that could be investigated.

In order to evaluate the value relevance of banks listed in the Dow Jones Sustainability Index Europe the sample is collected from two different sources. The financial information required to apply the models presented in the previous section, particularly the price on the last day of each year, the annual values of the book value, the earnings per share, as well as the total assets of each bank, were extracted from the Thomson Reuters DataStream database and, consists in 66 banks. The sustainability information is available by the rating agency Sustainability Asset Management (SAM) which is a leading expert on sustainable investment entities that created the family indices of the Dow Jones Sustainability Index (DJSI) launched in 1999. This index is the international benchmark that measures the sustainable behaviour of companies in the economic, environmental and social arenas. The DJSI were the first global indices to track the financial performance of the leading sustainability-driven companies worldwide, by regions.

Dow Jones Sustainability Europe is formed by selecting only 20% of the best companies in each sector. The selection is carried out according to the sustainability criteria applied by the managing entity of the index, and carefully selected according to high standards of innovation, governance and relationship with stakeholders. Therefore, the DJSI follows a best-in-class approach, including companies of all industries that outperform their peers in various metrics of sustainability. The composition of this index results from an assessment carried out annually by SAM, the organization that evaluates and sorts the companies according to their degree of compliance with sustainability criteria in its three dimensions: economic, social and environmental.

Many empirical studies used the information from this index as a proxy (Forcadell and Aracil 2017; Lourenço et al. 2012, 2014; Ziegler 2012; Kaspereit and Lopatta 2016) for the variable of social responsibility information or sustainability, as companies included in it are recognized as leaders in terms of

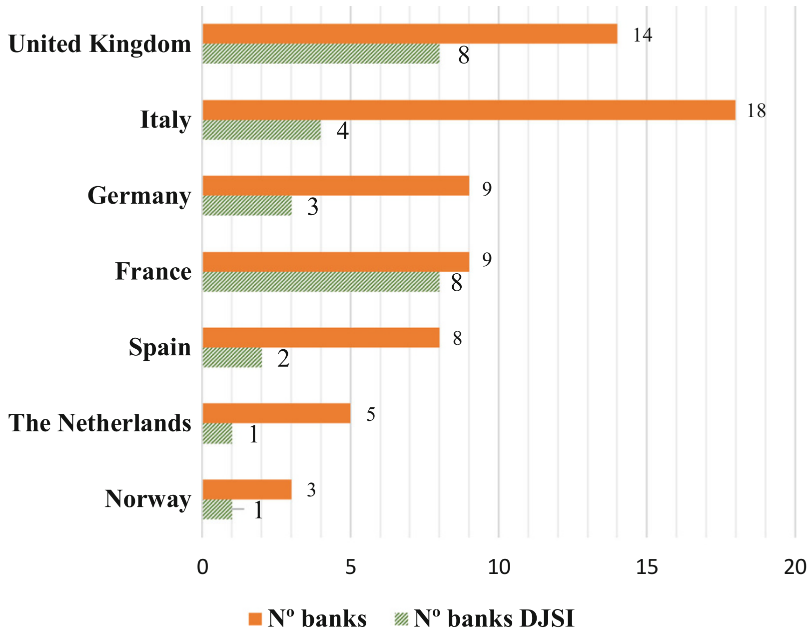

Fig. 1 Number of banks and those that are listed in the DJSI by stock market (2001–2013). Source: Own elaboration. Information provided by DataStream and RobecoSAM AG

sustainability. This study aims to show that the 66 banks[1] listed in seven European stock markets that were included in the sustainable rate over the 2001–2013 period created value for investors and indirectly affected the accounting information, in terms of both the book value and the earning per share.

The financial information required to apply the models presented in the previous section, particularly the price on the last day of each year, the annual values of the book value, the earnings per share of each bank, as well as the total assets of each bank, were extracted from the Thomson Reuters DataStream database.

Figure 1 shows the number of banks per country considered in this study and the number of those that were included in the DJSI during the period under review. We can see that France and the United Kingdom leads with eight banks on the sustainable index, followed by Italy where this value is four. The Table 4 in the Appendix shows us the banks in the sample and which ones is included in DJSI over the period 2001–2013. The larger banks are the main players in sustainable investment space.

Panel A of Table 1 shows the descriptive statistics for the dependent and independent variables included in the models from (1) to model (4) over the 2001–2013 period. The stock price (P) presents the average with the value 17.344 and a standard deviation of 24.498, while the average of the book value per share is

[1]The information of the banks included in the DJSI over the 2001-2013 period is in the Appendix.

Table 1 Statistics summary

	P	BVPS	EPS	lnTA	DJSI
Panel A: Descriptive statistics					
Mean	17.344	19.341	12.363	17.384	0.187
Median	9.224	7.781	1.160	17.414	0.000
Max	236.657	365.387	254.65	21.714	1.000
Min	0.269	0.404	0.000	10.582	0.000
Std. Dev.	24.498	32.824	29.379	2.448	0.389
N° Obs. 858					
Panel B: Correlation matrix					
P	1.000				
BVPS	0.801	1.000			
EPS	–0.018	–0.109	1.000		
lnTA	0.165	0.136	0.027	1.000	
DJSI	0.165	0.194	0.232	0.487	1.000

This table shows the descriptive statistics and the correlation matrix of the financial variables price (P), Book value per share (BVPS), Earnings per share (EPS), Napierian logarithm of Total Assets (lnTA) for the banks in seven European markets and DJSI is a binary variable that equals 1 if the bank *i* was included in the DJSI in year *t* and 0 otherwise. The number of observations is provided

19.341 with a standard deviation of 32.824, with the average earnings per share being 12.363 with a standard deviation of 29.379.

The size control variable measured by the Napierian logarithm of the total assets has the mean of 17.384 with a very low standard deviation (2.448), which indicates that the data tends to be close to the average. The average DJSI variable is 0.187 and the median is 0.000, which indicates that in this sample the percentage of banks included in the DJSI sustainability index for the period from 2001 to 2013 is less than 20%. In this case, the standard deviation is high (0.389) because it is a binary variable. The total number of observations is 858.

The matrix correlations between the variables is presented in Panel B of Table 1. As we can see, the share price is correlated positively with the book value per share and negatively with the earnings per share. The sustainable DJSI variable is positively correlated with accounting variables (P, BVPS and EPS), although moderately and strongly correlated with ln TA, as expected, since the banks included in this index are considered large banks.

5 Empirical Results

This section presents the results derived from the empirical process and the models presented above have been estimated considering the 66 listed banks in the seven European stock markets as a whole, from 2001 to 2013. Although the financial sector after 2008 was overly suspicious and had a negative effect on its reputation, it is believed that sustainability strategies could mitigate these results. In line with this Ducassy (2013) tested if CSR strategies acting as a market value protection in crisis periods, using French listed companies from 2007 to 2009. Taking into consideration the crisis in 2008, two sub-periods were considered, pre-crisis from 2001 to 2007 and post-crisis from 2008 to 2013.

All presented models were estimated independently considering the two sub-periods. The results are obtained applying a panel data methodology for the empirical research, consisting of a combination of time series and cross-sectional data in a joint test, it enabled to control individual unobservable heterogeneity as well as the endogenous nature of the explanatory variables. The coefficients of the presented models are estimated by the Generalized Method of Moments (GMM) following (Miralles-Quirós et al. 2018; Kaspereit and Lopatta 2016). Panel data provide more information, which increases estimation efficiency, greater variability of data, lower collinearity between variables, and higher degrees of freedom. On the other hand, one of the advantages of this method is that we can control the unobservable fixed effects that can bias coefficient estimates.

The Hausman test was used to decide which panel data estimator is the most appropriate, the fixed effects or the random effects. This section presents the results of the estimation of the regression model applied. The estimation of the models was obtained by the GMM and subsequently applied to a battery of tests for robustness of the models. The Sargan test was applied to test the validity of the instruments, while the statistical test of Arellano and Bond (1991) tests the absence of second order autocorrelation given by m_2.

The estimation results obtained by applying the model (1) consider only the accounting variables that are presented in Table 2. The results indicate, as expected, that the book value per share coefficients are positively and significantly associated with share prices in both sub-periods pre and post crisis. However, the results indicate that in terms of earnings per share this situation becomes different after 2008. The estimation coefficient of variable EPS is positive but not significant in pre-crisis and negative significantly associated at level 1% with share prices in post-crisis. The turmoil, as expected, came to influence the share price in European stock markets.

In addition, the estimation coefficient of sustainable variable DJSI present a negative value in pre-crisis period, although it is positive in post-crisis, both statistically significant at level 1%. These results indicate that investors from 2008 began to value the inclusion of banks in the DJSI index and changed their behaviour in relation to sustainability. These findings are consistent with Carnevale and Mazzuca (2014), their study pointed out that sustainability reporting positively affects stock prices in the banking sector. Smaller banks in terms of total assets tend to create more value compared to large banks.

As we can see below, Table 3 shows the regression results of models (3) and (4) considered the pre-crisis and post-crisis periods. In the second column, the interaction between sustainability and pre-crisis earnings per share does not find a statistically significant relationship, but in the post-crisis period this value becomes positive and significant (0.137) at a significance level of 1 %. The result is significant and shows how sustainability in the banking sector positively influences value

Table 2 Empirical results of models (1) and (2) by subperiods

Model	(1)		(2)	
Period	Pre-crisis	Post-crisis	Pre-crisis	Post-crisis
BVPS	0.385***	0.601***	0.388***	0.599***
EPS	0.062	–0.405***	0.025	–0.409***
DJSI			–6.131***	2.103***
J-statistic	26.202***	29.425***	24.704***	28.436***
m_2	0.793	–2.197	0.757	–1.681
N. observations	303	399	303	399

Source: Own elaboration

This table shows the results of the model (1) and model (2) during the sub-periods 2001–2007 and 2008–2013. The explanatory variables are the book value and earnings per share, as well as a dummy variable that takes the value of 1 if the bank is included in the DJSI in the respective year, and zero otherwise. The J-statistic test was applied to test the validity of the instruments used in the GMM estimations, while the Arellano and Bond (1991) m2 statistical tests demonstrate the absence of second order serial correlation in the model's residuals. The number of observations were exhibit for each regression analysis. $***$ represent significance level of 1%

Table 3 Empirical results of models (3) and (4) by subperiods

Model	(3)		(4)	
Period	Pre-crisis	Post-crisis	Pre-crisis	Post-crisis
BVPS	0.325***	0.743***	0.333***	0.730***
EPS	0.090	–0.391***	0.110	–0.322***
DJSI	–10.895***	8.683***	–27.809	46.731***
BVPS × DJSI	0.110***	–0.263***	0.087***	–0.247***
EPS × DJSI	0.013	0.137***	0.071	–0.009
Ln TA			6.524***	2.700***
LnTA × DJSI			1.076	–1.975***
J-statistic	26.202***	29.425***	27.181	62.436
m_2	0.793	–2.197	1.015	–1.985
N. observations	303	399	303	399

Source: Own elaboration

This table shows the results of the model (3) and model (4) during the sub-periods 2001–2007 and 2008–2013. The explanatory variables are the book value and earnings per share, as well as a dummy variable that takes the value of 1 if the bank is included in the DJSI in the respective year, and zero otherwise. The J-statistic test was applied to test the validity of the instruments used in the GMM estimations, while the Arellano and Bond (1991) m2 statistical tests demonstrate the absence of second order serial correlation in the model's residuals. Finally, the number of observations were exhibit for each regression analysis. $***$ represent significance level of 1%

creation. Tables 2 and 3 show that the sustainable DJSI variable is significant and positive, meaning that the crisis had a positive effect on the stock prices of all banks, but the size is a negative and important factor that influences the share price. The results demonstrate that investors assign a value to the information contained in the

DJSI regarding the components of the BPS (DJSI × BPS is significant). However, it seems that the DJSI does not offer any complementary information for EPS (DJSI × EPS is not significant).

The regression analysis demonstrates that the variable size measured by ln TA is positively and significantly related to dependent variable in both sub-periods, pre and post-crisis. Nonetheless, the interaction variable LnTA × DJSI presents a positive but not significant value in pre-crisis, which indicates that bank size is not significantly relevant before the economic crisis. The present results support those obtained by Carnevale and Mazzuca (2014) which, corroborate that shareholders appreciate the European banks listed in the DJSI and these practices have a positive effect on share prices. In the post-crisis period, the size effect is significantly negative because the coefficient of the variable LnTA × DJSI reports a negative (–1.975) and significant value at a significance level of 1%. This result means that smaller sustainable banks in terms of total assets tend to create more value compared to large banks. The size of the sustainable bank is inversely related to the value creation in this sector of activity after 2008. These results are the natural consequences of the financial crisis of 2008, which affected consumer confidence in large banks and trust in the banking sector. A large bank usually has more clients, and, therefore, is more sensitive to media attention and they attract more attention from stakeholders Hu and Scholtens (2014).

6 Conclusions

Finance is the driver of sustainability (Scholtens 2006) showing that there are interactions between financial institutions and sustainable development. We can in this sense, we can say that the financial markets are the most powerful transmission mechanism to promote sustainable business practices. Nonetheless, the different sectors of activity have very different characteristics and management business and the existing research in the banking sector is scarce. First, it is an industry to which all business activities rely on for its financing, as well as for investors and society in general. Second, the existing research, in general, excludes the financial sector, due to the fact that it has a different accounting compared to other sectors of activity.

The main reason for researching the banking industry and its relationship with sustainability arises from the great importance of this sector in the economy and the need for its strategic management to include ethical principles that contribute to the sustainable development worldwide. The results of this research show that it is possible to do well by doing good, which is a smart growth strategy. The study provides reliable evidence that banks in the seven European stock markets considered in this study and included in the DJSI index from 2001 to 2013 maximized profits and created value for their shareholders. Banks that are leaders in sustainability and reputation contribute to value creation in a long-term investment, however the size of the bank is an important factor to be considered in the investment strategy.

These findings are relevant for European shareholders and can help the future generation of leaders answer to global challenges in this particular and influent sector and encouraging the future. Sustainability in the banking sector should be geared to integrating the banks' daily operations and to be incorporated in this sector as a cultural value to be defended. The European Commission should require country governments to promote incentives for banks to implement sustainability strategies, since this specific sector finances all sectors of society. The main goal should not be short-term economic success, but rather long-term sustainability.

The study has some limitations. First, on the number of banks considered because the DataStream database does not cover all banks. Second, the study only investigated linear relationships between the variables. The linear regression analysis might not explain all of the variability of the dependent variable. This methodology does only measure the straight-line relationship between the independent and dependent variables, an eventual non-linear relation is thus not discovered. A future research can collect information from another database, other sustainability measures can also be considered and as well as other countries not yet investigated.

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Compliance with Ethical standards

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Appendix

Table 4 The two types of information of banks considered in the sample

Market	Bank	Bank included in DJSI 2001–2013
France	BNP Paribas S. A.	X
	Credit Agricole	X
	Credit Agricole Brie Picardie	X
	Credit Agricole Morbihan	X
	Credit Agricole Toulouse	X
	Credit Agricole Touraine	X
	Credit Agricole France	X
	Natixis S. A.	
	Societi Generale S. A.	X
Germany	Aareal Bank	
	Allianz	X
	Commerzbank	
	DAB Bank	
	DVD Bank	
	Deutsche Bank	X
	Deutsche Postbank	X
	Hypoport Finance	
	Wuestenrot & WuerTT.	
Italy	Banca Carige Spa	
	Banca Finnat Euramerica	X
	Banca Generali	
	Banca IFIS	
	Banca Intermobiliare	
	Banca Monte dei Paschi di Siena Spa	X
	Banca Piccolo Credit Valtell	
	Banca Popolare de Milano	
	Banca Popolare di Sondrio	
	Banca Popolare dellÉmilia Romagna	
	Banca Profilo	
	Banca di Desio e Delb	
	Banca Popolare	
	Banca Intesa Sanpaolo Spa	X
	Mediobanca	
	Unicredit	X
	Unione di Banche Italian	
	Unipol Gruppo Finanziari	

(continued)

Table 4 (continued)

Market	Bank	Bank included in DJSI 2001–2013
The Netherlands	Amsterdam Commodities	
	Binckbank	
	Delta Lloyd Group	
	ING Bank N. V	X
	Kas Bank NV	
Norway	DNB Nor ASA	X
	SPAREBANK SMN	
	SPAREBANK SR Bank	
Spain	Banco Bilbao Vizcaya Argentaria S. A.	X
	Banco de Sabadell S. A.	
	Bolsas y Mercados Espanolles	
	Banco Popular Español S. A.	
	Banco Santander, S. A.	
	Bankia	
	Bankinter, S. A.	
	Caixabank	X
United Kingdom	Alliance Trust	
	Bank of Georgia	
	Bankers Invest. Trust	
	Barclays	X
	Close Brothers Group	
	HSBC Holdings	X
	International Personal Finance	X
	Lloyds Banking Group	X
	London Stock Ex. Group	X
	Paragon Group of Companies	
	Provident Financial	X
	Prudential	
	Royal Bank of Scotland Gp.	X
	Standard Chartered	X

Source: Own elaboration based on the information provided by DataStream and RobecoSAM AG

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Making British Banking Better

Andy (A. W.) Mullineux

1 Have 'We' Made Banking Good?

The first part of this paper reports the deliberations of a panel of speakers, chaired by Professor (Andy) Mullineux, which met on 12 June 2014 in Bournemouth University Business School to discuss the topic: "Have we made banking good?"

The three speakers were: Kate Elliot (Investment Management Services, Rathbones, Liverpool), Ed Mayo (Secretary General, Co-operatives UK) and Richard Werner (Professor of International Banking, Business School, University of Southampton). Kate had written a report for the Ecumenical Council for Corporate Responsibility (ECCR), which was launched in Birmingham in November 2011, entitled: "Restoring Trust in Banks" (ECCR 2011). Andy had been a discussant of the report and subsequently joined the West Midlands ECCR committee Chaired by the Right Reverend David Urquhart, Bishop of Birmingham; which met with representatives of UK banks to consider how trust in them might indeed be restored. The deliberation of the West Midlands ECCR informed Kate's follow-up report entitled: "The Banks and Society: Trust Rebuilt?" (ECCR 2014). The report was launched at Rathbones in Liverpool in March 2014 and formed the basis of her panel presentation. Ed Mayo heads the trade association of Co-operatives in the UK, which includes credit unions. It had been an eventful year for the Co-operative movement following the findings by the Bank of England in 2013 that the Co-operative Bank Plc was undercapitalized and the consequent need for the Co-operative Group to inject capital and bring in a large amount of private capital to shore it up. The contrast with the continuing success of the John Lewis Partnership, the employee-owned cooperative in the retail sector, was stark. Ed and Andy had worked together on the Joseph Rowntree Foundation Report entitled: "Small is Bankable" (Mayo

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et al. 1998). That report advocated the development of Community Development Finance Institutions (CDFIs) as an alternative source of funding for smaller enterprises. Richard Werner was in the process of launching the Hampshire Community Bank, a mutual bank, with the backing of Eastleigh County Council. These eminent speakers were well placed to discuss whether or not banks had been made good as a result of post crisis regulatory reforms, or at least been made better and more trustworthy.

Speaking first, Kate noted that there was no black or white answer to whether trust in banks had been re-built; the answer was rather a shade of grey! She had started work on the first ECCR Report in 2009, which had focused on social and environmental issues, and started the follow-up report in 2013. Many of the issues covered in the 2011 report remained pertinent in 2013/14, whilst important social justice issues relating to bank taxation had been added.

The 2014 Report found that trust in banks had not yet been rebuilt, although considerable transformation was underway with the aim of rebuilding trust in the banking industry and the answer may be to encourage diversity in the banking sector. Kate drew a distinction between trust and confidence. At the start of the crisis, in August 2007, banks lost trust in each other; as manifested by the collapse of their willingness to lend to other banks through the interbank market. Governments and Central Banks then intervened in an attempt to maintain confidence in the stability of banking systems, but trust in individual banks was eroded. Kate noted that since the crisis banks had continued to undermine trust through a series of miss-selling scandals, such as Payment Protection Insurance (PPI), and the LIBOR and exchange rate market price rigging scandals.

Despite these backward steps, with the help of the regulatory and structural reforms advocated in the Vickers' (Final) Report in September 2011 (ICB 2011) and in the Parliamentary Committee on Banking Standards (PCBS) (Final) Report in November 2013 (PCBS 2013), as incorporated in the Financial Services (Banking Reform) Act in December 2014 (and subsequent amendments in April 2014), some forward steps had been taken; and some 'good noises' sounded, Kate concluded.

The 2014 Rathbones Report (ECCR 2014) was based on meeting with the six major UK banks, including Santander. The banks had sent higher ranking staff to these meetings than they had to those informing the 2011 Report (ECCR 2011) and thus seemed to take the exercise more seriously. The West Midlands ECCR committee, of which Andy Mullineux was a member, fed into the 2014 Report, but had felt that the banks representatives that attended their meetings were more representative of staff corporate social responsibility (CSR) activities than the operational activities at their banks. Kate's interviews with the more senior bankers revealed that they were seemingly trying to embed better values and improve compliance, and the recent Lloyds CSR report had contained forward looking statements consistent with this.

As regards regional lending, the British Banking Association had recently started publishing postal-code related lending data, but the reporting was somewhat granular and more transparency would be desirable. More detailed information on executive remuneration and appropriate rewards for genuine success, rather than failure, and recruiting 'talent' would also help to restore trust, Kate felt.

Whilst researching in Chicago for the 'Small is Bankable' Rowntree Report in 1997, Andy had met Gale Cincotta, a 'community activist', who had explained that the 1977 US Community Reinvestment Act was important not so much because it required banks to lend into communities from which they took deposits, but because it required them to provide information by zip (postal) code on where they gathered their deposits and how much they re-invested in those communities. This information had empowered community activists such as Gale to lobby the banks.

Ed Mayo spoke next and related three stories to illustrate the potentiality of community oriented mutual banking. The first story, it so happens, involved Gale Cincotta and her role in identifying the 'red lining' by banks of neighbourhoods that was followed by branch closures leading because some communities had come to be regarded as 'unbankable', at least as regards bank lending. The affected communities were often African-American ghettos and so the 'red lining', a term borrowed by the insurance industry, was tantamount to racism. It prompted the US government to intervene, first through the 1975 Home Mortgage Disclosure Act; in response to the disproportionately high rate of decline by banks of applications for mortgages by Hispanics, and then the Community Reinvestment Act, which was enhanced by the Clinton administration in 1995.

The CRA required banks to serve the credit needs of communities from which they took deposits—an 'affirmative obligation'. Compliance was encouraged in the late 1990s on banks sought to exploit opportunities provided by deregulation under the 1999 Gramm-Leach-Bliley Act to gain permission to diversify into investment banking. CDFIs were adopted by the bigger banks on vehicles to facilitate the required re-investment and grew in importance as a result.

From the chair, Andy recalled the fictitious character George Bailey, played by James Stewart in the favourite US Christmas movie from 1946: "It's a Wonderful Life". George Bailey ran the town's Housing and Loan Association, which funded on affordable housing programme. The town's rival shareholder-owned bank manager unsuccessfully tried to undermine George and the Housing and Loan Association in order to make way for commercial housing and other property development projects in the town.

This raised the question: 'what sort of banks do we really want'? As Kate had remarked, diversity in bank ownership structures, including mutual and shareholder models, should be promoted, because alternative models may serve different needs. In the US and Germany, relatively small local mutual banks serve households and Small and Medium Enterprise (SME) needs, whilst larger, shareholder-owned banks serve larger companies and corporations.

Ed's second story related to the first Credit Union in England, which was set up within days of Ed's birth in Wimbledon, well before the 1979 Credit Unions Act. It was established by people from the West Indies based on the CUs that had been formed in the British and Dutch Caribbean. The first was in Jamaica in 1942, where a Boston-based, Irish-born Jesuit priest, Father John Sullivan, lead the project more than 15 years before the first credit union was started in Ireland; where they were introduced by women. CUs in the USA also have a much longer tradition than in England.. The largest CUs tend to be work-based, often benefiting from sponsorship providing back-office operations and premises as worker benefits. Smaller, more community based, CUs tend to have to rely on voluntary workers and use community meeting places to contain costs. The Right Reverend Justin Welby, Archbishop of Canterbury, is promoting CUs as an alternative to high cost ‘payday’ lenders. In addition, the government, through the BIS has provided £30 m to fund a CU development programme which the Unity Trust Bank is helping to disburse. But, is too much is being expected by the CUs, and are they really suited, as mutual banks, to serving the subprime lending market?

The Woodstock Institute in the Chicago had found that CUs tend to serve the blue-collar workers and the lower middle classes, rather than focus on poverty alleviation as its director at the time, Malcom Bush, explained to Andy during his research for ‘Small and Bankable’. With ‘payday’ lending rates now capped by the Financial Conduct Authority in the UK, an exodus from the payday lending business is underway. Doorstep lenders, pawn brokers and other ‘loan sharks’ seem more likely to fill the void than CUs, Andy observed.

Ed’s third story recalled the origins of the UK Building Society movement. Richard Ketley, the landlord of the Golden Cross public house in Birmingham in 1775 devised a mutual self-help scheme for home building for Irish ‘navies’ working on the building of Birmingham’s canals, which are more extensive, reputedly, than those of Venice!. The Irish workers were largely homeless and so Richard Ketley, magnanimously encouraged them to put some of their money in a beer glass, rather than spend it all on beer. When enough savings had been accumulated, the first house was built, and they kept saving until all the contributors had a house and the building society was closed. The idea spread and perpetual building societies developed. The largest surviving one today, for those that demutualized to become mortgage banks all failed or were absorbed into larger banks during the financial crisis in 2008–09, is Nationwide, a prominent member of Co-ops UK.

Co-ops UK has around 6000 members; many of them in the financial sector, including CDFIs, and CUs, who are represented by ABCUL (Association of British Credit Unions Ltd) involving over 1 million members in Great Britain. Big banks however dominate the payments system and dominate retail banking service provision to households and SMEs, making it difficult for smaller ‘challenger’ banks, including those set up by big retailers such as Tesco and Sainsbury’s, to penetrate the market in a significant way. As a result, the UKs Competition and Markets Authority announced that it would undertake a full review of retail banking product and service provision.

Ed next drew lessons from the experience of the UK’s Cooperative Bank, which was not a mutual in the sense of being owned by its depositors and borrowers like a building society, but was owned by the Cooperative Group and had been allowed to overstretch itself by taking over the Britannia Building Society in 2009 to form a ‘super-mutual’ and thus a potential challenger to the shareholder-owned banks. Britannia had been active in ‘buy to let’ mortgage lending, a non-core business that suffered from rising bad loan levels following the collapse of the house price bubble in 2008/9.

The Co-operative Group had commissioned an independent review by Sir Christopher Kelly into the failings in management and governance of the Cooperative Bank, which had reported in April (Kelly Review 2014). The £1.5bn capital shortfall discovered by the Bank of England was largely caused by the failure to conserve capital and instead to pursue the ill-advised purchase of Britannia Building Society as a result of failed oversight by the Banking Group Board of the bank's executive. Subsequently Lord Myners, who had chaired previously chaired a committee on corporate governance and served as 'City minister', was brought on to the Board to advise on improving its structure to facilitate better and more professional governance. His recommendations in have largely been accepted, though in August 2014 the decision was taken by the new executive to include some direct member representation from the co-operative movement, which Lord Myners had counselled against. The Co-operative Bank has now effectively been completely demutualized, with the Co-operative Group retaining a non-controlling 8% share, and subsequent calls by the Bank of England for further increases in its capital seems likely to see the Group further reduce its shareholding.

The building society demutualization that followed the 1986 Building Societies Act involved 'carpet baggers' lodging deposits, and thus becoming shareholders, in targeted societies and then forcing a vote. The Nationwide staunched the process by adopting a structure that enabled a vote against de-mutualisation.

The Basel Committee's recommended post crisis increases in bank capital and liquidity requirements (BIS 2011) were designed to make highly leveraged shareholder-owned banks less likely to require taxpayer bail-outs in future These, and other new regulatory requirements, have the potential to make public sector and mutual savings banks non-viable, and thus to reduce diversity in banking.

To survive and thrive, mutual and public savings banks will need to be regulated differently from the big shareholder-owned banks. This is appropriate because savings banks have more stable retail deposit based funding, and thus little reliance on wholesale interbank funding, in contrast to the big commercial banks. They are net providers of wholesale deposits to larger banks, and engage primarily in collaterized lending, particularly as mortgage loan providers. The new EU Single Supervisory Mechanism (SSM), which came into effect in November 2014, allows smaller local banks to be nationally regulated, initially at least, whilst the bigger cross border banks are to be supervised by the European Central Bank and regulated by the European Banking Authority.

The third speaker was Professor Richard Werner, who asked at the outset whether we could in fact have 'good' banks and what should be their purpose? He questioned the assertion that the 'interest rate cycle' drove the business cycle, for which there was no empirical evidence, indeed rather the reverse. Instead, interest rates lag, or follow, economic fluctuations in the short run and thus fluctuations in growth drove fluctuations in interest rates, rather than the reverse. This is because interest rates are the price of money, and rationing of the supply of money, which is overwhelmingly the result of commercial bank credit creation, rather than central bank money issuance, is prevalent. It is the quantity of money created, relative to the demand for it, which determines its price. The demand for money is relatively static, so it is the extent of rationing by banks in accordance with the 'short-side price principle', and thus the 'economic rent' extracted, that determines its price (interest rates). The banks determine the supply of money and have been licensed to do so by governments through their monetary authorities. Money is a 'public good', but its production has been privatized; allowing credit rationing, whilst avoiding usury rates for all except the 'financially excluded'. The more concentrated banking systems are allowed by governments to become, the greater the credit rationing and inequality in access to finance.

The expansion of debt that results for money supply expansion can lead to a 'growth imperative', where growth has to continue or even accelerate, regardless of environmental degradation, in order to facilitate the servicing of accumulating debt. To break this adverse spiral, lending by banks needs to be productive, rather than wastefully funding consumption and speculation, Richard argued.

In the UK, over 90% of retail banking is conducted by the big banks, whilst 70% is conducted by local banks in Germany. The Hampshire Community Bank aimed to be the first in a network of local banks serving the Southern region. It is a 'not for profit' entity owned by a charitable trust that is modelled on German Sparkässen. It was hoped that it can initially tap into the Sparkässen back office network services until shared back office arrangements with other community banks can be established. The Hampshire Community Bank had applied for a banking licence to enable it to leverage its £10 m start-up capital into £200 m worth of lending. It aimed to be a local bank for local people and local businesses and thus a true community oriented bank. In the US and the EU, big banks tend to serve large firms whilst smaller banks serve smaller firms, including SMEs. The UK faces a particular problem because 'The City' tends to extract capital from the regions in order to finance its international banking activities.

Before the 2007/8 Great Financial Crisis (GFC), the three (now two, following the absorption of the failing Dresdner Bank by Commerzbank during the crisis) big shareholder-owned banks in Germany were lobbying the German and EU authorities to be allowed to take over German savings banks in order to 'rationalise' or consolidate the German banking system. Their argument was that increased concentration in the bank industry would make it more cost efficient and better able to compete with the highly concentrated UK banking sector. In an Anglo-German Foundation (AGF) Report, Mullineux and Terberger (2006) concluded that this would not be in the interests of German households and SMEs, or indeed the *Mittelstand* companies and the economy as a whole. Frankfurt's goal of competing successfully with London as an international, or the European, financial centre was not worth sacrificing the retail savings bank sector that had served local communities so well, and indeed continued to do so, for.

In the 'Q&A' session that followed the panel's deliberations there was discussion of the role of the investment banking culture inculcated by Bob Diamond as CEO of Barclays, a bank set up and run for many years by Quakers. Would its new CEO, Anthony Jenkins, lead it back to its retail and commercial banking roots by scaling back its investment banking operations? It was noted that restoration of trust had both an ethical dimension and a need to re-assure on technical competence and that the Great Financial Crisis (GFC) had been the result of inadequate risk management and the under-pricing of risks. It was also noted that retail banking is not just about selling products, which through inappropriate bonus structures can lead to miss-selling, as in the Payments Protection Insurance (PPI) debacle, but also about 'treating customers fairly' and serving their banking and wider financial needs. In their AGF report, Mullineux and Terberger (2006) had argued that local banking was successful because it involved 'relationship banking', rather than centralized computer-based lending techniques based on 'credit scoring'. Finally, Ed pointed out that it is the composition of ownership that sets the principles. A Quaker family had given Barclays its sense of purpose, or mission. The Co-operative Bank had developed a set of ethical lending principles from 1992 onwards, and these have been retained in its mission by its new, non-mutual (hedge fund), owners.

2 Taxing Banks Fairly

In this part of the chapter, we consider how to achieve a fair and efficient balance between the regulatory and fiscal taxes on banks and banking. It is based on the on-line AHRC 'FinCris' project report (www.fincris.net) of the project's 'Taxing Banks Fairly' work stream.

Since the 'Great Financial Crisis' (GFC) of 2007–9, policy makers and regulators have been seeking the best approach to 'taxing' financial institutions and their activities in the financial markets. There are a number of ways of taxing banks, with the goals of improving their stability, and dissuading them from engaging in overly risky activities. One way is through (non-revenue raising) regulations (that impose costs) and another is using 'fiscal' taxes that raise revenues. Hitherto, regulation has been the dominant approach to ensuring the stability of banks and the banking sector. The post crisis Basel III framework (BIS 2011) strengthened the minimum risk related capital requirements and introduced new regulations in the form of bank liquidity requirements and 'leverage ratios'.

Nevertheless, to the extent that the big banks remain implicitly insured by taxpayers, they can consequently raise funds more cheaply than less strategically important banks that are deemed not to be too big or complex to be allowed to fail. This gives the big banks a competitive advantage and re-enforces their dominance. In response to this, systemically important financial institutions (SIFIs) are increasingly required to hold supplementary capital as recommended by the Financial Stability Board (FSB 2011) and attention has turned to the TLAC ('total loss absorbing capacity') of banks (Mullineux 2016).

The GFC revealed problems with the regulatory approach to addressing externalities arising from excessive bank risk taking and from the 'too big (or, too complex) to fail' problem. A structural proposal to help solve the problem is to separate the investment and commercial banking activities of 'universal banks' within bank holding companies (BHCs) and to require them to operate as separately capitalized subsidiaries; with the aim of making it easier to let parts of the BHC fail, whilst ‘resolving’ problems in the ‘utility’, or infrastructural, part of the bank; so that it can keep functioning without unduly disrupting payments systems and economic activity. More fundamentally, TBTF banks could be broken up into smaller non-TBTF banks and this would also increase competition, with potential benefits for their customers.

In the UK’s 2013 Financial Services (Banking Reform) Act, the ‘ring fencing’ of retail banking and some commercial banking, and thus the household and small business deposits, in line with the Independent Commission on Banking (ICB 2011) and the Parliamentary Commission on Banking Standards (PCBS 2013) recommendations, was required to be implemented. Further, the UK’s Prudential Regulatory Authority (PRA) is to consider whether a version of the US ‘Volcker Rule’, which limits the scope of the ‘proprietary’ trading and hedge fund business a bank can undertake with the aim of restricting the risk to which bank deposits can be exposed, is appropriate for ‘The City’ in London. Meanwhile, the EU is still considering the Liikanen Report (2012) proposals for a more limited separation of retail and investment banking than now required in the UK. A less strict separation seems likely given the long tradition of universal banking in Germany and elsewhere in continental Europe.

The debate about the pros and cons of universal banking is ongoing. Calomiris (2013) argues strongly that there are significant economies of scale and scope in banking and also major benefits from the cross border operation and competition of universal banks, whilst acknowledging, that size matters and robust internationally agreed resolution regimes need to be implemented as a back stop.

In the report, we consider regulatory reforms to be progressing in the right direction. Keeping in mind the usefulness of regulations to ensure financial stability, we argue that the aforementioned regulatory and structural measures should be augmented by (fiscal) taxation and also that a fair balance between regulation and fiscal taxation should be sought. We propose that Adam Smith’s (1776) widely accepted ‘principles’ of fairness and efficiency in taxation should be used to balance the regulatory and fiscal taxation of banks and banking (and other financial institutions and products and services), noting that regulatory and fiscal taxes may potentially be interchangeable. The ultimate aim should be to tax banking activities, not just banks as variously defined in different countries and regionally regulated blocs, so as to include ‘shadow banking’ as well as mainstream banking.

We note that revenue from such taxes could be ‘hypothecated’ to build ‘bank resolution’ and deposit guarantee funds, and also to fund bank supervisory authorities; which are commonly funded out of general taxation or through levies on banks and other supervised financial institutions. Differential rates of taxation, like varying risk weights in the Basle risk-related capital adequacy requirements or risk-related deposit insurance premiums, might potentially be used to ‘tax’ risk taking at appropriate rates in order to promote financial stability and could be varied over time as a macro-prudential policy tool.

3 Bank Regulation and Taxation

The IMF (2010) proposes the use of taxes and regulations to counteract micro- and macro-prudential risk in the financial system. Although regulations have been used to underpin banking stability, their focus has primarily been on micro-prudential regulation and supervision of individual banks. The GFC emphasized the need for a macro prudential framework that can address systemic banking risks and hence focus on the stability of the financial system as a whole. We regard the taxation of banks to be a macro-prudential regulation. This idea of using regulatory ‘taxes’ and other micro- and macro-prudential policy measures, including the implementation of fiscal taxes and surcharges and credit controls, has been pursued by policy makers around the world at various times. For instance, a number of Asian countries, including Hong Kong, have long used restrictions on loan-to-value ratios, capital inflows and other ad hoc measures to limit internal or external vulnerabilities. In a prescient speech, the General Manager of the Bank for International Settlements (BIS), Andrew Crockett (2000), proposed marrying the bank specific micro-prudential and the systemic macro-prudential dimensions of financial stability. Keen (2011) considers the choice between taxation and regulation measures to bring about the stability of a financial system.

The pre-crisis ‘Basel II’ international banking regulations were unable to prevent banks from taking excessive risks, forcing governments to either let the weaker banks fail or to bail them out during the GFC. Basel II consisted of three pillars: a minimum risk-weighted capital requirement, a supervisory review and market discipline. The calculation of credit risk exposures relied on assessment of risk-weighted assets. The idea is that because some assets are riskier than others, banks should hold more capital against riskier assets in order to ‘tax’ risk taking and condition bank behaviour. There were two major problems attached to this: the calculation of risk weights was backward looking and thus assumed that the relative riskiness of assets would not change over time. In addition, it was assumed that sovereign bonds were riskless; regardless of which developed country issued them. Because Greece was part of the European Union, the bonds issued by the Greek government carried the same zero weight as those issued by the German government. The problem with this approach became evident with the onset of the Eurozone crisis in 2010, after which Greek government bonds carried a significant risk premium in the bond markets over German ‘bunds’.

Further, banks with similar portfolios can potentially use quite different risk weights in their modeling of portfolio risks. The supervisors allow big banks with large trading books to use their own internal models to determine the riskiness of their asset portfolios and to hold capital based on their own risk assessments. On the other hand, for smaller banks, there are explicit risk weighted capital requirements. Consequently, bigger banks with large trading books can hold proportionately less capital and still report higher capital ratios, compared to smaller banks whose portfolios contain mostly traditional loans.

Basel III (BIS 2011) requires banks to increase their capital ratios in order to make them more resilient. This helps to address the moral hazard problem created by implicit taxpayer insurance of banks and also helps to reassure depositors. Furthermore, the increased emphasis on core equity will put the small mutual saving banks at a disadvantage because they cannot issue equity, potentially reducing diversity in banking: which is widely seen as beneficial (Mullineux 2012; Mullineux 2015).

An issue highlighted by the Parliamentary Commission on Banking Standards (PCBS 2013) report, is that the proposed Basel III capital leverage ratio[1] of 3% is too low, and that it should be set at a substantially higher level than this by the PRA.[2] Admati and Hellwig (2013) favour an equity ratio of 30% or more and argue that a significantly higher requirement will not reduce the lending capacity of banks; rather, it will increase it because banks will become less risky and able to raise equity more cheaply from the capital market. However, because the leverage ratio is implemented on a gross (non-weighted) basis, it might encourage banks to increase their exposure to high-risk, high-return lending and could potentially increase their risk exposures and lending to SMEs. The parallel Basel risk-weighted capital adequacy requirements would limit this tendency, however and the balance between the leverage and risk weighted capital ratios needs to be carefully thought through to avoid double taxation and distortions.

The issue of whether increased capital (and liquidity) ratios will impede lending, especially to the largely bank-dependent SMEs (Bernanke and Gertler 1995) is of major political and economic importance. The Modigliani and Miller (1958) theorem suggests it should not matter in what proportions banks use debt and equity funding, provided, crucially in this case, there were no tax distortions, *inter alia.* But, the tax system does contain a bias towards debt finance that needs to be addressed. One option is to remove tax deductibility of interest for all firms, or perhaps just banks, but certainly not SMEs, given that they remain largely bank dependent; although with 'crowd-funding' and 'invoice discounting' via the internet increasingly available, their dependency on bank credit may decline over time. Another option is to create equivalent deductibility with regard to dividend payments, and thereby remove in addition the often alleged 'double taxation' of saving. Admati and Hellwig (2013), with support from the IMF (Klein 2014), go further in arguing that well capitalized (and regulated and supervised) banks may actually lend more in general, as well as to SMEs, and will be better able to manage their risks.

In considering the balance between regulatory and fiscal taxes, the principle of 'risk pooling' in insurance (Bodie et al. 2013) should be utilized. Capital (and liquidity) requirements are imposed on individual banks and can be regarded as in-house insurance funds. It is generally cheaper and more efficient for those seeking

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[1]Note that there is a difference between the Leverage and RWA (Risk Weighted Assets) capital ratios. The Leverage ratio is the ratio of tier 1 capital to average total assets, whereas RWA tier 1 capital ratio is the tier 1 capital divided by the risk weighted assets. RWA are the assets weighted according to their risk.

[2]In October 2014 it was anticipated that the Prudential Regulation Authority (PRA) at the Bank of England would set the rate at 5%, and thus above the Basel requirements.

insure to pay into a pooled fund, rather than hold sizeable precautionary reserves against risks such as houses burning down or car accidents or theft. Pooling reduces the average risk and is thus cheaper for participating banks.

Thus, if the banks pay into deposit insurance and bank resolution funds, they need hold less in-house insurance. Further the central bank, as ‘lender of last resort’, can decide on the extent and at what cost it provides liquidity insurance to the banks, and thus the size of the liquidity reserves they need hold. As long as the insurance premiums are appropriately risk-related, there should be no moral hazard issues. The risk weights upon which the premiums would be based are related to those used in calculating risk-related capital adequacy under the Basel III framework. To minimize distortions, and thus the unintended consequences, the trick is to get the risk weights, and thus the risk premiums right.

The resolution and deposit insurance funds can potentially be raised via risk related levees on individual banks; which is probably least distortionary and directly taxes riskiness, or out of financial sector taxes, as proposed with the Eurozone-wide Financial Transactions Tax or some other bank levy (EC 2010, 2011).

Financial stability is a ‘Public Good’ (Samuelson 1954) and so taxpayers can be expected to contribute to the cost of its provision and must decide how much of it they want. To be perfectly safe, ‘banks’ would have to avoid credit risk exposures by ceasing to lend, but if bank lending contributes significantly to economic growth, then we want banks to take risks, but to manage them appropriately; so that the implicit insurance by taxpayers of big banks is reduced. But how far should it in fact be reduced? This is a public policy issue (Mullineux 2013). Further, ‘taxing’ banks risks pushing some parts of banking into the ‘shadows’ to avoid regulatory and pecuniary taxation and requires extending appropriate regulation and taxation, including consideration of relative corporate, income and Capital Gains Tax (CGT) levels, to the ‘shadow banking’ sector, as proposed by the Financial Stability Board (FSB 2013).

Macro-prudential supervision primarily focuses on reducing asset price inflation and preventing ‘bubbles’, and thus the need to insure against bank failure when asset price ‘bubbles’ burst. Hence it protects taxpayers from the need for bail-outs. The proposed tools include the mortgage or home ‘loan to value’ (house price) and the ‘loan to income’ ratios; which can be raised in response to increasing asset price inflation. They are essentially credit controls that can be regarded as a targeted ‘tax’ on mortgage lending.

Additional macro-prudential tools have been proposed to counter the pro-cyclicality of the banking system caused by risk-related capital adequacy, ‘mark to market’ accounting, and backward looking provisioning against bad and doubtful debts. Examples of these are: countercyclical capital and liquidity requirements; non-risk related capital (‘leverage’) ratios; a levy on the outstanding debt multiplied with a factor of average time-to-maturity of a bank; a levy on non-core liabilities; and forward looking provisioning. Allowance for the latter has been introduced through changes in international accounting standards to permit ‘forward looking’ ‘general’ provisioning.

These macro-prudential instruments are largely untested, although the US Federal Deposit Insurance Fund collects risk-related insurance premiums from banks and serves as a resolution fund for banks that are not ‘too big to fail’ and the Hong Kong Monetary Authority had been setting loan to value ratios for home loan for some time (HKMA 2013). There is a worry that it may prove politically contentious for public access to affordable mortgage finance to be limited through loan-to-value and loan-to-income ratios manipulated by an unelected PRA at the Bank of England.

‘Stress tests’ are used by banking regulators and supervisors (such as the ‘Fed’ in the US, the European Banking Authority (EBA) in the EU and the Bank of England) to assess the adequacy of bank capital and liquidity holdings and risk controls and the general resilience of individual banks in the face of hypothesized adverse scenarios, or combinations of ‘shocks’. Banks that fail the tests, such as those reported for EU banks by the EBA in late July 2016, can be required to bolster their capital holdings and make adjustments to their risk assessment models and to their risk control procedures. The EBA report, however, found that the EU banks would survive a fresh crisis, although some banks, including RBS and to a lesser extent Barclays, in Britain were relatively weak.

The European Commission proposed that a common bank levy should be introduced to build up, over a number of years, a Bank Recovery and Resolution Fund. The aim is to protect taxpayers from having to bail out banks. To achieve this, however, a very large, hopefully normally idle, fund would be required. In the US, the FDIC is underwritten by the Treasury and cannot afford to resolve the problems of large banks. The FDIC, it should be noted is funded using risk-related premiums levied on banks and ‘holidays’ are granted when funds reach target levels in times when there are few calls on the funds.

The UK could possibly have used its Bank Levy to establish pre-funded resolution fund to make the recently enacted ‘depositor preference’, or debt seniority over all bond holders, a reality; but a deposit guarantee scheme funded using risk related premiums paid by banks, in line with the US, might be better. The trouble is that most of UK banking is done by a few banks that are too big be bailed out using the fund. For a UK deposit insurance corporation to work along US lines, the big banks would have to be broken up.

The 2013 UK Financial Services (Banking Reform) Act and 2014 EU Banking Recovery and Resolution Directive, which came into force in February 2016 establish ‘depositor preference’. The Eurozone also provides for the ‘bail-in’ of junior and senior bondholders (and large un-insured depositors) in accordance with credit standings Hence, depositors insured under national deposit insurance schemes are fully protected, but bank bondholders have to share losses in accordance with their credit seniority, once shareholders have taken their losses; before government assistance to rescue banks can be provided.

Alongside all this re-regulation, broader interest in financial sector taxation has been increasing. The European Commission’s (2010) report on financial sector taxation puts forward three arguments in favour of the use of taxation. They consider taxation, in addition to regulations, to be a corrective measure that can be used to reduce the risk taking activities by the financial sector. Additionally, it is a means through which banks make a ‘fair contribution’ to public finances, in return for their implicit insurance. Finally, it is a source of funding for the resolution of failed banks.

The UK Bank Levy was perhaps best regarded as a means of requiring big banks to make a ‘fair contribution’ to compensating taxpayers for the fiscal consolidation, or ‘austerity’, made necessary by the cost of supporting them and bailing some of them out during the GFC and mounting a fiscal stimulus to head off a full blown economic recession following the crisis; and to implicit insurance by taxpayers they continued to enjoy post GFC. In the longer run, once credible recovery and resolution regimes are embedded, in place of implicit insurance by taxpayer, a special bank levy becomes difficult to justify. The use of financial taxes alongside regulations to reduce risk-taking activity requires them to be carefully calibrated in order to avoid ‘double taxation’.

Taxation has the potential to exaggerate behaviours that may have contributed to the crisis. For instance, tax rules encouraging excessively complex financial transactions, poorly designed incentive compensation and highly leveraged home-ownership may have contributed to the crisis. The last observation has been strongly supported by Mian and Sufi (2014), who present a strong case that the US subprime crisis was caused by over-indebtedness and that subsequent household deleveraging, to restore balance sheets, was the major cause of the ‘Great Recession’ that followed. The prevention of future over-indebtedness requires replacing debt-based contracts with equity based home purchase contracts that allow risk sharing and provide for more debt forgiveness.

Because firms can deduct interest expenses from their payable taxes, there is a tax advantage to debt finance. Tax deductibility of interest on home loans is still permitted in the US, where there are also implicit subsidies through mortgage loan guarantees by government sponsored agencies. Switzerland, and a number of other countries, also allow tax deductibility of interest on mortgages, but they were removed in the UK over a decade ago. ‘Debt bias’ (IMF 2009) is also discussed in the wider public finance literature (Auerbach and Gordon 2002).

4 Balancing Bank Regulation and Taxation

The optimal combination of regulations and fiscal taxes that would truly circumvent the negative micro-prudential externalities stemming from limited liability and asymmetric information (relating to individual institutions) and macro-prudential externalities relating to systemic risks, remains to be discovered. The impact of these externalities on the growth and development of several countries also remains a source of concern amongst policy makers, academics, and several national and international bodies. Macro-prudential supervision is an evolving device for reducing asset price inflation and thus the need to insure against bank failure via capital ratios and deposit insurance and resolution funds, but the proposed macro-prudential policy instruments are untried and untested.

Current business tax rules arguably encourage excessive leveraging because of the tax deductibility or ‘expensing’ of interest on debt, in contrast dividend payments on equity, which are arguably double taxed. Tax expensing should perhaps be eliminated to give debt equal treatment to equity, at least for banks. However, the increased emphasis on core equity will put the small saving, and particularly mutual, banks at a disadvantage because they cannot issue equity or quasi equity very easily, if at all.

There is concern about the continuing viability of universal banks. The UK’s Independent Commission on Banking (ICB 2011) recommended ‘ring fencing’ retail banking within universal banks. Ring fencing will impose higher costs on the universal banks and might encourage some of them to divest their retail banking businesses in pursuit of more risky, and higher RoE generating, investment banking and other banking business (Mullineux 2012), or to focus primarily on retail banking and shrink their investment banking activities.

The UK’s Parliamentary Commission on Banking Standards (PCBS 2013) highlighted that whilst ring-fenced banks would carry out the majority of their infrastructural economic functions relating to the payments system, which need protecting, it is important to be clear that it is these functions that will enjoy protection, and not the banks, or their shareholders or creditors, other than depositors. There should be no government guarantee for ring-fenced banks, or a perception of one, just depositor protection. Ring fencing does not imply that risks from non-ring-fenced banking activities can be ignored; institutions will remain systemic and difficult to resolve.

In 2014, the UK Treasury increased the Bank Levy for a sixth time since its introduction in 2010 in order to compensate for the benefits banks enjoy from the falling corporate tax rate. The initial purpose of the bank levy was to tax the unsecured borrowings of the banking sector whilst forcing banks to contribute to the fiscal consolidation their failures had made necessary. Since the objective of the (Basel III) Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) is also to reduce reliance on short-term borrowings, there is potential overlap. As the stock of non-core liabilities reflects the under-pricing of risk in the financial system, we are of the view that a (risk-related) levy on non-core liabilities may perhaps mitigate the distortions. Further progress was made towards an EU Banking Union following an agreement on 18 December 2013, which included a proposal to use a bank levy to build up, over a number of years, a Bank Resolution and Recovery Fund to protect against the need for taxpayer-funded bank bailouts. We propose that the UK use its bank levy to take similar action; or consider introducing a VAT on financial services, or a FAT (IMF 2010; Keen 2011), with some of the revenue hypothecated for this purpose-see below for further discussion.

In the July 2015 post-election budget (and before the vote for ‘Brexit’ in June 2016) the Chancellor of the Exchequer announced a phased reduction in the debt liability-based Bank levy on large banks and the introduction of an 8% Corporation Tax ‘Surcharge’ on the profits of banks. A ‘good’ tax on bank debt targeted on ‘too big to fail’ banks was thus to be replaced by a ‘bad’ tax on the profits of most banks, including the ‘Challenger Banks’; inhibiting their ability to increase competition in the retail banking sector.

The literature reporting on the effects of financial transaction taxes (FTT), such as the one proposed by the EU for the Eurozone (which involves a fixed levy on the value of a currency or a financial asset (e.g. shares) traded), finds that they can potentially be distortionary, if they reduce market trading volumes and liquidity, and increases market volatility and cost of capital for firms. There is also a risk of a double ‘taxation’ of liquidity: once via an FTT and then from the higher liquidity reserve requirements under Basel III. To assure market liquidity, ideally there should be large number of buyers and sellers of an asset. Additionally, because Basel III requires banks to hold more liquidity on their balance sheets, it may decrease the relative number of buyers in the market and this could cause difficulties in times when many banks are seeking to sell their liquid assets following a major event. This may lead to ‘fire sale’ losses or a breakdown in interbank lending, as in the August 2007 ‘North Atlantic Liquidity Squeeze’ (Mullineux 2008). If an EU or Eurozone FTT is to be introduced, then its level should be carefully calibrated, as in France (Capelle-Blancard 2014).

Under Basel III, and at the instigation of the Financial Stability Board (FSB 2014), banks must also hold more capital and other contingent liabilities, such as contingent convertible bonds (or ‘co-cos’) that automatically convert to equity at pre-set ‘trigger points’, to absorb losses; making them more resilient. Their increased Total Loss Absorbing Capacity (TLAC) makes them less risky, which should make it cheaper for them to raise capital and so they may not necessarily lend significantly less (Admati and Hellwig 2013). Furthermore, if the tax distortions favouring debt over equity are redressed or reversed, with perhaps a bias towards equity instead, the higher regulatory capital ratios need not lead to lower bank lending in ‘normal’ times. Further, the return on equity (RoE) expected by institutional investors in banks was arguably excessive ahead of the crisis. Shifting the emphasis toward return on assets (RoA) is recommended as an alternative. To the extent that an FTT leads to an increased cost of the raising capital, it might offset some of these benefits, but the costs may be passed on to other market participants by the banks.

There is a concern that the proposed EU FTT might adversely impact the ‘repo market’, which is already being undermined by the ‘Volcker Rule’ (FRB 2014) in the US. Because central banks use the repo rate as a key monetary policy instrument, a substantial increase in the cost of repo transactions would require alternative monetary policy tools to be developed, and it seemed likely that this may be required as ‘Quantitative Easing’ was unwound. However, it might also substantially increase the cost of liquidity management for other market participants.

The originally proposed EU FTT is applicable to other non-participating member countries and to third countries if they are counterparty to financial transaction trading in an FTT zone jurisdiction and in the UK transactions might be subject to both UK Stamp Duty and the EU FTT, so there is clearly a possibility of double taxation for non-participating member countries. Moreover, the ‘Mirrlees (2011) Review’ of the UK tax system and the ‘Henry (2010) Review’ of the Australian tax system warn against the distortionary effects of transaction taxes in general. Are there better alternatives and should a low level FTT, at least on equity trading, be used to discourage overtrading and short termism, as proposed by Tobin (1978, 1984)?

Financial services are currently 'exempt' from Value Added Tax (VAT) in the EU, including the UK. Hence, banks cannot reclaim input VAT paid on their purchases relative to other firms. The removal of the exemption of VAT on financial services and the segregation of fee-based services and interest margin-based services is proposed. Removal of the exemption would increase revenue for the government, but consumers would be liable to pay additional taxes on the use of financial services. This might increase efficiency because it would discourage wasteful use of these services and eliminate the distortionary cross-subsidisation that underpins 'free-banking' in the UK (Mullineux 2012). Furthermore, it would reduce the incentive for vertical integration in financial institutions to avoid paying VAT that cannot be claimed to suppliers, which reinforces their 'bigness' and complexity in banking. Given the operational difficulties linked to the removal of exemption from VAT, the cash flow method with a Tax Collection Account (TCA) proposed by Poddar and English (1997) is recommended. It should be noted that the more recently developed (value added based) Goods and Sales Tax (GST) systems in Australia, and especially New Zealand, raise (proportionally, given their lower tax rates) considerably more revenues from taxing financial goods and services than in the EU.

Because of particular operational difficulties associated with levying VAT on interest margin based financial services, as opposed to fee based service provision, FAT is sometimes recommended as an alternative solution (IMF 2010). FAT is a tax on aggregate bonuses plus profits of a banking firm, which is equivalent to aggregate 'value added'. A FAT might be preferred to an FTT because it is less easily avoided through choice of geographic location; its incidence is more certain and it would generate fewer distortions. A FAT is also considered to be a broad 'net' measure of a VAT, compared to an FTT's narrow 'gross' measure of financial sector activity, and has the advantage of taxing the bonus pool. It does not however have the potentiality to influence consumer behaviour in the way that VAT levied directly on financial products and services has, or to discourage overtrading and short termism, as an FTT might do.

Given the externalities and the potentiality for international 'spill overs' involved in globalized financial markets, the importance of international co-operation has never been so clear. Not only must regulation and supervision be uniformly applied to achieve an international 'level playing field', but financial, and other, taxes need to be harmonized to a much greater extent to reduce the incentive for regulatory and other tax arbitrage. This will become all the more important as attention switches to domestically oriented 'macro-prudential' tools, or 'taxes'.

The Financial Stability Board, which is leading the drive for international co-ordination, is well aware the reforms needs to be carefully designed so as to not hinder the banking sector's ability to increase their TLAC, and to ensure that 'shadow banking' is not unduly advantaged by 'over-regulating' or 'over-taxing' banks. With this in mind, the FSB (2013) introduced 'haircuts' on stock lending for repos to limit the build-up of excessive leverage outside the banking system, which may also reduce 'pro-cyclicality' of that leverage and there have been moves to enhance the capital adequacy of money market mutual funds.

5 Policy Recommendations

The focus should shift to taxing banking, rather than banks per se, and wider financial activities, goods and services, as well as profits and bonuses. Additionally, pooled insurance solutions with risk-related premiums (or 'taxes' on risk exposures) should be imposed to protect deposits and liquidity. This will require a redefinition of conditions for access to central bank liquidity, so that individual banks do not need to hold unnecessarily large in-house reserves. Bank regulatory and tax systems are advancing gradually, but there is much yet to be done and the supervision of finance requires substantial international co-operation; which will be severely tested in the event of the need for the recovery and resolution of a major international bank.

Our report supports the elimination of the tax deductibility of the 'expensing' of interest on debt because current business tax rules encourage excessive debt issuance and favours debt over equity, which is in direct opposition to what bank regulations require, namely raising extra equity and reducing bank leverage to make banks safer. This in turn raises the question of whether tax deductibility of interest on debt should be removed from banks alone, as they are the licenced creators of money at the fulcrum of credit creation.

It supports the view that a Financial Transactions Tax (FTT) is economically inefficient because it reduces market trading volume and liquidity and increases volatility and the cost of capital for firms. This is especially the case if it is applied to the gross value at each stage of the settlement chain of a financial transaction, as initially proposed by the European Commission (EC), unlike VAT; which is applicable at the end of the chain and falls on the ultimate consumer. The cumulative effect of charging each agent in a multi-step execution process can be substantial. An FTT may seem like a tax on banks and other financial institutions, but it is highly likely that a good proportion of the costs would be passed on to the end investors. A narrower and relatively low tax, such as the UK 'stamp duty' on equity purchases, is likely to be much less distortionary and now seems more likely to be adopted by the Eurozone. It would however raise less revenue. But imposing an FTT on government bond sales would both raise the cost of government funding and be detrimental to the 'repo market', which underpins the interbank markets and thus liquidity in the banking system and now forms the basis of central bank interest rate setting operations.

The originally proposed EU FTT was applicable to other non-participating member countries and to third countries if they were counterparty to financial transaction trading in an FTT jurisdiction. Equity issuance is already relatively more costly than debt issuance due to the tax deductibility of interest, but not dividend payments, and UK-style stamp duty adds to the cost of selling equities.

Nevertheless, we might support a suitably low stamp duty as a revenue raiser whose major benefit might be to serve as a ‘Tobin Tax’ (Tobin 1978, 1984) discouraging wasteful over-trading of shares and ‘short-termism’ by throwing ‘sand in the wheels’ of the stock market.

The report further proposes the removal of the exemption of financial services from VAT in order to achieve greater efficiency in taxation, as recommended in the Mirrlees (2011) Report for the UK and the Henry (2010) Report, for Australia. It would also help to discourage relative over use of financial services and the elimination of the distortionary UK ‘free banking’ system, based on cross-subsidisation, and promote efficiency in the payments system (Mullineux 2012). Given the operational difficulties linked to the removal of exemption from VAT, the cash flow method with Tax Collection Account (TCA) proposed by Poddar and English (1997) is recommended.

The overlap between the UK Bank Levy (HM Treasury 2010), which was initially designed to discourage reliance on wholesale money market funding in favour of retail deposits taking, but has increasingly been used to hit revenue raising targets, and the proposed Basel III Liquidity Coverage Ratio (LCR) should to be rectified to eliminate double taxation. The best use of a bank levy (or the replacement ‘Surcharge’), as proposed in the Eurozone, is to fund the build-up of a bank resolution and deposit insurance fund. Once the fund reaches a sufficient size, the levy or surcharge should be fazed-out and replaced by risk-related deposit insurance premiums, as in the US. Bank profits in the UK should then be taxed in line with other companies, once it is deemed that they have made a ‘true and fair contribution’ to the fiscal consolidation made necessary by the banking crisis and the major recession, it precipitated.

The report concludes that just as the proposed EU FTT is likely to reduce market liquidity, the proposed Basel III liquidity ratios (LCR and the Net Stable Funding Ratio) may also reduce money market liquidity because they require banks to hold more liquidity assets on their balance sheets. This may reduce the relative weight of buyers in the market and could cause difficulties when many banks are seeking to sell liquid assets following a major adverse event. As with deposit insurance, the principle of pooling risks should underpin liquidity insurance and so ever larger liquidity reserves within banks should be mitigated by a redefinition of a modern ‘fit for purpose’ lender of last resort liquidity support regime operated by central banks. As with deposit insurance, the implicit premium implied by conditions of access to the facilities should be risk related, in line with the Bagehot (1873) principals that have been relaxed since the onset of the GFC and further undermined in the face of the 2010–12 ‘Eurozone Crisis’. Hence, deposit insurance premiums and conditions for access to central bank liquidity insurance should ‘tax’ risk taking.

Finally, the ‘one size fits all’ approach to making shareholder-owned banks safe creates the adverse consequence of squeezing out, through excessive regulatory ‘taxation’, mutual banks and relationship based community banking and reducing diversity, social mission and competition in banking (Llewellyn et al. 2014).

6 Has the 'New Settlement' with the British Banks Come Too Soon?

In his post-election Mansion House speech in June 2015, the UK Chancellor of the Exchequer announced that it was time to reach a "New Settlement" with the UK financial sector. Soon afterwards, the Chancellor announced that Martin Wheatley, regarded by the banks as an overly tough regulator, would be replaced as head of the Financial Conduct Authority (FCA). Then, in his July 2015 Budget speech, the Chancellor announced that the Bank Levy on big banks would be phased out and replaced by a corporation tax 'Surcharge' on the profits of the medium-sized 'challenger banks', as well as the big UK banks. Additionally, Lord Jonathon Hill, the European Commissioner in charge of financial regulation, called on 30th September 2015 for a review of banking and wider financial sector regulation to assure that there were no 'unnecessary' regulatory burdens and other unintended consequences that might inhibit development of the EU's Capital Markets Union (CMU) project.

In November 2015, the Governor of the Bank of England, Mark Carney, announced an end to the era of irresponsible banking and the consequent need for 'tough' regulation in the UK. In February 2016 it was announced that Andrew Bailey, Deputy Governor at the Bank of England, would move from his post as CEO of the Prudential Regulation Authority (PRA) to take over as CEO of the FCA. In addition, the PRA made some concessions regarding profit transfers on the 'Ring Fencing' of core retail and commercial banking activities within banking groups proposed by the 'Vickers (ICB 2011) Report'.

Nevertheless, the PRA had introduced bankers' bonus regulation designed to align reward with risk in the banking sector (Bank of England 2015a). Rewards are to be deferred, with provisions for reducing unvested awards ('malus') and reclaiming vested awards ('clawbacks'), but the PRA continued to lobby against the EU's 'bonus cap'.

Additionally, following recommendations of the Parliamentary Committee on Banking Standards Report (2013), the Senior Managers and Certification Regime, overseen by the FCA, was introduced in March 2016 to replace the Approved Persons Regime. Senior managers need FCA approval and must be assigned 'prescribed responsibilities', for which they are accountable, and banks must provide 'responsibility maps' setting out the responsibilities of their senior managers as well as their management and governance arrangements. At least once a year, banks need to clarify that senior managers ore suitable to do their jobs. The new regime will allow senior bankers to be fined or 'jailed' in light of future failures.

Further, the TLAC (and EU MREL-minimum requirement and eligible liabilities) rules had been strengthened, in line with Financial Stability Board (FSB), which Mark Carney chairs, recommendations. Further, the MREL (minimum requirement on eligible liabilities), which applies to all EU banks in line with the EU Bank Recovery and Resolution Directive (BRRD), which came into force in January 2016, have been implemented (Bank of England 2015b). The TLAC rules require higher (capital) leverage ratios for systemically important banks (SIBs), which include the big UK banks ('the systemic risk buffer'). Additionally, a 'countercyclical buffer', requiring banks to build capital in good times, has been introduced, but is currently set at zero (and expected to rise to 1% of assets in 'normal' times). The counter-cyclical buffer could potentially be varied as an instrument of macro-prudential policy. In connection with the BRRD, banks have been encouraged to issue contingent convertible bonds ('co-cos') that convert form debt to equity if core capital ratios fall below a pre-set trigger point. In addition, regulators can force the 'bail-in' of more senior debt holders in order to protect taxpayers.

In November 2015, the 'HBOS Report' (PRA 2015a) along with the Report by Andrew Green QC (PRA 2015b), identified 'light touch regulation' (conducted by the Financial Services Authority, FSA) as a cause of the bank's failure. It also seemed likely to prompt a belated review of the role of the auditors of the banks rescued directly (RBS) or indirectly (HBOS) by the government.

Despite the mounting fines for 'miss-selling' financial products (PPI and mortgage backed securities backed by sub-prime mortgages, *inter alia*), LIBOR and Forex manipulation; and assisting tax avoidance and evasion, money laundering and sanctions busting; in January 2016, the FCA ditched its review of the extent to which there had been a post crisis reform of banking culture.

Ultimately, it may be the markets that decide which banks have sufficient loss absorbing capacity of the appropriate type. Under-capitalised banks will find it more expensive to raise funds and counter-cycle buffers will only work if markets are comfortable with banks reducing their capital as an economic slowdown gathers momentum! In mid-February 2016, the bank and bond markets fired a warning shot as stock prices fell dramatically. This seemed to be sparked by concerns, particularly in Europe about the willingness of Deutsche Bank to honour its c0-co bond commitments and more widely, about the adequacy of bank provisioning against losses from bad and doubtful loans and alongside the adoption by the Bank of Japan, and in a more limited way, the ECB of negative interest rate policies, which squeeze bank interest margins, and thus profitability, even further, and wider concerns about global economic prospects. Additionally, Sir John Vickers (2016) warned that the UK's Systemic Risk Buffer had been set below the level recommended by the Independent Commission on Banking (ICB 2011) he had chaired, and was too low!

Concern for the 'competitiveness' of the UK Financial Sector, and in particular 'The City', as the major European financial centre, grew in August 2016 as it became clear that Brexit would lead to the loss of automatic access (via the 'single passport') by UK banks, and other financial institutions, to the 'single market in financial services'. US and other foreign banks licensed in London would also lose access. The UK Treasury (Finance Ministry) was naturally concerned about this and it provided fodder for the banking associations and lobby groups, and led Carolyn Fairburn, the CBI (Confederation of British Industries) Director-General to call for the government to allow the banking industry "off the naughty step". She called for scrapping of the punitive 8% corporation tax surcharge on UK bank profits and for the UK's twin financial regulators to "really prioritise competitiveness" of The City and send a signal that the post crisis "chapter is over". (Financial Times (FT), 30/08/2016, P.1, “CBI Calls for softer regulation…”). The FT article notes: “the push to tilt the regulatory balance in favour of financial services companies will be contentious: regulators last used competitiveness as a driver of policy in the run-up to the 2008 crisis”. Indeed the UK was regarded by the US as offering a ‘regulatory discount’ following the 2001 Enron debacle in the US, and the famously ‘light touch’ regulation by the Financial Services Authority (FSA) was blamed in a number of official reports for the banking problems revealed in the UK during the 2007–9 GFC.

7 The Banking Standards Board and Open Banking

In May 2014 the ‘Banking Standards Review: final report’ or ‘Lambert Review’ (2014) was published. Sir Richard Lambert had been asked by the Chairmen of the UK’s six biggest banks and Nationwide (the biggest building society) to design an independent organization with the aim of promoting high standards in banking. The establishment of a Banking Standards Review Council (BSRC) was recommended. It was hoped that the BSRC would contribute to a continuous improvement in the behaviour and standards of banks and building societies doing business in the UK. The initiative was welcomed by the commissioning Chairmen and the Governor of the Bank of England.

It was proposed that the BSRC would be funded by the banks, but be independent of them. If it succeeds in raising standards of behaviour and competence in the in the banking sector, and banks successfully improve their governance structures and internal risk controls, and also avoid further damaging scandals and consequent fines, then trust should progressively be restored. The Banking Standards Board (BSB), as it became known, was established in 2015, completed its third annual review in 2017/8 and launched a consultation in January 2018 asking: ‘What do good banking outcomes look like to consumers?’

My responses to the questionnaire proposed that the principles relating to Fairness should be substantially enhanced and strengthened. The banks’ commitment should go well beyond ‘treating customers fairly’ and encompass wholeheartedly the goal of ‘serving the needs of customers’ in a world of ‘Open Banking’.

After a two-year review, the Competition and Markets Authority (CMA) Report in August 2016 recommended no fundamental structural changes to the retail banking sector. It did, however, recommend the establishment of an ‘Open Banking’ platform to be put in place by 2018 with the aim of facilitating the sharing of consumer banking data so that ‘apps’ can be used to identify the best deals for retail banking products and services. The aim is to make wholesale switching of bank accounts, which encountered significant reticence and inertia, unnecessary; and instead to ‘nudge’ consumers to ditch bad products and services in favour of better ones.

Open Banking has been progressively introduced from January 2018, in line with the recommendations of the Competition and Markets Authority (CMA) and the EU’s payments Services Directive (PSD2), of which the UK is effectively and ‘early (and 'brass plated') adopter'. The introduction of Open Banking is being overseen by the CMA along with the FCA; which was given competition promotion responsibilities with regard to banking and wider financial sectors in 2017. There is a need to 'know your customer' and then to identify the best products to serve their needs whilst assuring data relating to them is safeguarded and made available, with their permission, to other, potentially competing, providers.

Since January 2019, under 'Open Banking' and the EU General Data Protection Regulation, banks no longer have proprietary rights to use their customers' information ('data'). Instead, they will be required, with their customer's permission, to make the data available to other, potentially competing and partner, financial service and product providers who may be better able to meet their customers' needs (and wants) whilst safeguarding the customers' data.

'Open Banking' was imposed by the CMA as part of a package of 'remedies' aimed at improving competition in retail banking. Whilst banks are required to share information on their customers with other potential providers, if the customer gives permission, there is a risk that customers' fears regarding digital security may impede take-up. However, the UK systems are to be built around common Application Programming Interfaces (APIs) to provide secure access to digital platforms and 'interoperability' between providers. 'Artificial Intelligence' (AI) algorithms are likely to be used to target customized service provision and could also help provide financial advice to facilitate better financial decision making (under the watchful eye of the regulator, the Financial Conduct Authority (FCA) in the UK). It is thus crucial to create a 'level playing field' between banks and 'shadow banks', including BigTech companies. This will require setting conformable regulations for all providers of banking and wider financial services and, in line with the Furman Review for the UK government of 12 March 2019, requiring 'Open Data'; under which BigTech firms would, like the Big Banks, be forced to share their data (with the customer's permission) with other potential service providers.

There is some recognition in the BSB questionnaire that different groups in the population may have different needs, but this should be more clearly recognized in light of ageing populations (as a consequence of which, for some people, not just visiting branches and using the Internet may be difficult, but so too is using the phone, mobile or land line!) Issues related to providing services for people suffering from mental illness and dementia also need taken into account. Hence, services will need to be accessible through multiple facilities to assure that appropriate *access for all* is assured. This should be borne in mind as bank branch closures are underway and access to free ATM services, including cash withdrawals, is becoming more restricted.

Many older people have savings that are earning interest well below the best available and are not being rewarded for their loyalty (rather the reverse!) They are not offered products and services that best meet their needs (e.g. the automatic sweeping of idle balances to higher interest accounts and home visits from their bank relationship officers) and are offered products and services that may not be fit for purpose (equity release mortgages need to be carefully provided, as does any pensions related advice, for example).

Responsible banks should use a number of channels to match products and services to customers 'needs' and in order to enhance satisfaction and the customer experience. The channels and relationships required to best serve the elderly may differ substantially from those designed for 'millennials' and they should aim to empower their customers. Hence a more complex range of service outcomes may need to be identified, many of which will be hard to measure.

The principle of 'Fairness' should be strengthened to 'Responsibility' in meeting customer needs and enhancing the customer experience; which would give the option of identifying the responsibilities of both the banks and their customers in the form of a 'social contract', as opposed to the outmoded former, or rejuvenated, banking 'codes of conduct'.

It is hard to judge whether the BSB's proposed outcomes based approach is the correct one because outcomes from responsible banking behaviour (relative to the narrower 'fair banking') are harder to gauge using simple metrics. Customer satisfaction and 'trust' in their banks are what really matter, and the latter is hard to measure.

As argued, fairness outcomes do not go far enough. There should be more ambition as regards behaving responsibly as lenders and service providers and achieving and indeed surpassing best practice. The provision of good and unbiased financial advice will become increasingly important to earning the trust and loyalty of satisfied customers and will be difficult for banks as the dominant, non-independent, providers of banking and asset management services and advice.

It is notable that the UK's 'All Parliamentary Group on Fair Banking Practice' is aiming for an enforceable code of conduct, contractual clarity, effective dispute resolution and reform of the insolvency system (in light of the mistreatment of small enterprises by prominent banks (HBOS/Lloyds and RBS in particular) that has been widely reported). This contrasts with the 'soft' code of conduct implicit in the Consumer Framework being proposed by the BSB.

Given that the previous retail banking codes outlived their usefulness, it is moot whether new ('hard' or 'soft') banking codes will work any better. A broader 'social contract' (or compact) backed by stricter consumer protection regulation of retail banking and increased competition in retail banking would be a better way forward. However, it is probably necessary for government (HM Treasury, and perhaps also the Bank of England) to be party to a broader 'responsible banking (social) compact' because infrastructural (payments system related) and financial stability considerations make it impossible to establish a fully competitive banking market.

In the meantime, the incoming 'Open Banking' regime could potentially be transformational. If this does not prove to be the case, further action to enhance competition and product and service provision in retail banking (and payments services) will be required, given their infrastructural or 'utility' nature.

Essentially, what is a required is a return to 'relationship banking' in place of the transactional, sales and 'cross-selling', approach to retail banking that has increasingly dominated banking in the post Big Bang (1986) liberalization period prior to the GFC. Enhanced, relationship banking will utilize digital technology to get to 'know' customers, identify their needs and wants, and keep them informed of products and services they are using or potentially available to them from 'their' bank or a partner or competing provider. Digitally enhanced relationship banking will 'unbundle' products and services, so that the cross subsidization of one group of customers by others (which underpins 'free banking') will probably disappear. The banks will have to sweep idle balances in low interest accounts into higher interest savings accounts so all can benefit from the best savings rates available, not just new joiners taking advantage of special 'introductory offer' periods. There will be more focus on providing products and services appropriate to ageing populations and the mentally ill, as well as the young and middle aged; indeed serving customers throughout their life cycle.

As regards financial literacy, digital technology can facilitate learning in parallel to keeping customers informed and empowering them in the management of their financial affairs; providing 'robo' advice, as and when requested, and allowing customers to request a human consultation when desired. Open Banking could also provide an opportunity for 'responsible finance' providers (such as Community Development Financial Institutions, CDFIs) and business-oriented credit unions to provide loans and other services to micro and small business. It could also help 'crowd funding' platforms to offer enhanced access to equity finance for the micro and SME sector. Whilst the UK has a very high rate of business start-ups, failure rates are also very high. Increased access to equity finance can be expected to increase survival rates and enhance the growth rates amongst survivors. The proposed BSB framework should thus be much more aspirational and should truly reflect the spirit of open banking in the digital age.

8 Promoting Responsible Banking: Time for a New Social Contract?

The implicit 'social contract' broadly involved granting the ('Clearing') banks the (monopoly) power to create money under a 'fractional reserve system' with 'limited liability' (and make substantial profits from the 'banking franchise' as a result) provided they conducted their business responsibly by assuring that the (infrastructural) payments systems, which they were allowed to dominate, ran smoothly and financial stability was maintained. The Bank of England effectively supervised compliance with the implicit contract whilst also promoting the interest of The City internationally (Mullineux 1987; Tucker 2009; Davies 2015).

What is now required is a transformational new social compact for banking, to establish responsible retail banking that truly meets the needs (and wants, in terms of customer experiences) of individuals, households and micro and small businesses. This would replace the implicit 'social contract' between the banks and 'the government' (HM Treasury) on behalf of the people that preceded the liberalization of banking post 'Big Bang' in 1986 and culminated in the 2007–8 financial crisis. Unless the BSB can set up a genuinely independent and representative monitoring body, adherence to the new compact should be overseen by representatives of the government, households, micro and small businesses, civil society organizations, and other stakeholders.

Banks and banking should become better at serving the public, or common, good, and thus local communities, as well as shareholders. To do so, product sales bonus structures will need to be appropriately aligned to assure customers are treated fairly, lending is undertaken responsibly, and access to appropriate and affordable financial services is assured. Something akin to a 'universal service obligation', commonly employed for utilities, is required to avoid financial exclusion through credit rationing.

A UK version of the US Community Reinvestment Act might be contemplated, but essentially the retail banking sector should be regulated as a utility given that the payments system is infrastructural and money (or credit) is arguably a 'public good', and so is financial stability. To the extent that regulation and supervision and economics of scale, and perhaps scope, restrict competition by requiring bigness in banking, the case for regulating retail banking, like the energy sector, as a utility is even more compelling. The increasing adoption of internet and mobile phone based financial (or 'digital') service provision, with open access to data, potentially challenges the alleged scale and scope benefits from bigness in banking.

Despite post crisis regulatory reforms and attempts to re-professionalise banking, by the BSB and through the Senior Managers and Certification Regime overseen by the FCA, the UK still seems to need a new, more formal, social compact to underpin the public duties and social responsibilities of British banks.

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Part II
Corporate Governance

The Impact of Shareholder Social Activism on Firms' Corporate Social Performance Through SRI Fund Investment

José L. Fernández Sánchez, Elisa Baraibar Diez, and María D. Odriozola Zamanillo

Abbreviations

CSP	Corporate social performance
CSR	Corporate social responsibility
NAV	Net asset value
SEE	Social, environmental, and ethical
SRI	Socially responsible investment

1 Introduction

Shareholder social activism emerged in the United States in the 1960s, driven by radical movements and religious congregations seeking to pressure companies to change their behaviour on ethical or moral grounds. However, it has progressively moved toward corporate social responsibility (CSR) issues due to the rise of institutional investors as holders of companies' equity as well as the development of responsible investment (Bennani 2014). Thus, in the last decade, shareholder social activism has grown among investors as pension funds, mutual funds, and other institutional investors. Consequently, fund managers' decisions can provide an external influence on organizations in terms of changing firm practices becoming an important factor in corporate governance (Michelson et al. 2004).

Despite of the increasing importance of this topic, only a few studies, mainly related to the US case, have been analysed it in the academic literature. Thus, Neubaum and Zahra (2006) showed that social activism of institutional owners was positively associated with CSP, although they did not explain which form of activism was included in their work and how it was measured. On the other hand, David et al. (2007) presented empirical evidence that managers' responses to

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shareholder social activism through proposals is only a symbolic gesture rather than a substantive change in corporate social policies. In the same way, Hebb et al. (2014) were unable to prove that the use of corporate engagement would lead to greater social performance. Other papers on shareholder social activism have been published in the last years although these studies have not analysed its effectiveness on firms' CSP (Goodman et al. 2014). Given the small number of empirical studies on this topic, the effect of shareholder social activism on firms' CSP remains unclear and there is even some disagreement as to whether it can be an effective tool for changing corporate social behaviour (O'Rourke 2003; Renneboog et al. 2008). Furthermore, the analysis of shareholder activism should assess more accurately the relative impact of different tactics on firms as Soule (2009) points out. Which tactics work and under what circumstances will be valuable information to activists and, even, to corporate leaders since it might increase the efficiency with which they are able to respond to stakeholder claims (Soule 2009).

Therefore, the main purpose of this chapter is to analyse comparatively the effectiveness of different tactics of social activism that conscientious investors (i.e. through SRI funds) can apply on the focal firms in which they invest to increase firms' CSP. Likewise, this study analyses the sequence of those tactics and how some of them may actually impact on the emergence and success of others. This research makes an original contribution to the literature compared to other previous studies which have focused on the analysis of an individual type of social activism as, for example, shareholder proposals or dialogue.

The study is structured as follows. In the next section we discuss the theory on social activism along with the hypothesis to test. Afterwards, data and methodology employed in the analysis are introduced, followed by the results section where the findings of this research are reported. The final section outlines the main conclusions.

2 Theoretical Framework

2.1 Shareholder Social Activism: Definition and Forms

Shareholder activism is a broad phenomenon that can be defined as those proactive actions undertaken by investors who, using their ownership rights, try to influence corporate management and boards in order to improve companies' financial outcomes, called *shareholder financial activism*, or their social performance, which is referred to as *shareholder social activism* (O'Rourke 2003; Guay et al. 2004; Haigh and Hazelton 2004; Sparkes and Cowton 2004; Sjöström 2008; Chung and Talaulicar 2010; Judge et al. 2010). Hence, shareholder social activism can be defined as a set of actions or practices used by activist shareholders whose aim is to influence companies that underperform in social, environmental, and ethical (SEE) issues to progressively shift towards more responsible practices.

Shareholder social activism include different types of tactics, which can be grouped as follows (Sparkes and Cowton 2004; Hellsten and Mallin 2006; Neubaum and Zahra 2006; Scholtens 2006; Sjöström 2008; Chung and Talaulicar 2010; Joly 2010; Rehbein et al. 2013; Bennani 2014):

- *Shareholder dialogue or engagement*. It occurs when corporations' managers and shareholder activist groups mutually agree to engage in ongoing communications to deal with a SEE issue in dispute. Activist groups contact companies, arranging special meetings to discuss SEE issues with executives or attending annual general meetings to inquire managers.
- *Shareholder proposals and voting*. Employed mainly in North America, this tactic consists on proposals issued by shareholders, building shareholder coalitions or accruing additional voting rights (which is called *proxy voting*), that are submitted for a vote at the company's annual meeting. This tactic is also used when shareholders exercise their voting rights directly to affect executives' decisions (e.g. on the adoption of the report and accounts or on the re-election of directors).
- *Shareholder punishment*. In this case, shareholders try to discipline management through the sale of shares by unsatisfied shareholders or by making public announcements, issuing press briefings or initiating letter-writing campaigns in order to create a reputation damage to irresponsible companies.

2.2 *Conscientious Investment Through SRI Funds*

Socially responsible investment (SRI) is an investment process that integrates SEE considerations into investment decision making (Renneboog et al. 2008). SRI has grown rapidly over the last two decades and has become an increasingly popular investment approach across advanced industrialized countries to affect companies' social and environmental behaviour (Guay et al. 2004; McLaren 2004; Scholtens 2006). This growth of SRI has led to different forms of investor pressure on firms, being SRI funds the most used by conscientious investors. SRI funds started to grow in number from the early 1970s in the US, and from the mid-1980s in the UK and Australia. Nowadays, the global market for SRI is driven by Europe, representing two thirds of the total assets under their management (KPMG 2013).

Investors are attracted to SRI funds because they believe they can change companies' behavior whereas SRI fund managers commonly claim that investing in SRI funds promotes (discourages) normatively desirable (detrimental) activities (Haigh and Hazelton 2004). However, this last statement has not been sufficiently contrasted empirically. Hence, the extent to which SRI funds can succeed in changing firms' CSP and whether it can be an effective mechanism of corporate governance deserves much more study than it has received so far (Guay et al. 2004; Sjöström 2008; Hebb et al. 2010; Joly 2010; Rehbein et al. 2013).

2.3 Firm Response to Shareholders' SEE Claims

Different theoretical approaches have been used to explain managers' decisions to respond shareholders' SEE demands or claims (e.g., *agency theory*, *stakeholder salience theory*, *resource dependency theory*, or *institutional theory*). The theory of stakeholder salience helps to explain conditions under which key shareholders, such as institutional owners, gain and exercise power over executives (Hebb et al. 2014). This theory considers that not all stakeholders (or issues) receive the same attention from managers, since certain stakeholders will be more important than others so that managers will pay the most attention and be most responsive to 'salient' stakeholders (Mitchell et al. 1997; Hebb et al. 2014). Stakeholder saliency is determined by three factors (Mitchell et al. 1997; Gifford 2010): the stakeholder's *power* to influence the firm, the *legitimacy* of the stakeholder's relationship with the firm, and the *urgency* of the stakeholder's claim on the firm. These three attributes influence managers' perceptions of stakeholder salience and whether stakeholder groups can 'impose their wills' on managers (Mitchell et al. 1997, 880). So, stakeholders' influence on corporate managers' decisions is assured when managers perceive that they have power, legitimacy, and urgency.

An SRI fund presents itself to corporate management as a stakeholder possessing the attributes of power and legitimacy. An SRI fund has power because, as an investor, it represents part of the financial resources of the corporation and it has legitimacy because it acts in defense of the legitimate claims that conscious investors have upon the firm. Nevertheless, the way stakeholders claim is important to its success. Thus, Mitchell et al. (1997) propose that a successful social activism involves the implicit or explicit threat of the use of power. According to Gifford (2010), using Etzioni's (1964) framework, power is categorized into different ways such as the *coercive power* (which is implemented by investors through the use of formal shareholder governance powers as the use of proposals and voting rights), *utilitarian power* (the power to reward or punish through financial means as disinvestment) and *normative power* (expressed through actions that affect company's reputation). Social activism must have regard for the balance of power between investor and company, and it is 'less likely to produce desired results if the negotiating stance is not underpinned by the implicit threat to use shareholder power or exercise shareholder rights' (Forum for the Future and PIRC 2002, 44). Hence, shareholders' proposals and punishment actions would give greater power, legitimacy (or credibility), and urgency to the demands of SRI funds making their claims more salient in executives' minds (Mitchell et al. 1997; Agle et al. 1999).

Therefore, we hypothesize in this research that, according to the *stakeholder salience theory*, the use of shareholder punishment actions in shareholder social activism tactics of SRI funds is more effective to increase firms' CSP than the exclusive use of dialogue or engagement of companies' managers with shareholders.

3 Methodology

3.1 Sample

A sample of 299 international firms drawn from a database of equity SRI funds operating in Europe in the period 2006–2007 from the rating company *Vigeo* was used to carry out this study.[1] This database includes 238 European funds that apply ethical, social and/or environmental screens to their investment decisions from 14 European countries (Austria, Belgium, Denmark, France, Germany, Ireland, Italy, Luxembourg, Netherlands, Norway, Spain, Sweden, Switzerland, and United Kingdom). We took for each firm the SRI funds investing on it such that each observation of the sample represents a unique fund–firm relationship. Of these observations, we excluded those with missing values of the variable to explain so that our final sample consisted of 842 observations.

The rating agency *Vigeo* supplied information about the different types of social engagement practices used by European equity SRI funds and *Morningstar* provided the companies in which these funds invested. Only the first five companies by weight in the portfolio of each fund, what represents on average the 20% of the total funds' net asset value (NAV), were considered in the analysis given that there is a big difficulty to know the composition and changes over time of the funds' portfolios. According to the data obtained from *Morningstar*, European equity SRI funds invest mainly in large firms (an 86.1%) from Europe and North America. A 43.7% of the total funds invest in the global market whereas the 32.8% of these funds invests in European companies. The proportion of funds investing only in domestic companies from the UK and Sweden is a 9.2 and 8.0% respectively. Regarding the nationality of the fund, the major number of equity SRI funds is from Luxembourg (21.0%), France (20.6%), United Kingdom (16.8%) and Sweden (15.5%). On the other hand, the countries with less SRI funds are Ireland and Spain with 0.8% or Denmark and Norway with 0.4% each one.

3.2 Model

In order to test the hypothesis of this research, the following model is proposed to be estimated using ordinary least squares (OLS):

[1] *Vigeo* is a European specialized company in SEE rating with more than 15 years of experience. It measures the performances and risks of companies in six domains of corporate social responsibility: environment, human rights, business behaviour, corporate governance, human resources, and community involvement.

$$CSP_i = f\left(SEC_{ip}, REG_{iq}, PREV_i, SIZE_i, PROF_i, POWER_i, TACTIC_{ir}, POWER_i \times TACTIC_{ir}\right)$$

CSP_i is the CSP level of company i for the year 2008. This variable was calculated for each firm through the equally weighted average of its social and environmental performance values (Cheng et al. 2014) and it ranges from 100% (good performance) to 0% (bad performance). Social and environmental performance scores obtained from *Thomson Reuters'* ASSET4 database were used to construct a composite CSP index for each firm.[2] This type of measure follows Wood's (1991) CSP approach as a multidimensional construct that captures the principles of social responsibility, the processes of social responsiveness, and the policies, programs, and observable outcomes as they relate to the firm's social relationships (Ioannou and Serafeim 2012).

$TACTIC_{ir}$ is a dummy variable to measure a specific form or combination of forms of social activism used by a SRI fund with firm i, being 1 whether a SRI fund has used a r specific tactic of social activism (*dialogue*, *punishment*, *dialogue* + *punishment*, or *dialogue* + *proposals* + *punishment*) and 0 otherwise, with no social activism as the reference category. To know what tactic of social activism has been employed by each SRI fund with a firm, we have used qualitative data supplied by *Vigeo*. In particular, this rating company accounts for seven different items related with social activism, which we have classified as follows (see Table 1).

SEC_{ip} is a dichotomous variable to control a firm's sector, being 1 whether the company i belongs to a p specific sector (*energy & utilities*, *industrial goods*, *consumer goods*, *financial services* or *information technology & telecommunications*) and 0 otherwise, with the *business services* sector as the reference category. REG_{iq} is a dichotomous variable to control a firm's geographical region depending on its national origin, being 1 whether the company i belongs to a q specific region (*Asia, Australia, Anglo-Saxon Europe, Mediterranean Europe, Nordic Europe, North America* or *BRIC countries*) and 0 otherwise, with the *North America* region as the reference category. In addition, two more variables were used to control the effects of some factors as visibility and resources available of each firm on the dependent variable. $PREV_i$ is the level of CSP of firm i previous to the year 2008 (it has been taken the level of CSP in 2007). This variable was used to control other variables that were not introduced into the model. $SIZE_i$ is the size of company i measured by its number of employees and $PROF_i$ is the profitability of company i measured by the firm's ROE (return on equity) at the end of 2007. Yearly data of size and profitability of each firm was taken from *Datastream* database. Finally, $POWER_i$ is a variable introduced into the model to analyse the moderating effect of the relative economic

[2]ASSET4 provides objective, relevant, auditable, and systematic SEE information and investment analysis tools to professional investors who build their portfolios by integrating social and environmental data into their traditional investment analysis. To build the database, Thomson Reuters' analysts calculate 250 key performance indicators classified in four different performance scores (environmental, social, economic, and corporate governance). Data sources include stock exchange filings, CSR and annual reports, non-governmental organizations' websites, and so on (Ioannou and Serafeim 2012).

Table 1 Social activism taken by SRI funds and classified by type of form

Shareholder dialogue or engagement	Shareholder proposals and voting	Shareholder punishment
• The fund included CSR issues in fund's routine meetings. • The fund has written to companies about issues of concern during the last 24 months (period 2006–2007). • The fund has sent ethical/ environmental profiles to screened companies. • The fund has arranged special meetings with companies during the last 24 months (period 2006–2007). • The fund has called sometimes to extraordinary meetings to deal with CSR issues.	• The fund has proposed any CSR related shareholder resolution during the last 24 months (period 2006–2007).	• The fund has released press briefings and statements during the last 24 months (period 2006–2007).

Note: Authors' own using data obtained from *Vigeo*

power of shareholders (in this case SRI funds), measured by each SRI fund's NAV invested in the targeted firm divided by the itself firm's revenues, on the relationship between shareholder social activism and firms' CSP. According to Eesley and Lenox (2006), the power of stakeholder would depend on both the resource base of the stakeholder group and the firm being targeted so that the greater the stakeholder group's resources, the more likely the firm will respond positively whereas the greater the firm's resources, the less likely the firm will respond positively.

4 Research Results

Table 2 presents the mean values of the variables used in the analysis classified by the type of tactic of social activism used by European SRI funds. The figures show that over half of firms in the sample (492 out 842) have been selected by funds' managers employing the screening strategy but, in this case, funds' managers did not have other type of relationship or engagement with firms. On the other hand, SRI funds had some form of social activism with the rest of firms in the sample. The most used form of social activism between SRI funds and firms has been dialogue although in half of these cases it was complemented with other stronger forms of social activism as shareholder proposals and/or punishment (mainly shareholder punishment instead of proposals). Only in a few cases (6 out 492), shareholder punishment was chosen directly as form of social activism so that SRI funds' managers preferred to dialogue with management before to begin with stronger means. We can observe that different forms of social activism were employed with

Table 2 Mean values of variables by type of social activism form or tactic

Social activism tactic	*CSP*		*PREV*		*POWER*		*SIZE*		*PROF*	
	n	Mean	*n*	Mean	*n*	Mean	*n*	Mean	*n*	Mean
No social activism (screening)	492	85.62	482	85.21	478	0.04	485	107,660	485	22.88
$TACTIC_1$ (dialogue)	160	85.47	159	86.14	154	0.10	159	123,987	159	23.31
$TACTIC_2$ (punishment)	6	89.77	6	87.97	6	0.05	6	138,226	6	19.57
$TACTIC_3$ (dialogue + punishment)	148	86.27	148	84.14	146	0.05	148	108,570	148	23.24
$TACTIC_4$ (dialogue + proposal + punishment)	36	85.11	36	82.50	35	0.79	36	51,690	36	26.48
Total	842	85.71	831	85.10	819	0.08	834	108,738	834	23.16

firms that, on average, had lower previous CSP levels, being these companies also smaller in size than the rest of firms. Another obtained result is that the use of shareholder punishment is related with the largest improvements in firms' CSP levels from 2007 to 2008. This finding allows us to say that the use of power in the claims of shareholders seems to be an effective mean to discipline companies' managers.

Table 3 presents the main descriptive statistics (mean, standard deviation, maximum and minimum values) of the sample as well as the Pearson's correlation coefficients among the variables used in the regressions. The firms in our sample had an average CSP level of 85.71 points in 2008 whereas this level was 85.10 in 2007. The figures of this table also show that firms' CSP is positively auto-correlated ($r = 0.830$). Besides, the CSP variable is also positively related to firms' size (*SIZE*) and profitability (*PROF*). In the case of size, larger firms present around a 30% more of CSP than small firms. Moreover, more profitable firms show a level of CSP higher, around a 9% more, than less profitable firms. Regarding the shareholder's relative economic power variable (*POWER*), we can see that it is negatively correlated with firms' CSP ($r = -0.120$). So, the higher the relative economic power of shareholders is, the less their CSP level is. This negative relationship between both variables can be explained because firms with large relative economic power are, at the same time, small firms what is directly correlated with CSP levels. In the case of the social activism tactic employed by SRI funds with firms, $TACTIC_1$ is positively correlated with firms' size whereas $TACTIC_4$ is negatively correlated with it. Thus, SRI funds' managers only employ dialogue with large firms what can be understood as large firms' managers are more receptive to listen their shareholders' claims or, by the contrary, they are less vulnerable to shareholders' demands (Rehbein et al. 2013), whereas the use of power through shareholder proposals and/or punishment is related with smaller firms.

The results obtained from the model estimation are presented in Table 4 in a hierarchical fashion to better depict the variance explained by the different sets of variables (*moderate regression analysis*). This model is able to explain over 70% of the dependent variable variation. The parameter estimates showed in Table 4 are standardized beta coefficients. All regressions were estimated using ordinary least squares (OLS) with White's robust intervals in order to obtain unbiased and efficient estimates of parameters since the Breusch-Pagan test was very significant (significance at the 1% level).

Regression 1 only contains the control variables: previous CSP (*PREV*), size (*SIZE*), financial performance (*PERF*), and shareholders' relative economic power (*POWER*), as well as the dummy variables for sector (*SEC*) and region (*REG*) (coefficients not shown in the table). In this case, estimates for size and financial performance have the expected positive direction although none of both variables is statistically significant. Shareholders' relative economic power has a negative effect on firms' CSP although this relationship is not significant as well, whereas previous CSP has a strong positive effect on the dependent variable (significance at the 1% level).

Table 3 Main descriptive statistics and Pearson's correlation coefficients

Variable	1	2	3	4	5	6	7	8	9
1. *CSP* (0–100 index)	1								
2. *PREV* (0–100 index)	**0.830**	1							
3. *SIZE* (# employees)	**0.302**	**0.355**	1						
4. *PROF* (% ROE)	**0.093**	**0.091**	**−0.094**	1					
5. *POWER* (% NAV/revenues)	**−0.120**	**−0.142**	**−0.088**	**0.261**	1				
6. $TACTIC_1$ (yes/no)	−0.009	0.033	**0.073**	0.005	0.009	1			
7. $TACTIC_2$ (yes/no)	0.025	0.016	0.025	−0.020	−0.004	−0.041	1		
8. $TACTIC_3$ (yes/no)	0.019	−0.029	−0.001	0.003	−0.017	**−0.224**	−0.039	1	
9. $TACTIC_4$ (yes/no)	−0.009	−0.036	**−0.119**	0.046	**0.180**	**−0.102**	−0.018	**−0.098**	1
N	842	831	834	834	819	842	842	842	842
Mean	85.71	85.10	108,738	23.16	0.08	0.19	0.01	0.18	0.04
Std. deviation	13.77	15.17	101,586	15.33	0.82	0.39	0.08	0.38	0.20
Min	9.03	9.45	277	−35.39	0.00	0	0	0	0
Max	95.73	96.28	536,350	149.34	22.78	1	1	1	1

Note: Significant correlation coefficients at the 10% level are in bold

Table 4 Results of estimation on CSP

Variable	Regression 1	Regression 2	Regression 3
SEC dummies (5)	Included	Included	Included
REG dummies (7)	Included	Included	Included
PREV (0–100 index)	0.804***	0.803***	0.772***
SIZE (# employees)	0.025	0.030	0.028
PROF (% ROE)	0.023	0.025	0.010
POWER (% NAV/revenues)	−0.003	−0.005	−0.811***
$TACTIC_1$ (yes/no)		−0.051*	−0.049*
$TACTIC_2$ (yes/no)		0.015	0.004
$TACTIC_3$ (yes/no)		0.037**	0.010
$TACTIC_4$ (yes/no)		0.018	0.007
$POWER \times TACTIC_1$			0.112***
$POWER \times TACTIC_2$			0.024***
$POWER \times TACTIC_3$			0.116***
$POWER \times TACTIC_4$			0.804***
N	807	807	807
R^2	0.705	0.710	0.726
F test	45.02***	36.96***	99.85***
ΔF		3.55***	11.75***
Breusch-Pagan test	502.10***	525.92***	363.77***

Notes: Standardized beta coefficients estimated by ordinary least squares. White's robust intervals were used to test parameters significance
***$p < 0.01$; **$p < 0.05$; *$p < 0.10$

In regression 2 the explicative variable $TACTIC_r$ was added in the model. As shown, $TACTIC_2$, $TACTIC_3$, and $TACTIC_4$ have the expected direction although only the beta coefficient of $TACTIC_3$ is statistically significant ($\beta_{Tactic3} = 0.037$, $p < 0.05$). On the other hand, $TACTIC_1$ shows a negative impact on firms' CSP ($\beta_{Tactic1} = -0.051, p < 0.10$). Further, the introduction of this variable into the model explains significantly the increase of the CSP variance (change in $F = 3.55, p < 0.01$).

Finally, in regression 3, interaction terms between the variables *POWER* and $TACTIC_r$ were added into the model. This variable accounts for slope differences in the explicative variable caused by the moderating effect of shareholders' relative economic power. As shown, the variable *POWER* has a moderating effect over the relationship between social activism and firms' CSP being this effect positive and very significant in all tactics ($\beta_{Tactic1} = 0.112, p < 0.01$; $\beta_{Tactic2} = 0.024, p < 0.01$; $\beta_{Tactic3} = 0.116, p < 0.01$; $\beta_{Tactic4} = 0.804, p < 0.01$) so that the larger the relative economic power of shareholders is, the larger the effect of shareholder social activism on firms' CSP is. Besides, the change in *F* is statistically significant (change in $F = 11.75, p < 0.01$).

Therefore, according to the results showed in Table 4, we have found empirical evidence supporting the idea that social activism is more effective with some specific forms or tactics associated with power (e.g., punishment) than others without it (e.g., dialogue) and that this positive effect on firms' CSP is larger, the larger shareholders' relative economic power is.

5 Summary and Conclusions

The new paradigm of stakeholder governance is characterized by different actions or practices that conscientious investors can use to promote social responsibility in firms, which is known as shareholder social activism. However, the effect of shareholder social activism on firms' CSP remains unclear despite of it might be an effective mechanism to change firms' social behaviour. This study is focused on the comparative analysis of the effectiveness of different practices of social activism followed by European equity SRI funds' managers to enhance firms' CSP, unlike other previous studies which have focused exclusively on only one type of social activism such as shareholder proposals or dialogue.

To conduct this research, we employed a sample of 299 international firms in which 238 European equity SRI funds had invested in the period 2006–2007. Engagement data and funds' portfolios were supplied by *Vigeo* and *Morningstar* respectively. This study lacks in that it only considers the first five companies by weight in the portfolio of each fund given that there is a big difficulty to know the entire composition and changes over time of the funds' portfolios. On the other hand, the results of this study are based in a representative sample of the population of European equity SRI funds and the firms in which they invest. Social and environmental performance scores, obtained from *Thomson Reuters'* ASSET4 database, were used to construct a composite CSP index for each firm and year whereas firms' economic and financial data was taken from *Datastream* database.

Despite of the limitation of our data and period of analysis, we have found empirical evidence that shareholder social activism is effective when institutional shareholders, in this case SRI funds, pressure firms using their property rights through the presentation of proposals or, especially, disclosing sensitive information of no responsible firms that could cause a relevant reputation damage to those companies. This finding is important so that only dialogue with managers cannot be sufficient to change their behaviour. Our findings support Mitchell et al. (1997) and Gifford's (2010) stakeholder salience framework that considers power an important driver of salience for corporate management. Therefore, shareholder social activism can pressure firms' managers to improve CSP according to shareholder's salience. Our findings also support Eesley and Lenox's (2006) result, as stakeholders are more likely to get a positive response about SEE issues from a firm in which they have greater relative economic power than from the rest of firms. This has an important practical implication for those funds' managers and investors who want to influence business decisions.

In sum, the results of this research allow to conclude that institutional shareholders' social activism has the power to change corporate behaviour and, therefore, SRI funds' actions can become an effective mechanism to improve corporate governance. However, this mechanism is more effective when investors use power to discipline companies' managers as it was suggested by Mitchell et al. (1997). This conclusion does not seem to support the postulates favouring the voluntary application of CSR by firms. On the other hand, it raises another important question, which should be analysed in next studies, as to whether SRI funds really invest in responsible companies firstly or, however, they invest in profitable companies applying financial principles and then SRI funds' managers try to increase social and environmental accountability of those firms as a way to justify their investments.

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Cooperative Social Responsibility: A Case Illustration of the Unique Character of Cooperative Governance and Its Relation to the Concept of Corporate Social Responsibility

Gerhard Kosinowski

1 Introduction

In the nineteenth century modern cooperatives were established as socially responsible communities serving the needs of their region. Even today, cooperatives are role models for a socially responsible way of doing business. They coexist in the same environment as traditional corporates. Yet, due to their unique ownership structure it seems plausible that cooperatives apply a different approach with regard to their stakeholder management and social responsibilities. Thus, the following research question arises: How do cooperatives assume their social responsibilities and how is this related to the concept of CSR?

As argued by Levi and Davis (2008) cooperatives can be considered the "enfants terrible of economics". Most of the academic discourse so far has covered very detailed aspects of the cooperative sector and remained within the area of cooperative studies. However, many cooperatives face the same challenges as traditional corporates but are equipped with a substantially different ownership structure. Against this background, the present paper aspires to enhance the comprehensive understanding of cooperative organisations. Simultaneously, the paper links the insights to approaches followed by traditional shareholder-based companies, particularly CSR. This is intended to contribute to beneficial convergence of the corporate and cooperative discourse.

To achieve this target, the paper builds upon the method of explorative case illustrations. This is a variation of the case study method as introduced by Yin (2003). The explorative, illustrative nature fosters the holistic understanding of the complex cooperative governance structure (Eisenhardt 1989; Galli and Müller-Stewens 2012). Furthermore, it establishes several starting points for detailed studies

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and presents possible spillovers between the corporate and cooperative discourse in an understandable way to a large diversity of researchers and practitioners (Hayes et al. 2015).

The research work focuses on European cooperative banks as they represent an important part of the banking service provision while dealing with similar challenges as the whole financial industry itself (Vola et al. 2007). To the author's best knowledge, there has not been any study so far which adequately illustrates the governance structure of European cooperative banks in a holistic way and simultaneously bridges the gap between the cooperative and corporate discourse with regard to an organisation's responsibility vis-à-vis the stakeholders. Consequently, the research process is based on the review of existing literature and theories as well as the incorporation of various sets of qualitative and quantitative studies as seen in the approach by Jonikas (2013). The research work illustrates the historic character of the cooperative governance and the underlying mechanisms of contemporary business strategies with a special focus on the assumption of social responsibilities. Moreover, the paper links this to the concept of CSR and demonstrates how cooperative financial organisations can turn their difference into a comparative advantage. By doing so, the explorative case illustration introduces the concept of cooperative social responsibility on the basis of the unique cooperative governance.

In order to foster a better understanding of the cooperative roots, the paper starts by setting the core principles of cooperatives against the context of their history. It is argued that these principles originate from the pioneers of the early modern cooperatives. The set-up, which contains democratic control, solidarity, self-help and the orientation towards the members as core beliefs, was strongly influenced by the economic, political and social circumstances (Sacchetti and Tortia 2016). Friedrich Wilhelm Raiffeisen, Robert Owen, Hermann Schulze-Delitzsch and the workers of the Rochdale Society aimed at cooperatively alleviating the social problems of the nineteenth century (Fairbairn 1994; Pezzini 2006). Their call for fair ways of doing business has experienced several renaissances over time. However, the example of European banking cooperatives shows that commercialisation, cost pressure and increased competition have influenced the strategy of cooperatives (Nilsson 2001). Yet, this paper illustrates how the cooperative have revived themselves after the 2007 financial crisis.

Against this background, the second part of the paper points out how cooperatives banks in Europe master their current challenges and position themselves for the future. The analysis draws on the concept of member value creation. This theory, which is famous among European researchers and practitioners, is not the only approach, but it delivers interesting insights on the connections between the traditional principles and the modern cooperative governance structure (Arts 2017; Lorenzi et al. 2016).

On the basis of the historical and contemporary perspective of cooperatives the paper then draws parallels between the cooperative responsibilities and the CSR concept. By doing so, the author uses the definition of Carroll (1999) as guideline supporting the notion that businesses have economic, legal, ethical and philanthropic obligations. By examining their colourful past, it becomes clear that the notion of cooperative responsibilities might be considered an inspirational source for the concept of CSR. The elaboration shows that both draw on a comprehensive mission, yet the orientation towards the local community and the society has always been part of the cooperative DNA (Novkovic 2008; Rössl 2010, 2017). In this regard, the research results are illustrations of the theory of Freeman and Velamuri (2006) who argue that business and social issues are interrelated and cannot be analysed separately.

Following this, it is a logical and essential step to give an outline of the managerial possibilities for European cooperative banks to maintain and even strengthen the benefits arising from the unique cooperative governance. According to the present treatise, one step is the combination of social engagement with the unique cooperative set of knowledge. In this sense, cooperatives need to put more effort into socially responsible initiatives, which directly benefit from everyday business experience. Free microfinance for institutions and people in need is cited as an example in the case of financial cooperatives. In sum, the management has to balance the interests of the members which are diverse due to their double role as customers as well as owners, the local community and the society in general (Gijselinckx 2009). Cooperatives must further enhance the benefits from their multi-layered stakeholder engagement and acknowledge the fact that good communication secures their members' loyalty and the long-term support from the public (Jusilla et al. 2012; Reynolds 2013).

The present paper contributes to the existing literature in three ways. First of all, the elaboration provides a comprehensive overview of the present interpretation of the promotional mission highlighting the prosperity of the members as core feature of their strategy. The following sections include updated summaries of the various elements of the member value concept. Secondly, the research work delivers a contextualisation of the modern cooperative governance into its historical roots. By doing so, the author, however, explicitly excludes detailed references to cooperative movements before the time of Owen and the Rochdale Society. The third and probably most striking contribution is the contextualisation of cooperative governance with regard to the CSR concept. As this elaboration targets research communities within and beyond cooperative studies, the paper draws on the well-known concept of CSR in order to highlight the unique characteristics of cooperatives. Finally, the research work also aspires to deliver valuable insights for practitioners (within and beyond the financial cooperative sector) when deriving practical implications from the CSR elements in the cooperative governance. In this regard, the treatise also highlights that the promotion of cooperative social engagement and the political handling of cooperatives need more in-depth research work.

2 The Case Illustration of the Governance and Social Responsibility of Cooperatives

2.1 The Development of Cooperative Governance

2.1.1 The Origins

Modern cooperatives look back on a history of almost 200 years. In the early nineteenth century Owen was one of the most important people within the group of philosophers who criticised the mechanisms behind capitalism. Becoming a co-founder of the Utopian-Socialist movement, the Welshman questioned the sustainability of the Industrialisation. In Great Britain, for example, the high pace of economic modernisation led to a widening of the gap between the rich and the poor. Against this backdrop, in 1844 a group of 28 English workers founded a consumer community in order to trade groceries among each other at affordable prices (Fairbairn 1994). Taking Owen as a role model, the members of the community, called Rochdale Society of Equitable Pioneers, believed that the injustice, exploitation and poverty caused by the Industrialisation can only be overcome through cooperation among the people (Balnave and Patmore 2009). By determining the specific rules and objectives of the Society the members laid the foundations for a set of principles that has ever since been considered the guideline for cooperative organisations (Bello 2005; Fairbairn 1994). In the twentieth century the International Co-operative Alliance, the federation representing global cooperative movements, translated the specific rules of the Society into general principles. According to their last revision in 1995 (International Co-operative Alliance 2018) those guidelines, called the "Principles of Rochdale", are:

1. Cooperatives are characterised by open and voluntary membership.
2. Following the rule of "one man, one vote", cooperatives are democratic organisations controlled by their members.
3. The members economically participate and are in general the only owner and controlling entity of the cooperative capital.
4. Cooperatives are autonomous organisations relying primarily on self-help.
5. Cooperatives are obliged to educate as well as train their members and to publicly promote cooperative ideas.
6. Through the establishment of local, regional, national and international networks, cooperatives improve the promotion of their members.
7. Cooperatives are responsible for the sustainable development of their communities and should do so by implementing respective policies which are approved by the members.

These principles are a strong proof that the focus of cooperatives is on their members (Taisch et al. 2016). In particular the second and the third principle determine that cooperatives are democratically-organised and controlled by the members. In this light, various major academic publications dealing with the roots of cooperatives agree that the original objectives of the Rochdale Society can even be more generalised. Mentioning the core values, modern cooperatives are characterised by principles of autonomy, cooperation, democracy, duality of members and customers, equality, regionality, self-help, solidarity and voluntariness (Novkovic 2008; Sacchetti and Tortia 2016).

Being owned and controlled by the members, the organisational structure of cooperatives follows the ideas of direct democracy. By selling one share to each member, the Rochdale Society ensured equal voting rights at the members' meetings. In this context, a study carried out by Novkovic (2006) states that the democratic structure is a necessity for cooperatives. This illustrates the dual role of the members. They are simultaneously owners and customers of the cooperative (Gijselinckx 2009). The original governance of the Rochdale Society even explicitly excluded non-members from the cooperative benefits of buying consumption products at below-market prices (Rösner 2012). Although modern financial cooperatives often intensify cooperation in supra-regional networks, the cooperative itself is still an independent, local community. The mechanism of self-help and the decentralised organisational structure help them to develop close ties to their region (Tcaciuc et al. 2012).

2.1.2 Caritative Approaches in Germany in the Nineteenth Century

Critical voices regarding the consequences of the Industrialisation were not only present in Great Britain but also in other parts of Europe. The economic developments had an especially large influence on small entrepreneurs. The technological advancement and the increased competition required large investments from traditional craft businesses. This forced numerous entrepreneurs into dependencies on private creditors who offered loans at extortionate rates of interest (Bundesverband der Deutschen Volksbanken und Raiffeisenbanken 2015). To alleviate this misery, Schulze-Delitzsch in his function as local politician from Saxony founded a cooperative credit union in 1850. This organisation offered loans to local entrepreneurs at affordable rates. His idea rapidly gained popularity and only 9 years later, dozens of cooperative credit unions existed, which were spread across large parts of Germany. By 1859 Schulze-Delitzsch began to bring together and coordinate these associations under a central body. The unique characteristic of those cooperatives was the solidary joint liability unifying the respective cooperative institutions through the concept of mutual, financial support. His initiatives were based on the notions of solidarity and the promotion of the common good through interest-free microloans (Schulze-Delitzsch 1853). The charitable character of his movement connects him with Raiffeisen, the other famous German pioneer regarding cooperatives. The latter noticed that the workers in rural areas were being particularly exploited by capitalist employers forcing them into badly paid jobs. In this context, Raiffeisen established a cooperative association providing food to starving families. With the help of donations, the cooperative built their own bakeries. The bread was then sold on credit to families from the local community. Like Schulze-Delitzsch, Raiffeisen thought beyond his local initiative. He aimed at leading cooperatives from their sole caritative nature into a self-help society with mutual solidarity. For this purpose, he founded the first rural credit union in 1864 and in 1872 he even established the prototype of the modern central banks.

These two German initiatives share similar roots. The first modern cooperatives had a very clear caritative character as they aimed at improving the living standard for people in need. However, they substantially differ from pure charity organisations. The members were not only customers respectively beneficiaries but also the investors, owners and controllers of the cooperative. In this sense Owen, Raiffeisen, Schulze-Delitzsch and all other pioneers of the early modern cooperatives established charitable entrepreneurship. Having said this, one must keep in mind that there were indeed notable differences between the various cooperative movements. In this context, Pezzini (2006) provides interesting insights on the three main cooperative ideologies. According to his study, early British and French movements, which followed the ideas of the Social-Utopist Owen, encouraged, apart from their traditional activity of providing help to the poor lower class, the proletariat to start a revolution. Against this background, cooperatives were a revolutionary opposite to the capitalism according to the Manchester School (Higl 2008). This radical attitude is closely linked to Marxist ideas and has ever since experienced several renaissances. More than 100 years after the Rochdale Society, the Austro-Marxist Max Adler (1964) proclaimed that the cooperative function is the reduction of the discrepancy between the bourgeoisie and the proletariat, and consequently called for a social revolution. This radical ambition was less present within German cooperative associations. Schulze-Delitzsch was driven by liberalist beliefs. By providing cheap loans to local entrepreneurs he aimed at liberating them from their dependence on exploiting lenders. One of his main considerations was to restore the autonomy and to foster the self-fulfilment of the cooperative members (Pezzini 2006). The guiding idea for Raiffeisen, on the other hand, was Christian solidarity (Mändle 1992). Following Christian social doctrine, he considered it a moral obligation to foster the prosperity of the local community on a basis of charity and mercy. The work of Raiffeisen established social responsibility as one of the core values of modern cooperatives. He was very concerned for the well-being of the cooperative members (Rössl 2017). Against this background, cooperatives tried to find answers to the big social dilemmas of the nineteenth century (Ringle 2013). In this context, Raiffeisen thought beyond the immediate interests of the members. Long before the emergence of the concept of CSR, he highlighted the cooperative aspiration of promoting local education and basic democratic structures.

Even though some of the early cooperative ideas were translated into Marxist- and Communist-influenced calls for class struggle, the cooperative foundations are still based on democratic notions. In this regard, the original cooperative movement was driven by the principles of self-help, individual responsibility and independence as embodied by the Rochdale Society and the other pioneers.

2.1.3 The Decline and Revival of Cooperative Values

Over the years, the focus of cooperative financial organisations has undergone radical change. The improvement of the social conditions at the end of the nineteenth and beginning of the twentieth century caused cooperatives to question their general focus. These social developments led to a bigger emphasis on the economic performance of cooperatives and simultaneously to negligence of their social responsibilities (Ringle 2016). In Central Europe, however, the most critical caesura of traditional cooperatives values was caused by the National-Socialists. Various European cooperatives suffered from repressions of the Third Reich (Martens 2016). Ringle (2016) stresses that those cooperatives had to replace their member orientation with the imposed National-Socialist propaganda. Nevertheless, the cooperative culture benefited from a revival after the end of World War II. Especially the financial cooperatives rapidly re-gained popularity. Yet, the economic recovery once again shaped the character of cooperative values. The accelerated growth and the liberalisation of the markets massively influenced the cooperative orientation. Originally, they were established to compensate for the lack of individual economic opportunities but due to globalisation this was no longer a societal concern (Beuthien et al. 2008b). The traditional focus on the local community played a subordinated role as the common trend of commercialisation intensified (Ringle 2016). The companies in the developed world tried to keep pace with the increased competition, the technological advancement and the regulatory wave (Petry and Rohn 2004). As cooperatives struggled to convey the benefits of membership, the discrepancy between the institution itself and its members increased (Jusilla et al. 2012). The members were increasingly unable to identify themselves with the cooperative values as they could not understand the character of the promotional mission respectively the member orientation.

In the case of European financial cooperatives, this situation has dramatically changed through the 2007 economic crisis. Compared to their competitors, cooperative banks did especially well during the big crisis. In a 2013 report, the International Labour Organization (2018) argues that their robustness during crises is based on the cooperative governance and the ownership structure. Wendler (2011) also acknowledges that the cooperative business model has gained popularity during and in the aftermath of the global recession. The cooperation with the members and the concern for the local community enabled cooperative organisations to vitalise the trust of their stakeholders while most people lost confidence in the banking sector in general (Katerinakis and Alexopoulos 2016). In addition to that, values like transparency and reliability have gained importance in Western societies since that time (Reifschneider and Doluschitz 2016). Civic participation has emerged as a mega trend, too. As many people have lost trust in economics and politics, they call for direct democratic structures which allow immediate civil participation (Steiner and Schütt 2011). As illustrated earlier, these are values which are directly reflected in the traditional cooperative constitution.

Although the cooperatives and their values have gained popularity in recent years, they still face several challenges. All players on the banking market including cooperatively organised and shareholder-based companies have to deal with changed external circumstances. Arts (2016) analyses the situation of modern European banks applying Michael Porter's Five Forces Model. Over the last years, banks have had to deal with a complex construct of new financial regulations. The wave of regulation and the need for continuous adjustment has become a major cost driver. This is of central relevance for European banks, which are confronted with national and supranational, European, law. Further, new competitors continuously challenge established actors on the market (Powley and Stanton 2017). Digitalisation puts pressure on the banks to adjust their business strategy and on the legislators, which have to establish even more provisions in order to regulate new players like Blockchain-based companies and FinTechs (Schmidt et al. 2017; Tornjanski et al. 2015).

Against the background of these challenges, European cooperative financial institutions are at a crucial point (Katerinakis and Alexopoulos 2016). As Kring (2005) already concluded some years ago, cooperatives must exploit the opportunities of their unique character and turn their governance into a long-term competitive advantage. In order to master the challenges, to secure competitiveness and to stress the importance of the member relationship, the cooperative organisations had to adjust their structures. As a consequence, a large share of the modern cooperatives developed an individualised member value strategy representing a comprehensive management guideline with a strong orientation towards their members.

2.2 Modern Cooperative Governance

2.2.1 The Inspirations of the Member Value Concept

The member value strategy is considered the answer of modern cooperatives to the challenges of the twenty-first century. It is an adaption of the customer value concept and was developed within the discourse of the German cooperative banking research community (Suter and Gmür 2012). Following this approach helps cooperatives to integrate their members into the business activities and to position cooperative governance as a competitive advantage (Lorenzi et al. 2016). It is one possible solution to translate the cooperative, promotional mission into an adequate business strategy. This mission is reflected in the regulatory requirements. It has always been the core of cooperatives to focus on the members. The German cooperative law, for example, explicitly extends this focus. It obliges cooperatives to not only satisfy the members' economic but also their social and cultural interests. Several European legislators have adjusted their law systems governing cooperatives at the beginning of the twenty-first century. Being role models, the British legislative through the Co-operative and Community Benefit Societies Act of 2014 (Sacchetti and Tortia

2017) and the German legislative through the 2006 revision (Lehmann 2014) officially acknowledge the social function of cooperatives in modern business life.

Yet, cooperatives are in a similar situation with regard to the promotional mission as common shareholder companies are vis-à-vis corporate responsibilities. While a clear commitment from the governmental authorities is visible, there are no specifications and clear definitions. Thus, it is upon the cooperative enterprises themselves to develop their own strategy in order to adequately fulfil the promotional mission. In this context, a large controversy exists around the relationship between the member value strategy and the shareholder value concept. Since the member value approach aims at securing long-term profitability, Helmbrecht (2012) considers it a modified shareholder value concept. However, Suter and Gmür (2012) point out that this comparison requires differentiation as the members can take multiple roles. According to Mazzarol et al. (2011) a member can be investor, patron, owner and community member. Cooperatives must be aware of the fact that through their dual role members have certain rights as well as obligations vis-à-vis the organisation (Rössl 2010). The member value concept is the translation of the traditional cooperative principles into a strategic guideline for modern cooperatives. In this context, member value is the aggregate of all economic and meta-economic benefits which are received by the members and all other stakeholder groups. The complex structure of the cooperative governance results in a multi-level approach.

2.2.2 Direct Creation of Member Value

The first pillar of the member value concept is the direct promotion of the members. This is considered the original purpose of cooperatives. The core of cooperative business activities are all products and services which directly benefit its members. The exclusive member promotion and the special conditions for members reflect an integral part of the perceived value of cooperative membership (Beuthien et al. 2008b). As shown by the example of the early modern cooperatives in England and Germany, providing cheap loans or affordable consumption goods is the actual business field of these organisations. This process reflects the aspiration of cooperatives of becoming self-help institutions (Klein 2014). The direct promotion implies preferential treatment of the members (Hanker 2008). However, a study by Beuthien et al. (2008b) analysing German financial cooperatives indicates that, in reality, cooperatives hardly differentiate between members and non-members. As illustrated earlier, the Rochdale Society explicitly excluded any form of business with outsiders. This stipulation is not part of the modern cooperative governance system anymore. However, the said analysis concludes that cooperatives offering the same conditions to members and non-members violate their traditional values and principles.

2.2.3 Indirect Creation of Member Value

In an era of increased competition and transparent prices, the customer loyalty has become very important. A critical part of the strategy of cooperatives is the creation of indirect member value. In this regard, value has not only a financial but also an emotional as well as a functional connotation (Limnios et al. 2014). Thus, the promotional mission includes financial and soft factors.

While in theory there should not be any surpluses, cooperatives usually budget a safety margin (Forstmoser et al. 2012). Based on cooperative law these profits are distributed among the members. Although there are some regulatory differences among the various legislators, the monetary distribution is subject to very strict rules. Kunz (2013) finds out that a large share of the German cooperative banks paid more than 5% dividend on their cooperative shares in the years 2003–2013. In the same period the annual dividend yield of Deutsche Bank AG, a classic German shareholder owned bank, was on average 2.65% (Deutsche Bank 2018). Against this background, especially German academics discuss whether the dividend payment represents a real part of the promotional mission (Beuthien et al. 2008b). Ringle (2013) concludes that cooperative assets should serve as financial base for the promotional mission instead of being a lucrative opportunity for dividend investors.

The second element of the promotion beyond the regular business field is the integration of the members into the cooperative decision-making process. Pezzini (2006) considers the active involvement of members the major element in the cooperative governance system. Accordingly, Gijselinckx (2009) praises cooperatives as organisation triggering high member commitment. Following the aspiration of the early modern cooperatives, most present associations still maintain the basic-democratic principle of “one man, one vote” as core value. Thus, the participation right is linked to the respective member. As illustrated earlier, it is therefore understandable that member shares are not supposed to be profit opportunities for proxy voting investor groups. To ensure the democratic participation of the members, the annual meeting serves as the most important institutional feature (Blisse 2006; Higl 2008). In this context, the indirect value creation draws on the ownership function of the members (Klein 2014). Gijselinckx (2009) argues that cooperative members have ownership rights and control rights at once.

2.2.4 Creation of Ideational Member Value

The member value concept does not only contain the economic but also the social and emotional promotion of the members (Beuthien et al. 2008a). Although this part of the promotional mission is in most cases not directly related to the core business, it still finds its roots in the ideas of the Rochdale Society and Raiffeisen (Rössl 2017). Following the categorization of Limnios et al. (2014), cooperatives create financial value through the direct promotion, functional value through the participation rights within the pillar of indirect member value and add an emotional component through a variety of ideational promotion.

Mazzarol et al. (2011) argue that this extension of the member value concept is necessary due to the multiple roles which are attributed to cooperative shareholders. This part of the cooperative activities creates value for insiders (members), non-member clients and outsiders (people without any direct business relationship to the cooperative institution). Gijselinckx (2009) argues that in this sense the cooperatives apply a multi-stakeholder approach, which finds its foundations in the Rochdale Society, the ideas of Raiffeisen and the seventh principle of the International Co-operative Alliance. Lorenzi et al. (2016) draw on this multi-stakeholder approach and conclude that cooperatives create comprehensive value and enhance their unique benefits by investing in a good relationship with the local community and the public in general. However, cooperatives face unique challenges in the stakeholder management process. As illustrated earlier, they do not only have to deal with various stakeholders outside the organisation but also have to acknowledge the multiple roles which the members themselves play. Based on the propositions by Carroll (1999), cooperatives can, like corporates in accordance to CSR, intensify their ties with their region by being a responsible corporate citizen. Examining German financial cooperatives, Ringle (2016) lists several examples of cooperative citizenship activities: the support of local projects benefitting youth, education and environment; sponsoring of local sports clubs and other non-profit organisations; art funding as well as financial support for cultural and social initiatives.

2.3 The Relation Between Cooperative Responsibilities and the CSR Concept

The Neo-Classic school of thought claims that the member promotion must be efficient and profit-maximising as only such enterprises can survive in the market (Higl 2008). Yet, this theory, which argues that members join cooperatives for economic and rational reasons, cannot explain why modern cooperatives are successful in creating non-economic member value.

The present paper suggests that the particular prosperity of cooperatives can be better explained by an anthropology which is influenced by harmony and meta-economic incentives (Behrendt 1958; Neumann 1973). In this regard, Erdland (2006) considers emotional attachment to the local community and the pursuit of cooperation main drivers for cooperative membership. Opposing this view, Aschhoff and Henningsen (1995) point out that the entry into a cooperative association is not anymore driven by the fear of capitalist exploitation but is based on individual, rational benefits. Within this new context the respective member tries to fulfil self-interests (Popper 1987; Williamson 1975). However, when applying the concepts of Barnard (1948) to the cooperative banks and their governance, it becomes understandable that the members' considerations, interests and benefits exceed the economical dimension. This notion is strengthened by the definition of cooperatives represented by the International Co-operative Alliance (2018) considering cooperatives voluntary associations to satisfy shared cultural, economic and social interests with the help of a democratically-governed and collectively-owned organisation.

Against this backdrop, it becomes plausible that people join cooperatives due to both economic and social considerations (Feng and Hendrikse 2009). Rössl (2017) delivers further valuable insights on the member perspective. Supporting the argumentation of Assmus (2006), he concludes that purchase or in this context membership decisions are fostered by the identification with the cooperative values. While the members derive economic benefits from the special conditions regarding their direct business relationship and from dividend payments, the participation system and the promotion of the local community create meta-economic benefits for the members.

This approach shares similarities with interpretations of the CSR concept. Tirole (2001), for example, argues that socially responsible enterprises have a comprehensive and complex mission. Donaldson and Fafaliou (2003) extend this concept and highlight that the modern interpretation of CSR urges companies to include more than the economic interests of its stakeholders. In his pioneering work, Bowen (1953) argues that responsible entrepreneurs have to act based on the interests and values of the society.

Long before the academic establishment of CSR as a concept, the cooperative pioneer Raiffeisen called for local ties and social engagement of cooperative organisation in order to guarantee the orientation towards their members and the society in total (Rössl 2017; Wychera 1985). The cooperative identity has ever since contained the notion that the immediate business relationship is only a small part of the value creation process (Reynolds 2013). Thus, the perceived value contains more than direct, monetary benefits for the members. In this context, a cooperative reflects the CSR concept by following its principles and acting within the structure of the traditional governance system (Tcaciuc et al. 2012). Drawing on an understanding of business ethics that is strongly shaped by the modern CSR theory, Pezzini (2006) argues that "good" cooperatives are coherent with the traditional principles and the promotional mission. Conducting a survey among Austrian banking cooperatives Rössl (2010) finds that over 90% of the examined members put emphasis on the responsibility of cooperatives vis-à-vis the region and the local community. According to Novkovic (2008), the orientation towards the community goes further than the modern conception of CSR. In sum, the cooperative equivalent of the CSR understanding is a symbiosis of the cooperative governance with its distinct principles and the member value strategy. While the theory of CSR calls for a change of the management culture towards a broad mission (Tirole 2001), cooperatives have this multi-stakeholder focus in their DNA. Since the traditional cooperative principles are part of the inspirational source of modern CSR theories, the present paper supports the idea that CSR itself is a part of the cooperative governance and a product of the cooperative identity at once (Youd-Thomas 2005).

These results fit into the theory of Freeman and Velamuri (2006) who claim that business and social issues need to be approached jointly and not separately. Following the argumentation of Jones (1995) the unique cooperative governance structure can be considered the "central paradigm" which serves as tool box for tackling problems like free-riding and for the assumption of social responsibility. The membership structure and the local embeddedness build the foundation for the bridging process (Harrison and St. John 1996) of cooperatives vis-à-vis their stakeholders. Various researchers postulate that corporates must base their overall strategy and daily business activities on a framework which relies on fairness (Philips 1997) or more broadly on the concept of business ethics (Bowie 1999). Advancing these theories, Freeman and Velamuri (2006) analyse that the new approach on corporate responsibilities, labelled Company Stakeholder Responsibility, is built upon an underlying value proposition, ten precise principles, the integration of broader societal issues and the assumption of ethical leadership. The historical roots, the Rochdale Principles and the unique governance structure provide the corresponding answers for developing the cooperative stakeholder approach. Cooperatives do not have to unify their business strategy with ethics. Instead, they need to emphasise the variations of stakeholder responsibilities which are inherent in their DNA. In this sense, cooperative social responsibility serves as example for the transition of responsive to strategic CSR as presented by Porter and Kramer (2006). Although having different underlying mechanisms as corporates, the assumption of social responsibilities by cooperatives is strategic and intrinsic.

These insights deliver the answer to the research question. The idea of corporate and cooperative social responsibility has a colourful past. The cooperative governance and the concept of corporate responsibilities trace back to the notions from pioneers of our modern economic structures. Both ideas are characterised by a variety of approaches from the academic and the business side. The concepts of corporate and cooperative social responsibility are interpreted in relation to the economic, political and social circumstances. The analysis shows that this variety is not only present in the historical context. Even today there is a multiplicity of opinions on the governance structure and the responsibilities which a corporate and a cooperative organisation must bear. This is reflected by the variety of business strategies within the corporate and cooperative sphere. The explorative case illustration on the examples of European cooperative banks demonstrates that cooperative social responsibility is based on the unique governance structure and their historical roots. Thus, it can only be understood by a comprehensive analysis of the cooperative business model. The responsibility to act in a socially responsible way is part of the cooperative DNA. Thus, they serves as role models for a holistic approach regarding the cooperative respectively cooperative social responsibilities.

2.4 Management Guidelines for Modern Cooperatives

Creating value for the members and all other stakeholders is not the only task for the management of cooperatives. Klein (2014) argues that responsible cooperative banks must also ensure economic sustainability of the cooperative organisation itself. The long-term solvency of the enterprise is an essential condition to ensure the future satisfaction of all stakeholder interests.

The cooperative principles, the member value concept and the adapted CSR concept must be combined in a comprehensive cooperative strategy. A clear member value proposition enables a better understanding of the cooperative value structure, improves the embeddedness in the local community and increases the members' ties to the organisation (Lorenzi et al. 2016). It is of special importance to generate trust and loyalty on the side of the members. By acknowledging their inspirational roots, cooperatives can create trust via enhanced integration and participation of the members (Pezzini 2006). Various authors within the German-speaking research community provide guidance for the development of a comprehensive management strategy (Ringle 2007; Rösner 2012; Tschöpel 2011). However, adequate management structures for creating cooperative value on the different mentioned levels require more in-depth research.

In accordance with the main theories about governance guidelines for incorporated companies (Donaldson and Fafaliou 2003; Stubbs and Cocklin 2007), the management approach for cooperatives depends on the right balance between principles and stakeholders' (especially members') interests, too. As shown by several case studies across a variety of cooperatives in different parts of the world (Firmansyah 2015; Rivani et al. 2017; Theuri and Mugambi 2014), applying the Balanced Scorecard Theory helps to find the right balance, accelerates the decision-making process and guides the management towards a comprehensive measurement of value creation. This could be especially relevant for European cooperative banks as they need to balance the promotion of the members as well as the region, the compliance to financial regulations and their economic sustainability. However, there is still a large research gap regarding the operationalisation and measurement of the cooperative value activities. This is a very relevant challenge that has to be met by cooperative researchers and practitioners.

The focus of the present research paper is on the evolution and the status-quo of the cooperative responsibilities and their contextualisation in the governance structure. Hence, the analysis provides several starting points for fellow researchers to elaborate detailed insights on the numerous elements of the cooperative governance and management system. One simple directive for the cooperative management body becomes very clear when applying corporate governance concepts and the CSR theory on the case of cooperative studies. As explained previously, the activities of cooperative organisations create value for members as well as the society in general. However, a large part of the research community, especially in Western Europe, agrees that both dimensions can be integrated in the member value concept. Following this logic, actions, benefitting the members only, are classified as direct and indirect member value, while activities on behalf of a broader stakeholder community are part of the ideational (member) value creation.

Yet, particularly in the cooperative domain, it is insightful to make a central differentiation. On the one hand, cooperative banking enterprises create ideational value beyond their original business field. This is a very popular way of proving social responsibility. Cooperatives and shareholder-based corporations promote social well-being through a variety of activities. Prominent examples are the sponsorship of local sports clubs, financial support for cultural institutions and the realisation of environmental projects. On the other hand, companies have the chance to become socially responsible with close relation to their core business. This is of particular relevance for cooperatives. For these organisations, it means conducting activities valuable for insiders and outsiders at once (members, non-member clients, the society in general etc.), while still drawing on their knowledge and experience from everyday business. Taking financial cooperatives as illustrative examples, said activities include micro-loans to people and institutions in need and free financial planning advice for people of small means. Simply put, financial institutions might be most effective in fulfilling their social responsibilities when supporting the public well-being through projects related to finance. In this context, cooperatives can capitalise on their distinct principles and their historical background. In accordance with the aspirations of the cooperative pioneers, they can spread the principles of democracy, solidarity and self-help as well as the cooperative notion in general. It is fair to say that cooperatives are the most authentic institutions to teach the democratic and social way of doing business. This enables cooperatives to turn their specific governance construct into a competitive advantage not only for the benefit of the members but also for the local community and society as a whole. This illustrates once again that cooperative social responsibility has close roots to the holistic understandings of corporate behaviour postulated by Freeman and Velamuri (2006) as well as Porter and Kramer (2006). Unfortunately, the academic literature has not yet adequately covered these aspects. However, longitudinal studies might shed light on this issue.

Fulfilling their promotional mission offers a great opportunity for cooperative banks in Europe. Notably, enterprises that assume their cooperative responsibility vis-à-vis the variety of stakeholders can receive economic as well as reputational benefits. In this regard, Ringle (2016) argues that cooperatives might be able to extract advantages from an elaborated member value system, which relies on the traditional cooperative beliefs. Similar to the focus on CSR by traditional shareholder-based companies, working on the basis of cooperative responsibility can increase the long-term economic stability (Johnson 1971; Rössl 2010). However, as illustrated earlier, not all activities creating cooperative value are benefitting the members themselves. Consequently, several authors (Ringle 2016; Rössl 2010) point out that those organisations still need to remain member-focused. According to the definition of modern cooperatives, the member is still the main client, owner and stakeholder in the cooperative system. Therefore, this paper argues that the communication of cooperative activities is a central factor of success. The existing literature delivers a range of benefits for companies which report about their member-orientation and cooperative responsibilities. Importantly, communicating the cooperative values vis-à-vis both the inside and outside fosters the development of a cooperative identity (Jusilla et al. 2012; Lorenzi et al. 2016). Raiffeisen, the Rochdale Society, Schulze-Delitzsch and other pioneers encouraged cooperatives to improve the understanding of their corporate identity itself and to advertise the cooperative way of doing business as well as democratic principles in general. As open communication can improve the public perception, create trust and thus ensure economic sustainability (Lorenzi et al. 2016; Reynolds 2013), the reporting process is as crucial as the engagement itself. Social responsibility exists in the corporate as well as the cooperative setting. Success depends on the right balance between acknowledging, assuming and reporting the respective responsibilities.

Cooperative banks operate in an environment which includes a variety of internal and external factors of influence. It is essential to understand that they need to find the right balance between the orientation towards the members, their governance structure and their specific principles establishing obligations vis-à-vis the local community and the whole society. The multi-layered political and economic environment complicates this process. Despite the substantial differences, most cooperative and corporate shareholder-based enterprises in the European banking sector are subject to the same regulations. As cooperatives have a unique character, this situation might not be satisfying nor conducive to these organisations. Differentiation might be required. The growth of cooperative banks during and after big crises proves that they apply a more socially responsible way on the basis of their unique governance structures and cultural foundations. Thus, the direction of the post-crisis regulation might not be adequate for cooperatives. The historical analysis illustrates that, besides political crises, intensified competition, increased costs and commercialisation have caused cooperatives to partially depart from their original governance structures. It is therefore upon the regulators to rethink the handling with regard to cooperative organisations in order to create structures that foster the cooperative idea. Conducting long-term, comparative studies regarding the effects of those circumstances on the cooperative and non-cooperative actors could definitely contribute to this restructuring.

3 Conclusion

Modern cooperatives are insightful examples of socially responsible businesses. The analysis demonstrates that their present governance structure is still influenced by the promotional mission and principles which were propagated by forward thinkers like Owen, Raiffeisen, Schulze-Delitzsch and the workers of the Rochdale Society. The historical perspective reveals that the unique character of cooperatives has always been shaped by economic, political and social factors. The revival of cooperative values, such as democracy, solidarity and self-help, during and after the big crisis from 2007 until 2008 has encouraged cooperative organisations to return to their inspirational roots. Like the notion of CSR, the cooperative sphere is characterised by a variety of academic and practical approaches towards cooperative responsibilities. Cooperative banks in Europe are established upon the traditional cooperative principles and try to translate this into a modern management strategy by following the pillars of the member value concept. This theory illustrates that the focus of the value creation is on the members who benefit due to their double role as customers and owners. At the same time cooperatives fulfil their responsibilities vis-à-vis the local community and society by creating ideational member value. This paper argues that all these activities can be linked back to the founding principles of the nineteenth century. Thus, the notion of cooperative social responsibility is the aggregate of the cooperative principles, their unique governance structure and their variety of value activities.

It needs adequate interpretation from the respective management to turn this set-up into a competitive advantage. The author concludes that cooperative banks must find the right balance between the variety of stakeholder interests, which are not identical to traditional corporations due to the exceptional organisational structure. It is crucial for those actors to combine their specific business knowledge with their social responsibility. In this sense, cooperatives can increase the effectiveness of their ideational value creation by exploiting the possibilities of social engagement within their original business field. Nevertheless, they must not forget that the members are their most important stakeholders. The cooperative way of doing business for the benefit of the members and the local community is at the core of their DNA. If they maintain and strengthen this competitive advantage, cooperatives will continue to be examples of a democratic, solidary and socially responsible way of cooperation. Cooperative banks can be considered role models for a holistic approach on social responsibilities.

Although this paper delivers a variety of insights, it still has some limitations. First and foremost, the author applies theoretic concepts and conducts explorative case illustrations. Against this, the findings must be supported by specified practical studies differentiating on basis of the circumstances of the respective bank. Especially the outlines of the managerial approach require proofs from contemporary case studies. Secondly, the present research work focuses on European cooperative banks. The member value approach is a concept which finds its inspirational roots in the Western European discourse. As illustrated earlier, there is a multiplicity of views on the way modern cooperative banks should work. The study did not focus on cooperative banks outside Europe. Cooperative banking organisations in the United States of America, for example, need special evaluation as the market is characterised by a variety of hybrid banks which unify cooperative and commercial elements. The author encourages fellow researchers to conduct further studies regarding the social responsibilities of cooperative banks in developing and developed markets outside Europe. A further limitation of the study is that it relies on theories and examples from the financial sector. However, every sector of cooperative business has its own impact on the governance mechanisms. Modern consumer cooperatives or building societies, for instance, might have similar roots but a different approach regarding their social responsibilities. Therefore, the author encourages the research community to further elaborate the unique character of the cooperative social responsibility and governance with close reference to the particular theoretical and practical circumstances. The author would welcome a converging discourse regarding cooperative and corporate approaches which is characterised by large diversity of examinations and spillover effects.

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Managing Intangibles and Improving Governance Through the Theory of Complexity

Piero Giammarco and Cecilia Casalegno

1 Introduction

Almost everyone agrees that the value of a company depends on its intangible assets and their tangible counterparts. Centuries of experience in handling material elements have provided us the technical skills, correct approach, and right tools to manage, evaluate, and work with tangible assets. However, the same cannot be said for intangible goods.

The existence of a common link between the enterprise value of tangible and intangible assets has meant that research on the latter has focused on the same methodologies of management and evaluation, without considering their very different nature. Tangible goods, in fact, can be integrated to complicated systems; through a study of their decomposition into more elementary parts, it is possible to understand a larger system made up by tangible goods (for example, a clock).

This type of approach has ancient origins. Galileo Galilei and René Descartes proposed using such an approach, which is now at the basis of what is called classical science (Morin 2001). As far as intangible goods are concerned, a similar approach based on the study of their decomposition into smaller elements to understand difficult concepts, does not have the desired effect. When it comes to understanding such complex behaviours, the whole system has to be considered in its entirety, including its entities and relationships that connect them (as in the case of a society).

Intangible assets are characterised by a multielement structure; the elements, in turn, are connected to each other by a dense network of relationships. Stimulation of this network at any point can trigger an impact on the whole system through a feedback process, and the effects can be far-reaching for the system. This feature of

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intangible assets links them to the elements described in the theory of complexity (Morin 2011). This last, in consideration of the fact that its object of study is different from the one of Classical Science, does not arise as an alternative, but defines proprietary environments that cannot be integrated for the two approaches and thus presents warnings on the dangers concerning the use of a type of study approach in an incorrect setting.

The blurred borders between complex systems and non-complex (or complicated) systems is one of the problems that make the management of assets very difficult. As mentioned above, particular tools and logic systems can help in one case, but in other scenarios, they may be not only useless, but even harmful, because they can also lead result in contexts worse than the initial ones. These situations are called 'hypersolutions' by Paul Watzlawick (1998). Therefore, classical science can explain what is complicated, but, as stated above, not complex systems.

This points to the need for equipping oneself with tools to identify when and whether one is in the presence of a complicated or complex system. Our aim is not to debate which is correct, but merely emphasise that it is necessary to consider the different elements that need to be faced and their dynamics before deciding to adopt a way of acting aprioristically.

Therefore, it is necessary to define, first, the concept of a complex system. A system is called complex when:

- It is composed of several parts or elements that are individually identifiable and more or less complex themselves;
- The objects which comprise it are connected by relationships or interactions between them (be it economic, physical, social, etc.) through a multitude of non-linear local interactions;
- It has an open or semi-open structure;
- Its components have a relational network structure of their own;
- It is a specific entity with well-defined behaviours and functions.

Local interactions refer to the conditioning effect that each element has on the contiguous elements. Non-linearity refers to the fact that the verse of conditioning does not necessarily have a rectilinear development. A system is called open if it interacts with the environment and, through this interaction, exchanges energy, information, and matter. It is a semi-open (or semi-closed) system when a complex system prioritises the integrity of its internal structures, keeping a check on the incoming flows in the aforementioned exchanges (De Toni and Comello 2005).

The opening and exchange with the surrounding environment, which is also composed of complex elements, brings with it disturbance and disorder that can alter the equilibrium of the system. This system identifies, from among these elements, those that can be integrated and that can enhance its connections for its survival.

The present research is based on the hypothesis that the system of intangible assets is similar to a complex, semi-open system, and therefore, it must be studied and managed using the theory of complexity. The research question (RQ) this paper/chapter wants to answer to is the following: which is, inside the theory of complexity, the most effective and comprehensive intangibles management? By analyzing the literature and by crossing it to a three years qualitative research conducted on a group of 47 companies in the Italian North-West (2012–2015), it has been possible to find out the model through which, by exploiting the bases of the theory of complexity, managers should handle intangibles. The typical features of this approach constitute the conceptual basis for the construction of our model, which can aid in the management of intangible business assets. This model, which considers non-linear connections and feedback, has been used in a research to test its effective operability.

2 Theory of Complexity and Intangibles

Before to analyze the literature concerning the theory of complexity and its links to the intangibles, it is useful to indicate the reason why it has been chosen as field in which to contextualize this research. We are talking about a theory of complexity was conceptualised in a culturally diverse environment; physicists, biologists, ethologists, sociologists, doctors, psychologists, and economists have worked on its definition and progressive structuring (McElroy 2000; Mason 2007). This transdisciplinary approach has led to the immediate condonement of a systemic view regarding the theory. The factor that has united all the scientists who have contributed to the theory's development is the inability of the classical analysis system to explain some phenomena (Klein 1984).

Consolidated methodologies and principles such as decomposition, reduction, and inductive–deductive identity were abandoned to endorse a completely different approach.

There are numerous differences between the two systems that motivate the different operational approach. The most important ones are highlighted in the Table 1 (Lazzarini et al. 2014):

The acceptance of the relationship network between all elements drove scientists to focus not only on the nodes of the network, but also on the links that held it together and then the messages that were conveyed through these links. One of the basic elements of the theory is the concept of non-linear local interactions, which refers to the property of these systems to cause a diffused effect on the network, thus triggering a subsequent series of other non-linear local interactions (Figs. 1 and 2).

A process such as this can, starting from a single impulse, trigger a series of effects on the entire network. These effects are conveyed by a founding concept: the relationship between actions and feedback that links the different elements (or nodes) of the system. This concept states that each interaction between two elements involves an effect of one on the other (the action) and, in reverse, an effect of the latter on the former (the feedback) (Cantino et al. 2016).

Such feedback can take positive or negative values (the terms 'positive' and 'negative' signify amplifying or inhibiting effects), conditioning the element that triggered the action in terms of amplification or inhibition, and leading to subsequent

Table 1 Comparison of complicated and complex systems

Complicated systems	Complex systems
• Characterised by linear interactions and simple causality • Composed of (numerous) simple elements • Fragile • The elements that compose them maintain their identity • They adapt to a static environment • Relationships between elements are determined by the structure • System balance • Closed system • Extreme cases are irrelevant and the media is important • Order	• Characterised by non-linear local interactions and mutual causality • Composed of complex elements • Robust • The elements that compose them change their identity • Maintain interactions in a dynamic environment • There is a continuous interaction between the structure and relationships between elements • No system balance • Open system • Extreme cases are important • Disorder

Source: Authors' personal work

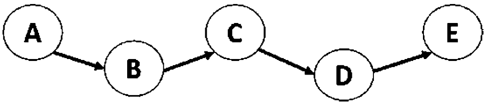

Fig. 1 Linear local interactions (Source: Authors' personal work)

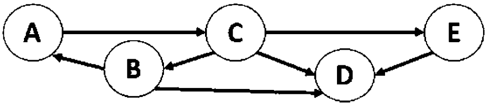

Fig. 2 Non-linear local interactions (Source: Authors' personal work)

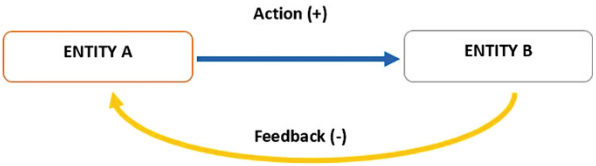

Fig. 3 Negative feedback (Source: Authors' personal work)

actions on all elements connected to the two initial elements in a continuous conditioning process (Fig. 3).

Negative feedback is when the first element stimulates a second one, which, in turn, inhibits the first one. This process brings the systems to equilibrium, where they can be stabilised by oscillating around the point of equilibrium (dynamic equilibrium). An example of a system governed by negative feedback is the relationship between predators and prey (Fig. 4).

Positive feedback, on the other hand, leads a component to stimulate a second component which, in turn, triggers a stimulating effect on the previous one. In such a process, if there is no negative feedback, the system can converge and move towards an explosion. Once triggered, this is a powerful and difficult phenomenon to interrupt, and it can keep systems away from reaching equilibrium.

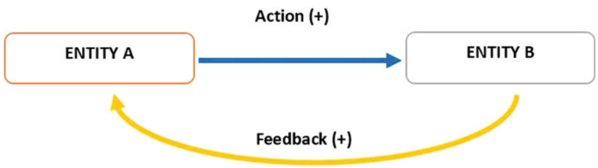

Fig. 4 Positive feedback (Source: Authors' personal work)

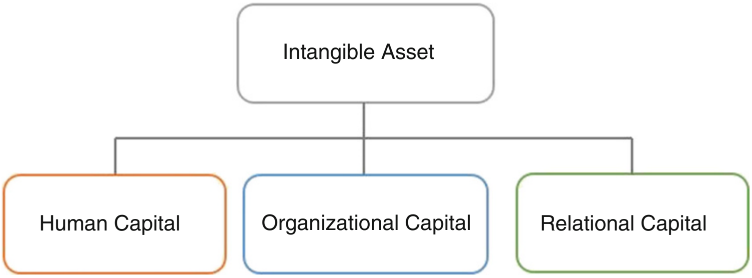

Fig. 5 Elements of intangible corporate assets (Source: Authors' personal work)

This continuous process allows the formation of so-called emerging phenomena, or surprising and unpredictable events, that transcend the limits of the current system elements, thus causing substantial unpredictability of complex systems.

Such emerging phenomena is a feature of complex systems, and depend on the interaction between individual elements. It determines the global behaviour of the system and assigns them properties that may be completely unrelated to the individual elements (Gandolfi 1999).

These features make complex systems more resistant to perturbations than systems that are less or not complex, and if these latter systems cannot adapt and can risk a block, the former ones will tend to evolve through the search for a new equilibrium. This means complex systems are characterised by strong resilience.

The system of intangible corporate assets is often represented as composed of three elements—human capital, organisational capital, and relational capital—but graphic simplification indicates a large number of elements in each asset and an even broader network of relationships among them, which also connects the three logical groups which comprise them (Fig. 5).

Intangible assets demonstrate all the typical features of complex systems:

- Their elements are generally linked through non-linear local interactions; the actions that affect an element can trigger some feedback on the element that caused the action in the first place, as well as actions on other elements of the same asset and on those of the other two assets.
- The three intangible assets are complex objects and, in turn, are composed of other complex objects.
- They have strong resilience (or robustness). For instance, they can absorb internal stimuli and external disturbances without being damaged because they are flexible.

- They are adaptive and respond to environmental changes and evolve when the elements that compose them are altered.
- They are placed in a dynamic environment that is also a complex system.
- The relationships between elements have an effect on the elements themselves.
- The system, although tending towards balance (with the exception of continuous positive feedback), never reaches it.
- All three intangible assets are semi-open systems that can condition each other and are simultaneously conditioned by the external environment.
- Knowledge of extreme cases facilitates awareness of different possibilities of evolution/involution.
- They are characterised by a certain level of disorder.

Thus, as the complexity of an organisation increases, the capacity to bear disorder and, consequently, the expressed vitality, increases. This happens owing to a more distributed decision-making mechanism that allows the elements of the system to react quickly to contingent or sudden problems without going through a central hierarchy.

3 A Model to Manage Intangibles

The goal of managing complexity must not make us expect a stratagem that allows us to foresee the unexpected or know the future (Rosenhead 1998). In fact, this would be paradoxical because it would give rise to a previously mentioned contradiction: the behaviour of a complex system cannot be predictable even when we know precisely the elements and laws of interaction that constitute it.

The proposed model does not set the objective of attributing the relations between the elements in a renewed reductionist optic to a linear cause–effect dynamic, but aims to assist in the management of a complex system by retaining focus on the entire structure while hypothesising interventions (and therefore actions) on the entities that compose it. Thus, we avoid the risky tendency (at least in terms of complex systems) to focus concentration on the specific object of the intervention.

The purposes of this model are multiple:

- To detect the network of connections between the elements of a complex system, and
- To build scenarios on a time basis founded on the various planned actions.

Such a model cannot be used while ignoring the identification and analysis of some key elements of reality; the weights and links found in one reality may differ from those in another in very important ways (Pena 2002). For this reason, it is necessary that researchers strengthen the understanding, through the study of reality and interviews with privileged informants, of the basic elements of the system under study, such as:

- The history of the reality analysed;
- The dynamics during particular events;

Fig. 6 Human capital and its variables (Source: Authors' personal work)

- The current situation and its dynamics;
- Identification of the various elements on which the system is based;
- Identification of external elements and systems;
- The typology of relationships/values connecting the entities (the reference framework);
- The weights of actions/feedback of the various elements; and
- The effects of noise from external elements and systems.

The list makes it clear that no instrument can be applied in all realities, and situational calibration and adaptation are necessary from time to time (Lazzarini et al. 2015). Furthermore, it is important to clear our proposed model's field of use. The objective is not to measure the value of intangibles, but to help policymakers manage them. The intangible assets, as mentioned, can be an incredible accelerator of change, but also an unsurpassable obstacle (Lazzarini et al. 2014).

An essential factor for achieving the aims of the model above lies in identifying the elements of the intangibles on which the system is supported and the declination of the same in the various subsystems. The various subsystems can be considered the variables of the system.The model, aimed at understanding the dynamics that exist within the complex intangible assets, is initially divided into components that have been widely accepted in the literature:

- Human capital
- Organisational capital
- Relational capital

The study of the dynamics connecting the three assets, however, needs to limit the analysis to the configuration of a single asset, in order to identify the structure of the present subsystems and their degree of mutual influence. Therefore, while using a discrete simplification approach, we identify a set of variables that can be linked to the various assets (Figs. 6, 7, and 8).

These variables can be considered complex subsystems of the single asset, but their availability and measurement are still difficult. Each of them is the result of the mutual interaction between a series of elements in the company, linked to the variables and characterised by high traceability. These elements can be observed through

Fig. 7 Organisational capital and its variables (Source: Authors' personal work)

Fig. 8 Relational capital and its variables (Source: Authors' personal work)

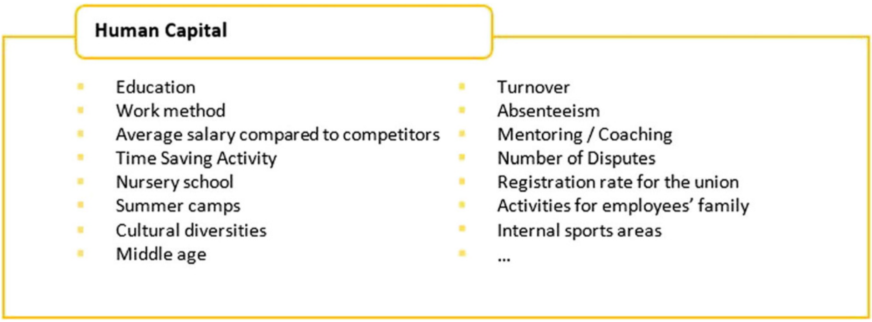

Fig. 9 The human capital asset and its measurable variables (Source: Authors' personal work)

the study of the organisation's history; analysis of balance sheets, image, and reputation; and administration of questionnaires to selected company employees.

Measurable elements should not be considered universal; they change from one company to another as they are a function of, for example, the dimension, history, contingent situation, and political and territorial environment in which the organisation is situated. An identification process targeting them should be carried out from time to time to adapt the system to the business reality, as in the example shown in Fig. 9 and in the following sections (Figs. 10 and 11).

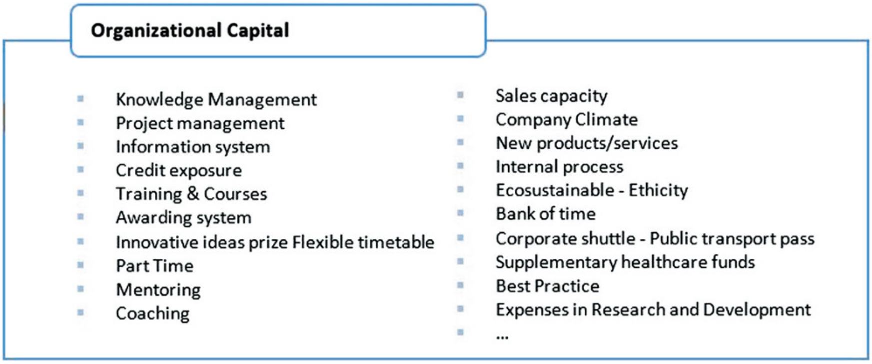

Fig. 10 The organisational capital asset and its measurable variables

Fig. 11 The relational capital asset and its measurable variables (Source: Authors' personal work)

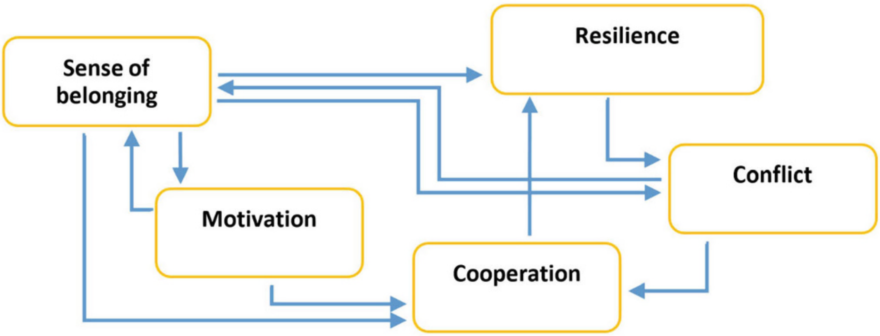

Fig. 12 Internal dynamics of the human resources asset (Source: Authors' personal work)

Once the measurable variables have been identified, it is necessary to weigh their contribution to the variables. This can be determined by concentrating the investigation on the dynamics within the asset. For simplicity, only the significant feedback dynamics will be shown, for example, in the case of human resources (Fig. 12).

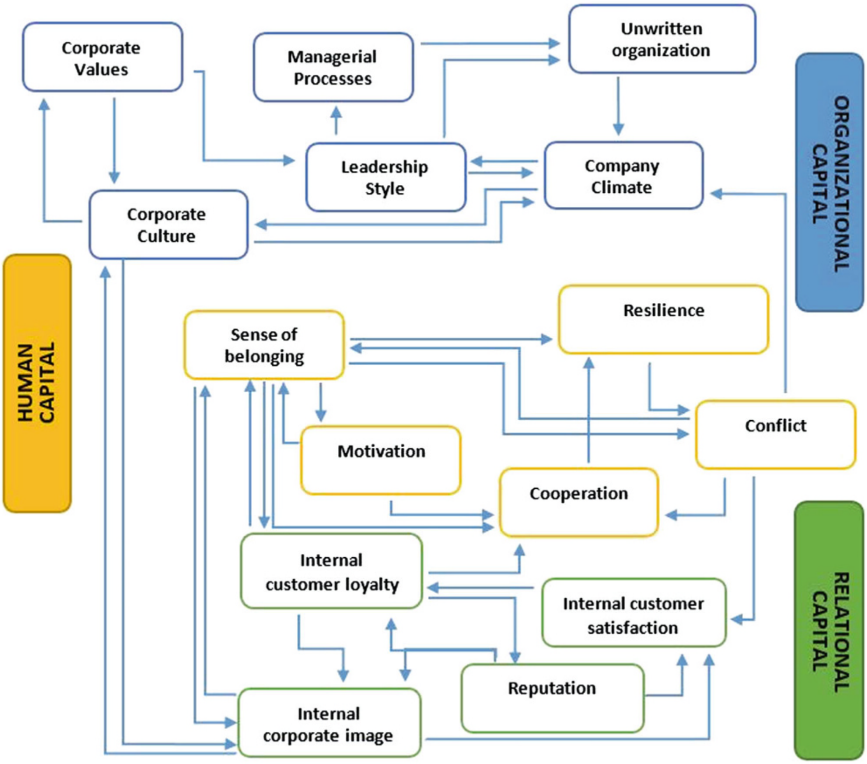

Fig. 13 Interaction among different assets (Source: Authors' personal work)

Then, the within-asset relationships are extended to between assets, and thus, it is necessary to note how these can affect the assets in their entirety. Extending the example above (Fig. 13).

Finally, the dynamics are enriched with the verse (positive or negative), feedback relationships, and influence weight; this highlights the changes in the subsystems and in the assets following interventions on them.

However, organisations and complex systems, in general, are not closed. Therefore, it is necessary to consider external perturbations in the model, which affect the assets, their subsystems, the dynamics triggered, and the possible 'vicious circles' that can be created (Fig. 14).

In an environment like this, it is evident how actions or occurrences reverberate over the entire aggregate of assets (Cravera 2008). Therefore, a similar model retaining the attention on the whole structure focuses on the coherence of the interventions (be they original or corrective).

Such a situation ensures a collective intelligence, so that the entire structure can respond quickly. It should also be able to understand changes in variables and implement actions promptly and effectively.

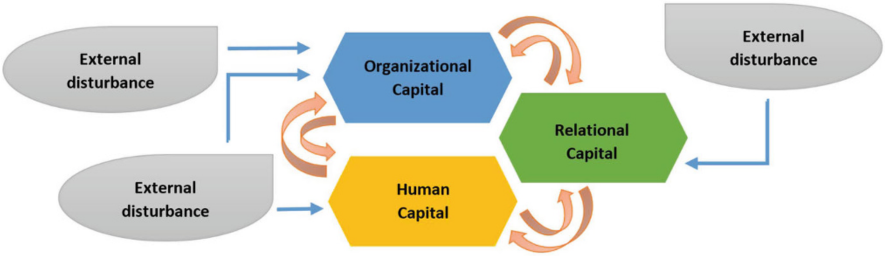

Fig. 14 Dynamics among assets with external perturbations (Source: Authors' personal work)

4 Research Methodology

A qualitative research was conducted on a group of 47 companies in Northwest Italy from 2012 to 2015, with the objective of testing corporate welfare actions to correlate them with the health level of the intangible assets of the companies involved (Lazzarini et al. 2015). It was, therefore, possible to test the model to prove its operability and its ability to propose scenarios that facilitate policy adoption.

The 47 companies involved were divided into three groups as follows:

- 16 companies that have less than 100 employees
- 9 companies that have 100–500 employees
- 22 companies that have more than 550 employees

These companies belong to different product sectors and have a core business oriented to the production of goods or services. To test the model, each company, as an additional feature, was required to have passed a restructuring event or undergone a moment of important change inside the company itself. This last element was considered important because it would generate many reactions and useful information and help calibrate the model weights.

The sample was chosen with subdivisions that enable acquiring information on the management of corporate welfare in relation to the various structures of the companies; although not very large, it was, however, considered representative thanks to its composition. Data was collected through questionnaires and interviews with management members of the company.

Data collected during the research allowed for the comparison of the welfare actions carried out by many companies of different sizes and belonging to different sectors (both producers of goods and services). This, in turn, made it possible to compare the effect on the respective intangible assets by identifying a series of items.

The research was considered an excellent test because, through the welfare actions, a significant amount of data emerged that can condition intangible assets. To ensure the anonymity of the investigated companies it was necessary to accept a more limited analysis of relational capital because it was not possible to verify the impacts on external stakeholders on the position and behaviour of companies, but the informative patrimony allowed the researchers to perform a complete test.

The process, from the data obtained from the questionnaires and the interviews up to the decision support model, requires the description of all the different steps involved, which are important for a better understanding of the complexity management approach.

The companies were divided into groups, based on their dimension, in consideration of the fact that the size of a structure can also have a significant influence on certain features such as, expectations, communication, reaction, and involvement; therefore, this had a reflection on the weights associated with the items in the different situations.

The link between an item and an intangible asset is not direct in many cases, but is necessary to identify a relationship between two elements to hypothesise which and how many other elements can be modified.

The passage from the items to the intangible assets was therefore carried out through a series of elements constituting the intangibles themselves to which the items were linked. But the process was not yet concluded as complex systems are different from complicated systems because of the increased presence of several local and non-linear multiple interactions. This involves, as complex entities, both the intangible assets and the intermediate elements that constitute them.

Considering these multiple relationships, it is possible to hypothesise an indicative level for the single intangibles and a projection of the same in the future (in equal terms, and, also, by introducing some perturbations provided to identify in advance the effects on the system and to decline them appropriately). The companies are located within a society and a territory and, therefore, the many messages and feedback exchanged affect elements within the organisation, causing changes.

The company is not considered a passive element towards the territory and society, but an active member operating in the environment, with which it exchanges messages.

The concept of stakeholder widens considerably, including company stakeholders, from an economic, social, political, institutional, cultural, and mediatic point of view; this, according to the autopoietic approach, allows the system, previously considered closed, to select and cultivate useful relationships to increase the value of their intangibles and, ultimately, the value of the company.

These words can be quite abstract without exploring the items and the intermediate elements and their effects on intangible assets. Therefore, it is necessary to examine how the items, derived from the interviews discussed here, can be connected to these elements (or intermediate variables) and how they can condition them.The figures below show which items contribute to the intermediate variables grouped as human capital, organisational capital, and relational capital.

An analysis of Figs. 15, 16, and 17 reveals one of the peculiarities of complexity: not only do the items have an effect on the intermediate variables, but also the same intermediate variables (the intermediate variables that influence other intermediate variables are marked in bold), regardless of the asset in which they are placed, can affect each other.

Fig. 15 Human capital items and intermediate variables (Source: Authors' personal work)

5 Results and Discussion

5.1 Complexity Analysis Applied to Present Time

The data obtained allowed a series of analyses, from the level of individual answers provided to the overall questionnaires and interviews.

The analysis of the complexity, together with the weighting, could explain why companies that initially reflect a type of situation (based only on the detection of the items) may later depict a significantly different situation (following an analysis with a complex approach), as shown in Figs. 18 and 19 (The letters 'P', 'M', and 'G', denoting the size of the company, correspond to "Small", "Medium" and "Large", respectively).

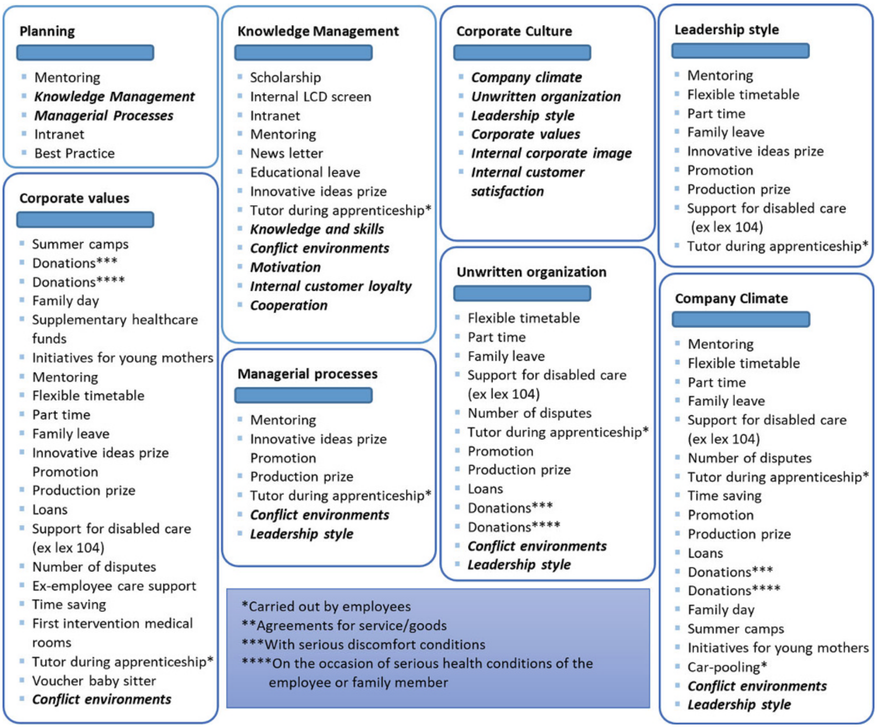

Fig. 16 Organisational capital items and intermediate variables (Source: Authors' personal work)

The first graph shows the average of positive responses for each company, while the second represents the intangibles (understood as the sum of the three assets) as a result of the weighting. The following factors guided the allocation of weights:

- The nature of the items, which were subdivided into items derived from elements, defined by law, defined by contracts, or discretionary;
- The type of intangible assets referred to by the items; and
- The dimensions of the company.

Thus, for example, if an item referring to an element regulated by law had shown a non-positive value, the weight associated to it would have been negative too, but, due to a greater perceived unjustifiability in the case of larger companies, the weighted value would have been further aggravated. Moreover, all the items condition the different assets differently, and the weight incorporates these different values. The difference in contributions of the items to the respective assets is related to the relevance and importance that the concept captured by the item is assigned in the individual assets.

The reason for attributing both positive and negative values to weights is that it is important to detect the state of intangible capital while trying to identify the actual situation, and to dismiss the idea that the value of an intangible not considered, or

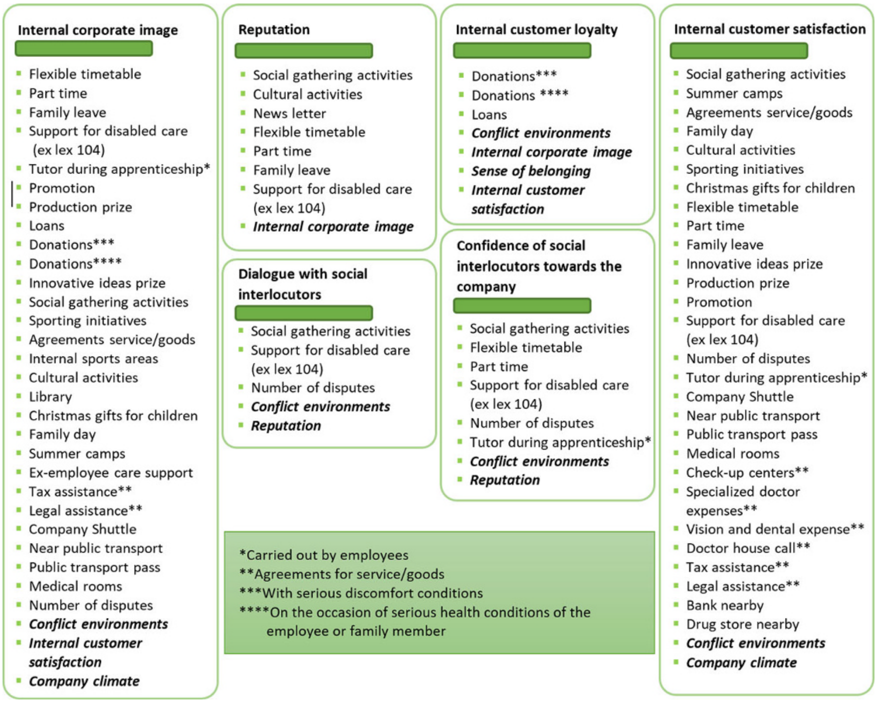

Fig. 17 Item and intermediate variables relational capital (Source: Authors' personal work)

Fig. 18 Comparison of companies based on questionnaire items (Source: Authors' personal work)

Fig. 19 Comparison of companies based on weighted items (Source: Authors' personal work)

	G01	G02	G03	G04	G05	G06	G07	G08	G09	G10	G11	G12	G13	G14	G15	G16	G17	G18	G19	G20	G21	G22
CU	-32.6	14.3	29.1	-27.1	14.3	16.2	-1.9	28.9	7.6	14.1	-8.9	49.6	26	25.4	9.1	25.6	22.7	4.4	14.7	-1	-10	-4.7
CO	-31.2	20.3	23.2	-23.8	9.5	11.2	-4.7	28.5	10.3	25.7	-5.8	48.5	24.4	30.9	15.3	23.4	22.2	0.4	12.1	9.4	-11.3	2.8
CR	-30.2	27.5	38.4	-19.1	22.6	21.2	6.1	36.5	12.5	20.5	-11.3	56	26	35.8	18.9	39.4	33.7	12.3	21.7	6.4	-8.2	1.9

Fig. 20 Level of intangible assets of large companies (Source: Authors' personal work)

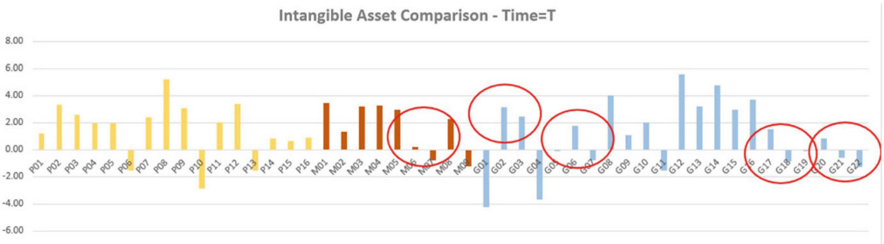

Fig. 21 Comparison of companies based on intangible goods (Source: Authors' personal work)

treated only on some aspects, is null or close to zero. Negative values allows us to understand the gap to be filled and to focus on corrective actions, coherence of the approach, transparency of actions, and time needed to correct the situation. It is noteworthy how the data on to the single asset make it possible to understand which aspects are to be privileged considering the actions aimed at improving the intangible dimension.

For this purpose, as an example, below is a graph showing the effect of the items weighted on the individual assets (this is shown for each examined large company) (Fig. 20).

From this graph, we can determine the contribution of each asset to the global value. It is interesting to note how particular situations emerge with assets that display opposite movement directions within companies, a sign of actions that are not entirely consistent. The examples of G22, G07, and G20 help understand better the results of the graph, and allow us to evaluate which actions, and in which areas, are needed to change the situation.

The relationships between the different variables change the scenario previously observed, as shown in Fig. 21.

The graph above might seem quite similar to the graph in Fig. 19, but the circled points show significant differences between the two approaches.

The situation has definitely changed, and although the companies which are "best in class" do not display substantial changes, some situations show a decisively attenuated (or worse) condition. Meanwhile, even those business realities that, after a weighted analysis, were at a positive level, eventually showed a trend inversion (e.g. M07, G18, and G19).

5.2 *Complexity Approach for Forecasting Analysis*

A business analysis through a complex approach allows the determination of scenarios with forecast value, in addition to ensuring greater knowledge of the relations in the company. Such a result is possible when the complex model has undergone various tests for consistency and reliability. At this point, it is possible to consider variations and observe how the model can help hypothesise the changes that may occur over time through the modification of the intermediate variables, and, therefore, of the different assets. The effects of the variations will be observed along the paths of the relationships identified.

Time is one of the crucial variables in the analysis, and, like other variables, it is also conditioned by dimensions. In a large company, information spreads slower, resistance to change is greater, common sentiments are more fragmented, and the assumption of responsibility is more vague, than in a small company. All these elements can slow down the reactivity of the whole system. It follows that, depending on the company's size, there will be different growth (or degrowth) rates at the same time: slower for large companies and faster for small ones.

Figure 22 shows the extent of the phenomenon described above. Assuming that all actions and feedback remain identical between periods, small companies show higher growth and decrease rates than large companies do. In fact, the company P08, which, at the time N, was ranked second among the "best in class", overtook G12 at the time N+1 and was positioned in the first place; meanwhile, in the opposite direction, P10 reached the level of G01.

Some examples may clarify the details as well as the usefulness of predictive analysis (or forecast analysis) supported by the theory of complexity.

Our analysis allows, through the model built on the items derived from their answers, the study of future theoretical scenarios, starting from individual actions on different items (also known as a "what-if analysis").

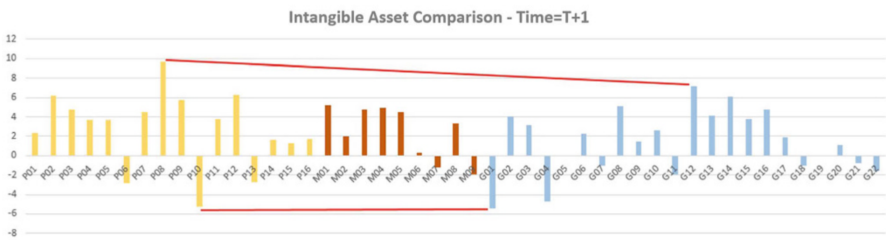

Fig. 22 Comparison of companies based on intangible goods at time N+1 (Source: Authors' personal work)

6 Conclusions, Implications, and Further Research

Companies are complex entities, composed of innumerable elements. Hundreds of relationships exist among these elements: after being founded, they grow, evolve, and transform every day through mutations, even within the company itself (Rosenhead 1998; McElroy 2000; Mason 2007; Morin 2011). These relationships are the basis of intangible assets and determine their value.

These elements cannot be studied without a careful analysis of reality. For this reason, it is necessary to collect as much data as possible through various methods and with appropriate tools, such as analysis of the company's history, interviews, questionnaires, reputation studies, climate analysis, and others.

In order to answer to the RQ, the model, proposed after a survey of companies, facilitates the creation of a scheme that could enhance their knowledge of their present situation, past work, and possible consequences of future actions. The actions of companies, constrained by possible contingencies of their own and the constant urgency demanded by the market, leads to them facing the difficult situation of carrying out internal interventions without being able to consider the various variables involved (Giammarco et al. 2015). This increases their risk of making an error that can nullify the most strenuous efforts: the inconsistency of their work.

In this sense, the model is a management tool that, as in the famous chart designed by Sveiby in 2010 (Osinski et al. 2017), classifies different models of intangibles revised for the present analysis, and it could position itself on the left quadrants, as it would be characterised by a non-monetary component and a decidedly qualitative approach (Fig. 23).

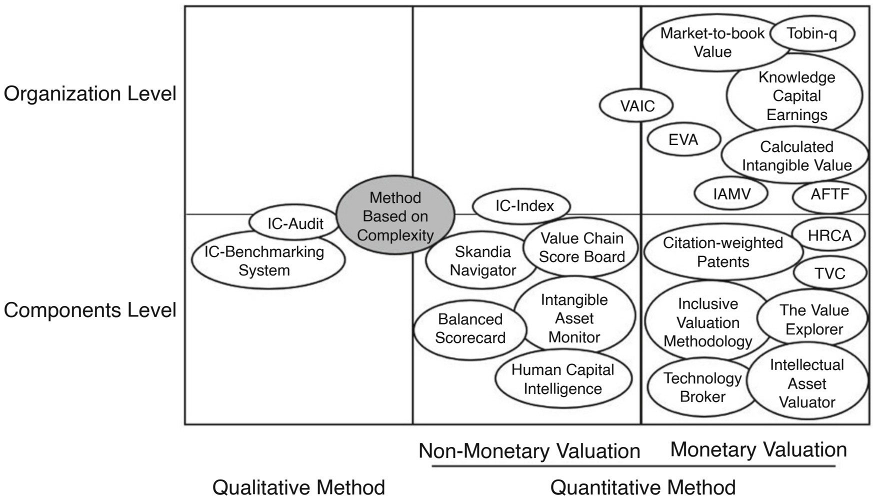

Fig. 23 Intangible asset measuring models, seen by the authors for the present research (Source: Figure created by Sveiby (2010) but modified for this research)

In addition to showing how such an approach can help in the assessment of intangibles, our analysis has also demonstrated the applicability of the model in all environments, be it profit, public, or non-profit companies.

The findings open up interesting avenues for future researches. In fact, the peculiarity of this research, motivated by the need for this required confidentiality, did not allow us to fully investigate the relational capital asset. Moreover, the complex approach can be used for analysis of companies' individual assets, both for in-depth understanding as well as to expand their scope to the external world and the disturbances originating in it. So far, the complexity approach has been used to analyse the actions and behaviours within the organisation itself, but all companies are located in an environment which can condition them (to a greater extent) and which they can influence too (to a lesser extent). The intangibles and the intermediate variables cannot escape the relationships that originate in the external world and which, from the company, move outwards.

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The study of the Theory of Complexity allowed him to highlight the limits of organizational management, underlining the need to overcome the value of the "numbers" present in a balance sheet and specifying the limits linked to their measurement. The work experience has allowed him a greater knowledge and a deepening of the business realities, focusing the attention on the management strategies. The work carried out in both the theoretical and applicative fields allowed him to achieve the certification as a trainer. He has continued over the years to deal with intangible assets as part of the research team led by prof. Lazzarini (University of Turin) with field surveys, and, through debates within the team and with entrepreneurs and personnel managers, was able to broaden his reflections and knowledge on the subject of intangibles as complex elements.

He wrote several publications on intangible assets and Theory of Complexity, he taught in seminars and courses at the University of Economics of Turin. He lives in Turin with his wife, Anna, and their two daughters.

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Part III
CSR Reporting

Influence of Firm Size on the Environmental Disclosure and Performance of the Listed Companies on the Stock Exchange of Thailand

Dararat Phoprachak and Theenida Buntornwon

1 Introduction

A large proportion of directors' boards do not emphasize the benefits of environmental/social capital responsibility and good corporate governance (ESG). They tend to focus more on short-term performance and benefits, as well as cost reduction. There is also a group of directors who are against the activities of ESG as they believe it increases costs while reducing both profit and competitiveness. Nevertheless, stakeholders are increasingly concerned about the social and environmental responsibilities of business. Today, enterprises that are environmental friendly have social responsibility and good corporate governance are recognized and respected by financial markets and investors, resulting in a paradigm shift (Murray et al. 2006). Stakeholders expect that businesses will take a socially and environmentally friendly approach to their products and production processes (Jamil et al. 2015).

Global warming and other environmental issues are causing concern in Thailand, as well as in many countries across the globe. The expansion of the economy (both in the agricultural and industrial spheres) and the advancement of technology (Jalaludin et al. 2011) cause fluctuations instability in terms of temperature. This is similar to the context of Thailand, where problems including: air and water pollution; the accumulation of dust and waste; and, ultimately problems such as flooding have been faced in recent decades. These pressures damage the entire nation. However, the ninth and tenth 'National Economic and Social Development Plan' continue to advocate the development and mitigation of environmental issues, as well as and maximizing the use of natural resources. Despite this, in practice, the business

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B. Díaz Díaz et al. (eds.), *Responsible Business in a Changing World*, CSR, Sustainability, Ethics & Governance, https://doi.org/10.1007/978-3-030-36970-5_9

viability has been found to be less among firms doing not pay enough attention to the implementation of CSR activities.

The government aims to increase concern and responsible behavior among businesses by enforcing the rules, regulations and implementation plans that highlight the importance of these issues, especially in the industrial sectors. The adoption of social and environmental responsibility among firms can evidently improve their performance. For example, the study conducted by Masanet-Llodra (2006) found that this increases employee motivation, tax benefits and cost reductions while reducing the use of machinery in the production process. This results in improvements both in terms of the quantity and quality of products, as well as increasing sales as a result of an enhanced corporate image. Similar to governmental institutions, the stock exchange of Thailand has acknowledged these pressures and encouraged businesses listed on the stock market of Thailand to disclose their environmental activities. The aim of this is to encourage good governance and sustainability while improving the quality of society and the environment through voluntary engagement with stakeholders (European Commission 2001). Srijunpetch (2017) found that the environmental activities of firms improve the living quality of the population, as well as the corporate image of firms listed on the stock exchange. The empirical study of Phoprachak (2017) reveals that the appropriate management of environmental factors among firms listed on the Thai stock exchange adds significant value.

Therefore, this research emphasizes the ongoing issue of social and environmental activities, as well as the disclosure of environmental reports of businesses listed on the Stock Exchange of Thailand. This information is to be viewed by the stakeholders and potential investors, and to evaluate external factors that will affect the business in the future. In Thailand, environmental reports can be disclosed alongside social responsibility reports, corporate governance reports, annual reports and suitability reports of the business. The voluntary disclosure of information results in the lack of clear criteria with regards to size or the process of reporting. It is therefore necessary to investigate which forms of environmental disclosure influences the performance of firms listed on the stock exchange of Thailand in order to encourage CSR activities/disclosure of reports and improve the efficiency of reporting.

2 Research Objective

The aim of this research is to investigate the relationship between environmental disclosure and financial performance at firms of different sizes listed on the stock exchange of Thailand in order to enhance their financial performance.

Table 1 Summary of the literature review on social and environmental disclosure

Year	Authors/title	Variables	Findings
1998	Adams, Hill and Roberts Corporate social reporting practices in Western Europe: Legitimating corporate behaviour	Large enterprises Small enterprises CSR disclosure	+ –
2002	Camffeman and Cooke An analysis of disclosure in the annual reports of UK and Dutch companies	Total assets Annual report disclosure	+
2008	Isack and Tan Transparent blue skies for the global airline industry: a study of key accounting disclosures	Sized index Accounting disclosure	+
2013	Christ and Burritt Environmental management accounting: The significance of contingent variables for adoption	Environmental management Sized of firm	+
2013	Delmas, Etzion and Nairn-Birch Triangulating environmental performance: What do cor porate social responsibility ratings really capture?	Total assets Environmental management	+
2014	Wu, Lin and Wu Corporate social responsibility and cost of capital: An empirical study of the Taiwan stock market	Return on assets	+
2014	Cheng, Ioannou and Serafeim Corporate social responsibility and access to finance	Liquidity CSR disclosure	+

3 Literature Review

Unsurprisingly, businesses pay more attention to environmental issues, attempting to involve their businesses in more environmental friendly activities to build their business's image. Both social and environmental responsibility can enhance the reputation of businesses, adding perceived value to their products and services (Bevan et al. 2004; Schaltegger and Burritt 2005; Weber 2008). This can create opportunities and increase the capacity for innovation (Porter and Kramer 2006; Stephenson 2009; Weber 2008) while mitigating the risk and pressure from both stakeholders and the wider community (Bevan et al. 2004; Schaltegger and Burritt 2005).

A number of studies have investigated the relationship between environmental performance and profitability. The studies reveal a positive correlation. However, the studies adopt different variables in their investigations based on the aims of the study. Table 1 summarizes the variables and findings of the study regarding the relationship between environmental disclosure and performance indicators.

The used of different variables reflects on unclear information on which information of environmental disclosures and the number of limited study that incorporate the sized of business indicates the missing gap in the effect of environmental disclosure on firm performance.

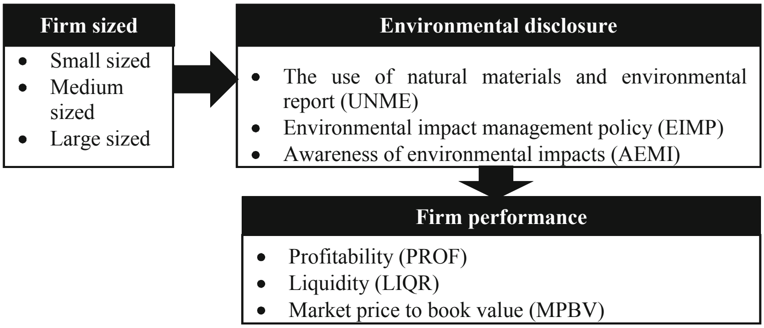

Fig. 1 Research framework

4 Research Framework

This study aims to investigate the relationship between environmental disclosure and financial performance in firms of different sizes listed on the stock exchange of Thailand. These hypotheses develop from the aims of this research:

H1: The size of the firm directly influences environmental disclosure.
H2: Environmental disclosure has a direct effect on the performance of firms.
H3: The size of the firm has an indirect effect on performance through environmental disclosure.

The framework includes the size of the company, environmental disclosure information and the performance of firms, as shown in Fig. 1.

The size of the company is classified by the total assets of the firm, in accordance with Adams et al. (1998), Christ and Burritt (2013) and Wu et al. (2014). The performance of firms is in line with the study of Hernádi (2012), Darnall and Edwards (2006) and Farouk et al. (2012). The environmental disclosure follows the recommendation of the Global Reporting Initiative (GRL), which is the international standard for the disclosure of reports (Global Reporting Initiatives 2011). The variables adopted in this study are summarized in Table 2.

5 Methodology

Sample

The sample of this study includes firms listed on the stock exchange of Thailand, regardless of their size. According to the stock exchange of Thailand (2017), there are 970 firms listed on the market. The 402 firms sampled in this study were determined by the literature on sampling size, in accordance with Yamane's (1973, p. 1088) sample calculation formula, which is as follows:

Table 2 The variables and measurements adopted in the study

Variables	Symbol	Types of variable	Measurement
Small-sized enterprise	SIZES	Observed variable	Total assets of firm
Medium-sized enterprise	SIZEM	Observed variable	Total assets of firm
Large-sized enterprise	SIZEL	Observed variable	Total assets of firm
Environmental disclosure	ENVD	Latent variable	Number of items disclosure
The use of natural materials and environmental report	UNME	Observed variable	Number of items disclosure
Environmental impact management policy	EIMP	Observed variable	Number of items disclosure
Awareness of environmental impacts	AEMI	Observed variable	Number of items disclosure
Violation of the law or environmental penalty	VLEP	Observed variable	Number of items disclosure
Performance	FIRM	Latent variable	Performance
Profitability	PROF	Observed variable	Return on assets
Liquidity	LIQR	Observed variable	Turnover of receivable
Market price to book value	MPBV	Observed variable	Market price to book value

$$n = \frac{N}{1 + Ne^2}$$

Where,

n is corrected sample size
N is population size (970 firms in this case)
e is margin of error (0.05)

Therefore, the sample size suggested is

$$\begin{aligned} n &= \frac{970}{1 + 970(0.05)^2} \\ &= 399.58 \end{aligned}$$

Based on this formula, the suggested sample size is 400 firms. This figure is also in accordance with the recommendation of Hair et al. (2010), who stated the sample size should be 100–200. Furthermore, Golob (2003) suggests that the sample size should be 15 times greater than the variables observed in the research. In this study, there are ten observed variables; therefore, the appropriate sample size according to

Fig. 2 Confirmatory factor analysis of environmental disclosure

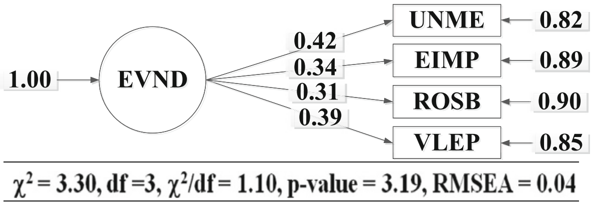

Table 3 Confirmatory factor analysis for environmental disclosure

Variables	Factor			R^2
	b	SE	*t*	
UNME	0.42	–	–	0.18
EIMP	0.34	0.12	2.71	0.11
AEMI	0.31	2.00	2.64	0.10
VLEP	0.39	2.72	2.75	0.15

$\chi^2 = 3.30$, df = 3, χ^2/df = 1.10, p-value = 3.19, RMSEA = 0.04
Note: $|t| > 1.96$ means that $p < 0.05$; $|t| > 2.58$ means that $p < 0.01$

Golob (2003) should be a minimum of 150. As such, a sample of 402 companies listed on the stock exchange of Thailand is appropriate and sufficient to construct the findings of the research.

Research Format

Researchers collected data from companies listed on stock exchange of Thailand during 2016, including annual reports (Form 56-1), Annual Financial Statements, notes of financial statements and CSR reports. The criteria were as follows:

Firms that disclose one item relating to the environment would be score 1 point
Firms that do not disclose any item relating to the environment would score 0 points

Note: The types of environmental disclosure not deemed relevant to firms' activities are shown as not applicable (N/A). The researchers do not incorporate firms where the environmental disclosed is not relevant to the four environmental disclosures used in this research.

Data Analysis

Data analysis will be conducted using the structural equation model (SEM) alongside the multiple indicators and multiples causes (MIMIC) model.

Results

The results from the confirmatory factor analysis (which build on the hypotheses developed) are used to confirm latent variables and construct validity (Fig. 2 and Table 3).

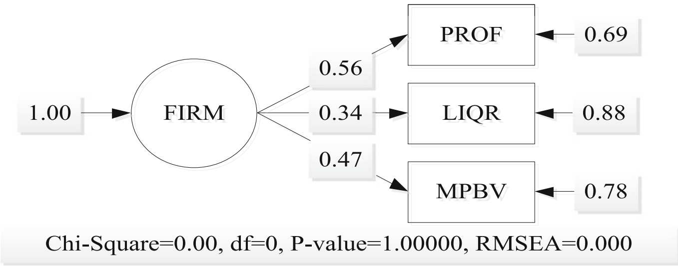

Fig. 3 Confirmatory factor analysis for firm performance

Table 4 Confirmatory factor analysis for firm performance

	Factor			
Variables	b	SE	t	R^2
PROF	0.56	–	–	0.31
LIQR	0.34	2.14	2.99	0.12
MPBV	0.47	1.31	2.84	0.22

$\chi^2 = 0.00$, df $= 0$, p-value $= 1.00$, RMSEA $= 0.00$
Note: $|t| > 1.96$ means that $p < 0.05$; $|t| > 2.58$ means that $p < 0.01$

The measurement model analysis by the confirmatory factor analysis for environmental disclosure (ENVD) found that the model was consistent with empirical data after modeling without eliminating any indicators from the measurement model. The chi-square test was 3.30, the statistical probability (p) was 3.19, the $\chi^{2/df}$ was 1.10, the RMSEA was 0.04, the SRMR was 0.025, the GFI was 1, the CFI was 0.97 and AGFI was 0.98.

In other words, the environmental disclosure (ENVD) consists of four elements; the use of natural materials and environmental report (UNME), environmental impact management policy (EIMP), Awareness of environmental impact (AEMI), violation of the law or environmental penalty (VLEP). The use of natural materials and environmental report (UNME) is most important, violation of the law or environmental penalty (VLEP) is the second, then environmental impact management policy (EIMP) and lastly Awareness of environmental impact (AEMI) (Fig. 3 and Table 4).

The measurement model analysis by the confirmatory factor analysis for firm performance (FIRM) found that the model was consistent with empirical data after modelling without eliminating any indicators from the measurement model. The chi-square test was 0, the statistical probability (p) was 1, the degree of freedom (df) was 0, the RMSEA was 0, the SRMR was 0, the GFI was 1, the CFI was 1 and AGFI was 1.

In other words, the performance of firm (FIRM) consists of three elements; profitability (PROF), liquidity (LIQR) and market price to book value (MPBV). The profitability (PROF) is most important market price per value is the second, and lastly liquidity (LIQR) (Fig. 4 and Table 5).

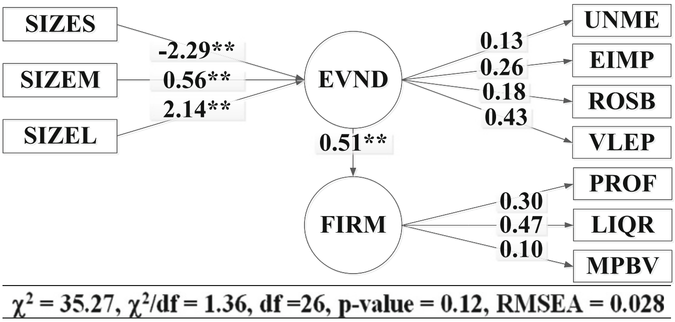

Fig. 4 The structural equation model based on the assumption of the sized influences the firm performance via environmental disclosure of firm listed on the Stock Exchange of Thailand

Table 5 Path analysis of model on the size of firms influences the firm's performance via environmental disclosure

Independent variables	Dependent variables					
	EVND			FIRM		
	TE	DE	IE	TE	DE	IE
SIZES	−2.29** (0.86)	−2.29** (0.86)	–	−2.36** (0.39)	–	−2.36** (0.39)
SIZEM	0.56** (0.40)	0.56** (0.40)	–	1.00** (0.18)	–	1.00** (0.18)
SIZEL	2.14** (0.86)	2.14** (0.86)	–	2.35** (0.39)	–	2.35** (0.39)
EVND	–	–	–	0.51** (0.12)	0.51** (0.12)	–

$\chi^2 = 35.27$, $\chi^2/df = 1.36$, $df = 26$, p-value $= 0.12$, RMSEA $= 0.028$
Note: $p* < 0.05$; $p** < 0.01$, total effect (TE), direct effect, (DE), indirect effect (IE)

The results of structural equation model based on the influence of sized on firm performance via environmental disclosure of the firms listed on the Stock Exchange of Thailand showed as follows. It was found that model based on the hypothesis corresponded to the empirical data. The Chi-square test was 35.72, RMSEA was 0.03, the SRMR was 0.04, the GFI was 0.99, the CFI was 0.98 and AGFI was 0.97 (Table 6).

H1: Size of the Firm Directly Influences Environmental Disclosure

The result from the structural equation model analysis indicates that firms of a small size (SIZES) are less likely to engage in environmental disclosure (ENVD), with a significance level of 0.01 and correlation coefficient of −2.29. In comparison, medium (SIZEM) and large-sized (SIZEL) firms have a positive effect on environmental disclosure (ENVD), with a significance level of 0.01 and correlation coefficient of 0.56 and 2.36 respectively. Therefore, **H1 is accepted.**

Table 6 Analysis of the fit indexes in correspondence with model

Fit indexes	Threshold	Observed value	Fit level
χ^2/df	<2.00	1.36	Accepted
CFI	≥0.95	0.98	Accepted
GFI	≥0.95	0.99	Accepted
AGFI	≥0.90	0.97	Accepted
RMSEA	<0.05	0.03	Accepted
SRMR	<0.05	0.04	Accepted

From this empirical finding, it can be concluded that the environmental disclosure has a direct effect on the performance of firms. Small-sized firms have a negative effect, whereas medium and large firms have a positive effect. Therefore, for the small-sized firms, a low level of environmental disclosure would be more beneficial to overall performance. On the other hand, medium and large firms should disclosure high levels of environmental activity to achieve a high level of performance.

H2: Environmental Disclosure has a Direct Effect on Performance
The results from structural equation model analysis found that environmental disclosure (EVND) has a direct, positive effect on firm performance (FIRM), with a significance level of 0.01 and correlation coefficient of 0.51. Therefore, **H2 is accepted.**

From these empirical findings, it can be concluded that an increasing environmental disclosure will correspond with an increase in the performance of firms.

H3: Size of Firm has Indirect Effect on Firm Performance Through Environmental Disclosure
The results from structural equation model analysis found that small-sized firms (SIZES) have an indirect negative effect on environmental disclosure (ENVD), with a significance level of 0.01, correlation coefficient of −2.36. Whereas, medium (SIZEM) and large (SIZEL) sized firms have an indirect positive effect on environmental disclosure, with a significance level of 0.01 and correlation coefficient of 1.00 and 2.35, respectively. Therefore, **H3 is accepted.**

Based on this, the size of firms has an indirect effect on the environmental disclosure. The small size of firms has an indirect effect on performance via environmental disclosure. Whereas, the medium and large-sized firms have an indirect positive effect. In other words, disclosing a large volume of environmental information reduces performance for small-sized firms. Meanwhile, in medium and large-sized firms, performance corresponds to the number of environmental disclosures.

From the SEM analysis, the size of firms has influenced business performance via the environmental disclosures of firms listed in the Stock Exchange of Thailand, as shows in Table 7.

Table 7 The summary of research findings

Hypotheses	Findings					
	S		M		L	
	Results	Relationship	Results	Relationship	Results	Relationship
H1: Sized of the firm has directly influenced on the environmental disclosures	✓**	–	✓**	–	✓**	–
H2: The environmental disclosure has direct effect on firm performance	✓**	+	✓**	+	✓**	+
H3: Sized of firm has indirect effect on firm performance through the environmental disclosures.	✓**	+	✓**	+	✓**	+

Note: $p* < 0.05$, $p** < 0.01$ where, + positive influence, – negative influences, ✓ hypothesis is accepted

6 Conclusion

The study concludes that the size of firm influences performance via environmental disclosures with regards to firms listed on the Stock Exchange of Thailand. The study reveals that the environmental disclosure of small-sized firms is not beneficial for performance. This finding is consistent with existing research of Adams et al. (1998). This might be because the small-sized firms have limited capital and income, or because investing heavily in social and environmental responsibility can risk reducing the cash flow of the firm. In comparison, the environmental disclosures of medium and large-sized firms enhance their performance. This finding is in line with previous research (Cheng et al. 2014; Delmas et al. 2013; Wu et al. 2014). Similarly, the study of Christ and Burritt (2013) found that adopting a socially and environmentally responsible strategy appropriate for the size of firm can have a positive effect. This also echoes the study of Phoprachak (2017) which found that firm's performance is a result of their adoption of social and environmental responsibility. In addition, the study of Phoprachak (2017) also reveals that the appropriate environmental disclosures regarding the firms' size increase the value of business.

Therefore, this study reveals that environmental disclosures should be incorporated with consideration of the size of the firm, as it can have effect on business performance. The inappropriateness of the implementation of social and environmental responsibility-related activities, as well as the disclosure of environmental information, can damage businesses, as it is an ineffective investment and will incur unnecessary costs. An appropriate level of environmental disclosure not only improves the performance of firms, but also provides information for potential investors, builds the corporate image, adds value for products and increases the reputation of the firm (Bevan et al. 2004; Schaltegger and Burritt 2005; Weber 2008).

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The Impact of Environmental Management Accounting Practices on Organizational Sustainability of the ISO 14001 Companies in Thailand

Kwannaree Klaprabchone, Montree Chuaychoo, and Worakorn Chaemmuangpak

1 Introduction

World of trading in the twenty-first century, concerns in environmental issues have been paid by both government and private organizations. As the consequences of advanced technology and economic growth of agriculture and industrial (Jalaludin et al. 2011), the consequences are causing the global climate change producing environmental pollution in several communities and nations. Likewise, Thailand realized to the problems and paid more attention on natural reservation, ecology, and environment. In addition, preparation and solution in measurement and guidance both with direct and indirect manner had been proposed, and requests had been made to United Nations for supports in the situation, and in 1972, the members of Organization for Economic Co-operation and Development (OECD) offered Polluter Pays Principle (PPP), which was the practice to converse environmental responsibility into expenses of managing (Cleaning Cost) (Paul Ekins 1999).

Presently, most environmental problems were caused by human activities e.g., using products, goods, and services. Consequently, in order to meet consumer's need, a number of manufacturers would continue to produce pollution affecting environment (Damanpour 1991; Damanpour and Gopalakrishnan 2001). The stakeholders prioritized the environmental subjects, and encouraged agreement and acceptance among organizations to run enterprises with care and improvement for

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environment (Zutshi and Sohal 2004). The management started to emphasize on the environmental competence in order to create competitive advantages (Bloomfield and Vurdubakis 1997). Furthermore, the government agencies in charge of the promotion, had released the rules, regulations, and procedures for all enterprises, especially for industrial sector whose activities caused a large amount of pollution. And also, an environmental standard ISO 14001 had been conducted among certified industrial companies. However, not only was the environmental management in business sector seen as the only the environmental impact, but also the internal and external stakeholders (e.g. employees, communities, shareholders, investors, customers, partners, and local environmental groups etc.). By the way, types and degrees of environmental pressure of stakeholders in each country and business sector were significantly different (International Federation of Accountants (IFAC), IFAC International Federation of Accountants 2005, p. 10).

An idea of environmental accounting was directly related to the business due to its violation to international economy, social, and politics. Thus, enterprises needed to disclose environmental information for the purpose of being aware, mindful, and for advantages of employees' morale, tax, production cost, and machine hour reduction (Masanet-Llodra 2006). The advantages and corporate image had led to good productivity and circulation (Fresner 2000) which were significant missions to achieve sustainability (Murray et al. 2006).

By this reason, the researcher found that the analysis of the internal and external determinants forcing environmental management accounting practices of certified ISO 14001 companies, and the analysis of practice's influences regarding to environment accounting process innovation, competitive advantage in finance and organization sustainability, were beneficial for organizational management, and agencies involved with the implementation of the practice. Furthermore, successful outcome would drive macro economy to create appropriate environmental conditions towards together.

2 Research Objective

The objective of this research aimed at impacting of environmental management accounting practices on organizational sustainability of the certified ISO 14001 companies in Thailand.

3 Research Framework, Literature Review and Research Hypotheses

In this study, three major theories were to be defined as the research framework, as follows.

(1) **Stakeholder Theory:** was developed in 1970s (Freeman 1984). Its purposes aimed at an organization policy to create values for stakeholders and to consider "needs", "interest"and "effect" occurred by the policy and operation. The organization would be sustainable or collapsed, as the legitimacy occurring between those possessing a stake (McWilliams and Siegel 2001). The theory showed that the stakeholder implemented the environment management accounting practices and environment accounting process innovation (Fassin 2009; Mainardes et al. 2011) resulting in competitive advantages in finance and organization sustainability (Chenhall and Langfield-Smith 1998). Accordingly, the researcher referred this theory with respect to the stakeholders; the environmental management accounting practices and the environmental accounting process innovation could literally lead to competitive advantages in finance and organization sustainability (Lamberton 2005).

(2) **Resource-Based View (RBV) Theory:** This vision was a minor part contributing to competitiveness and allowed good performance in long-term operation. This advantage could create sustainability. Yosyingyong (2006) mentioned that the outstanding resources could provide sustainable competitiveness, which could not be found in other places and, and were seen as unique and valuable. The resources consisted of two parts including (1) tangible resource which was touchable, visible, and countable (Apisakul and Boonkwan 2006), e.g. factory, equipment, land, tools, goods, debtor, saving, etc., (2) intangible resource which was untouchable, invisible, and difficult to evaluate, e.g. patent, trademark, brand, corporate reputation, company networking, and database etc. In the conducted study, RBV was used to clarify the corporate ability, seen as intangible resource (Itami 1987) and also to explain environmental accounting policy, profitability, firm size, ownership structure, debt structure, and finance innovation. These methods were the corporate ability in spending resources to reach the target in association with corporation. Particularly, the financial competitive advantages were always based on the development and the management accounting practice's data exchange.

(3) **Contingency Theory:** was the management concept depending on situations. Fiedler (1967) claimed that there was no best way to organize a corporation, to lead a company, or to make decisions. Instead, the optimal course of action was dependent upon the internal and external situations. This theory was applied to environmental activities since the current situation was constantly changing and was activated by the extensive social system of the organization (Parker 1997). Besides, Christ and Burritt (2013) who conducted a study on environmental management accounting under situation framework, found that the Contingency Theory had potentiality to encourage the practices by using knowledge and understanding. Hence, the study referred this theory to explain the acceptance of internal and external factors concerning the practices. The internal factors included of environmental corporate social responsibility, accountant expertise, and environmental management accounting policy (Gordan and Miller 1976; Anderson and Lanen 1999), and the external factors included of governance environmental accounting policy (Guthrie 1993).

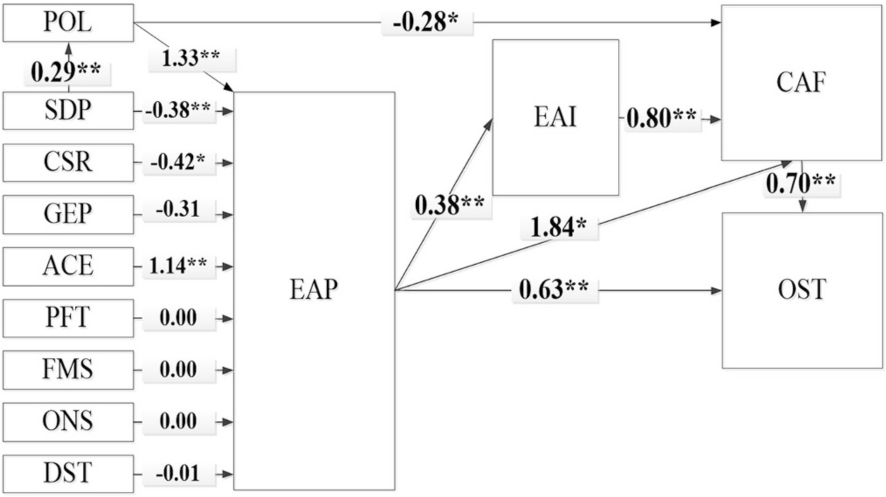

Fig. 1 Research framework

From the above literature review, this research framework was defined in Fig. 1.

4 Methodology

4.1 Population and Sample

The sample consisted of accounting managers of 895 certified ISO 14001 companies in Thailand in 2014 (Thai Industrial Standards Institute 2014).

4.2 Sample Size

According to Hair et al. (1998), the sample size should include 100–200 samples. In addition, Golob (2003) suggested that the structural equation modeling by Maximum Likelihood estimation should have the sample size at least as 15 times of the observable variable. Consequently, this study included of 13 observable variables, that is, 195 samples ($13 \times 15 = 195$) were selected for further analysis. According to Hair et al. (1998), the researcher determined the maximum samples as 200 samples, and the Stratified Random Sampling was applied to the selection, then divided all samples into two groups, as follows.

1. The accounting managers of 200 certified ISO 14001 SET companies (in the stock exchange of Thailand).

2. The accounting managers of 200 certified ISO 14001 Non-SET companies (outside the stock exchange of Thailand).

4.3 Research Format

This quantitative study aimed at creating the causal relationship of environmental management accounting practices on organizational sustainability of the certified ISO 14001 companies in Thailand and performing Structural Equation Model (SEM). The researcher introduced the questionnaires to the samples for data collection.

5 Results

According to the evaluation of 400 questionnaires obtained from the samples, the results were demonstrated, as follows; the majority of respondents consisted of 30–40 years old managers, graduated a bachelor's degree, and possessed 10–20 years of work experience. The companies had 10–20 years of operation and were certified by ISO 14001 for 5–10 years, and most companies gained awards of social and environment responsibility.

Table 1 shows statistics and data analysis.

The results showed that, the measurement model was well fitted to empirical data, as follows; Chi-Square Test = 6.53, Probability (p) = 0.99, Degree of Freedom (df) = 17, $\chi^2/^{df}$ = 0.38, RMSEA = 0.00, GFI is 0.99, CFI = 1.00, and AGFI = 0.97 (Tables 2 and 3).

Stakeholder's pressures (SDP) had a negative direct effect on environmental management accounting practices (EAP) with coefficient value at 0.38 at the significance level of 0.01, a positive direct effect on environmental management accounting policy (POL) with coefficient value at 0.29 at the significance level of 0.01, a positive indirect effect on organization sustainability (OST) with coefficient value at 0.45, and a negative indirect effect on competitive advantage in finance (CAF) with coefficient value at 0.66.

Environmental corporate social responsibility (CSR) had a negative direct effect on environmental management accounting practices (EAP) with coefficient value at 0.42 at the significance level of 0.05, a negative indirect effect on environmental accounting process innovation (EAI) with coefficient value at 0.16 at the significance level of 0.01, and a negative indirect effect on competitive advantage in finance (CAF) and organization sustainability (OST) with the same coefficient value at 0.89.

Table 1 Quantity and percentage categorized by the sample's characteristics

The sample's characteristics	Quantity ($n = 400$)	Percentage
1. Age		
Less than 30 years old	37	9.20
30–40 years old	232	58.00
Over 40 years old	131	32.80
2. Education		
Below Bachelor's degree	4	1.00
Bachelor's degree	321	80.20
Above Bachelor's degree	75	18.80
3. Work experience		
Less than 10 years	43	10.80
10–20 years	285	71.20
Over 20 years	72	18.00
4. Business category		
SET company (inside the Stock Exchange of Thailand)	200	50.00
Non-SET company (outside the Stock Exchange of Thailand)	200	50.00
5. Years of operation		
Less than 10 years	130	32.50
10–20 years	185	46.20
Over 20 years	85	21.30
6. Duration of ISO 14001 Certification		
Less than 5 years	152	38.00
5–10 years	163	40.80
Over 10 years	85	21.20
7. Social and environmental responsibility awards		
Ever	209	52.25
Never	191	47.75

Governance environmental accounting policy (GEP) had a negative direct effect on environmental management accounting practices (EAP) with coefficient value at 0.31, and a negative indirect effect on environmental accounting process innovation (EAI), competitive advantage in finance (CAF) and organization sustainability (OST) with coefficient value at 0.12, 0.66 and 0.65, respectively.

Accountant expertise (ACE) had a positive direct effect on environmental management accounting practices (EAP) with coefficient value at 1.14 at the significance level of 0.01, and a positive direct effect on environmental accounting process innovation (EAI), organization sustainability (OST) and competitive advantage in finance (CAF) with coefficient value at 0.44, 2.42 and 2.44, respectively at the significance level of 0.01 and 0.05.

Profitability (PFT), firm size (FMS) and ownership structure (ONS) had no effect on environmental management accounting practices (EAP), environmental accounting process innovation (EAI), competitive advantage in finance (CAF) and organization sustainability (OST).

Table 2 Analysis of structural equation model, hypothesis testing based

Independent variable	Dependent variable														
	EAP			EAI			CAF			OST			POL		
	TE	DE	IE	TE	DE	IE	TE	DE	IE	TE	DE	IE	TE	DE	IE
SDP	0.01 (0.11)	−0.38** (0.10)	0.39** (0.06)	0.00 (0.04)	–	0.00 (0.04)	−0.66 (0.35)	–	−0.66 (0.35)	0.45 (0.29)	–	0.45 (0.29)	0.29** (0.05)	0.29** (0.05)	–
CSR	−0.42* (0.19)	−0.42* (0.19)	–	−0.16** (0.07)	–	−0.16** (0.07)	−0.89 (0.50)	–	−0.89 (0.50)	−0.89 (0.46)	–	−0.89 (0.46)	–	–	–
GEP	−0.31 (0.17)	−0.31 (0.17)	–	−0.12 (0.07)	–	−0.12 (0.07)	−0.66 (0.54)	–	−0.66 (0.54)	−0.65 (0.48)	–	−0.65 (0.48)	–	–	–
ACE	1.14** (0.24)	1.14** (0.24)	–	0.44** (0.09)	–	0.44** (0.09)	2.44* (1.09)	–	2.44* (1.09)	2.42** (0.86)	–	2.42** (0.86)	–	–	–
PFT	0.00 (0.00)	0.00 (0.00)	–	0.00 (0.00)	–	0.00 (0.00)	0.00 (0.01)	–	0.00 (0.01)	0.00 (0.01)	–	0.00 (0.01)	–	–	–
FMS	0.00 (0.00)	0.00 (0.00)	–	0.00 (0.00)	–	0.00 (0.00)	0.00 (0.01)	–	0.00 (0.01)	0.00 (0.01)	–	0.00 (0.01)	–	–	–
ONS	0.00 (0.00)	0.00 (0.00)	–	0.00 (0.00)	–	0.00 (0.00)	0.00 (0.01)	–	0.00 (0.01)	0.00 (0.01)	–	0.00 (0.01)	–	–	–
DST	−0.01 (0.02)	−0.01 (0.02)	–	0.00 (0.01)	–	0.00 (0.01)	−0.02 (0.04)	–	−0.02 (0.04)	−0.02 (0.04)	–	−0.02 (0.04)	–	–	–
EAP	–	–	–	0.38** (0.05)	0.38** (0.05)	–	2.14* (0.78)	1.84* (0.76	0.30** (0.07)	2.13** (0.58)	0.63** (0.17)	1.50** (0.54)	–	–	–
EAI	–	–	–	–	–	–	0.80** (0.14)	0.80** (0.14)	–	0.56** (0.06)	–	0.56** (0.06)	–	–	–
CAF	–	–	–	–	–	–	–	–	–	0.70** (0.12)	0.70** (0.12)	–		–	–
POL	1.33** (0.11)	1.33** (0.11)	–	–	–	–	−0.28* (0.97)	−0.28* (0.97)	–		–	–	–	–	–

$\chi^2 = 6.53$, df = 17, χ^2/df = 0.38, p-value = 0.99, RMSEA = 0.00
Remark: $p* < 0.05$, $p** < 0.01$, total effects (TE), direct effects (DE), indirect effects (IE)

Table 3 Goodness-of-fit index

Index	Criterion	Result	Consideration
χ^2/df	<2.00	0.38	Pass
CFI	≥0.95	1.00	Pass
GFI	≥0.95	0.99	Pass
AGFI	≥0.90	0.97	Pass
RMSEA	<0.05	0.00	Pass
SRMR	<0.05	0.02	Pass

Debt structure (DST), had a negative direct effect on environmental management accounting practices (EAP) with coefficient value at 0.01, and a negative indirect effect on competitive advantage in finance (CAF) and organization sustainability (OST) with the same coefficient value at 0.02.

Environmental management accounting practices (EAP) had a positive direct effect on environmental accounting process innovation (EAI), organization sustainability (OST) and competitive advantage in finance (CAF) with coefficient value at 0.38, 0.63 and 1.84, respectively at the significance levels of 0.01 and 0.05, a positive indirect effect on competitive advantage in finance (CAF) via environmental accounting process innovation (EAI) with coefficient value at 0.30 at the significance level of 0.01, and a positive indirect effect on organization sustainability (OST) via competitive advantage in finance (CAF) with coefficient value at 1.50 at the significance level of 0.01.

Environmental accounting process innovation (EAI) had a positive direct effect on competitive advantage in finance (CAF) with coefficient value at 0.80 at the significance level of 0.01, and a positive indirect effect on organization sustainability (OST) via competitive advantage in finance (CAF) with coefficient value at 0.56 at the significance level of 0.01.

Competitive advantage in finance (CAF) had a positive direct effect on organization sustainability (OST) with coefficient value at 0.70 at the significance level of 0.01.

Environmental management accounting policy (POL) had a positive direct effect on environmental management accounting practices (EAP) with coefficient value at 1.33 at the significance level of 0.01, and a negative direct effect on competitive advantage in finance (CAF) with coefficient value at 0.28 at the significance level of 0.01 (Table 2).

The results showed that, the environmental management accounting practices had a causal relationship with the organization sustainability of the certified ISO 14001 companies in Thailand. Therefore, the environmental management accounting practices drove the organization sustainability, and were forced by the stakeholder's pressures, the environmental corporate social responsibility, accountant expertise, and the environmental management accounting policy. Meanwhile, the practices had an effect on the environmental accounting process innovation, the competitive advantage in finance and the organization sustainability. And, the organization

Table 4 Results of hypothesis testing

Hypotheses	Result	
	Consideration	Direction
H1: Stakeholder's pressures had direct effect on environmental management accounting policy	Accept	+**
H2: Environmental management accounting policy had direct effect on competitive advantage in finance	Accept	−*
H3: Environmental management accounting policy had direct effect on environmental management accounting practices	Accept	+**
H4: Stakeholder's pressures had direct effect on environmental management accounting practices	Accept	−**
H5: Environmental corporate social responsibility had direct effect on environmental management accounting practices	Accept	−*
H6: Governance environmental accounting policy had direct effect on environmental management accounting practices	Reject	−#
H7: Accountant expertise had direct effect on environmental management accounting practices	Accept	+**
H8: Profitability had direct effect on environmental management accounting practices	Reject	x
H9: Firm size had direct effect on environmental management accounting practices	Reject	x
H10: Ownership structure had direct effect on environmental management accounting practices	Reject	x
H11: Debt structure had direct effect on environmental management accounting practices	Reject	−#
H12: Environmental management accounting practices had direct effect on environmental accounting process innovation	Accept	+**
H13: Environmental accounting process innovation had direct effect on competitive advantage in finance	Accept	+**
H14: competitive advantage in finance had direct effect on organization sustainability	Accept	+**
H15: Environmental management accounting practices had direct effect on competitive advantage in finance	Accept	+*
H16: Environmental management accounting practices had direct effect on organization sustainability	Accept	+**

Remark: $p* < 0.05$, $p** < 0.01$; + Positive effect; − Negative effect; # Non-significant effect; x No effect

sustainability was significantly affected by the environmental management accounting practices and the competitive advantage in finance (Table 4).

6 Research Discussion and Conclusion

The findings showed that the environmental management accounting practices had a significant impact on organizational sustainability. The similar findings were also reported by Bouten and Hoozee (2013), the green organization was influenced by the environmental management accounting practices consisting of (1) stakeholder's pressures according to Hunag and Kung (2010) Jalaludin et al. (2011) study, (2) environmental management accounting policy according to Adams and Frost (2008) Chang and Deegan (2008) and Jalaludin et al. (2011) study, (3) environmental corporate social responsibility according to Bouten and Hoozee (2013) study, and (4) environmental management accounting policy according to Adams and Frost (2008) and Nakasone (2015) study.

Nonetheless, the organization sustainability needed three components to move the organization towards sustainability including the environmental management accounting practices, the environmental accounting process innovation, and competitive advantage in finance. The findings were accepted by Ferreira et al. (2010) mentioning that accounting for environment caused the company to realize which environmental practice had been conducted by the business and the accounting could arouse the innovation to reach sustainability. According to, Jamil et al. (2015), the budget for environment enable business stability. In addition, Singh et al. (2015) showed that the environmental management accounting practices gained positive outcome from motivation and the expectation of competitive advantage during procedures. At the present, the aforementioned components could be included in the sustainability report as of the stock exchange of Thailand's concept.

7 Recommendation

7.1 Suggestion for Implementation

The certified ISO 14001 companies in Thailand should importantly prioritize the environmental accounting process innovation and the competitive advantage in finance due to influential effects to the organization sustainability, as found in this study.

The potentiality of the environmental management accounting practices should be depended on the environmental management accounting policy and environmental corporate social responsibility due to influential effects to the environmental management accounting practices, as found in this study.

7.2 Suggestion for Further Study

Further studies should include companies in overseas stock exchange using the existing framework.

The new standard of ISO 14051 certification should be added to the study as the operational guidance and the procedure of Material Flow Cost Accounting (MFCA) for management to emphasize the production and distribution in order to reduce the cost of resources and raw materials.

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The Impact of Environmental Accountants' Ability on CSR Disclosure and Profitability of the Listed Companies on the Stock Exchange of Thailand

Songwit Charoenkitthanalap, Jiraporn Kradphet, Dararat Phoprachak, and Theenida Buntornwon

1 Introduction

Environmental issues are currently an essential topic of interest to organizations worldwide, both government and private. As a result of the technological advances and economic growth in both agriculture and industry (Jalaludin et al. 2011) climate change has occurred, and such change results in a wide range of environmental pollution in the community. Many countries, including Thailand, are aware of this issue and pay attention to ecology and environmental conservation. A series of measures and policies are used to directly and indirectly solve this problem. A number of countries have asked the United Nations for help, and as a result the Organization for Economic Co-operation and Development (OECD) proposed the polluter pays principle (PPP) to reflect cleaning costs (Ekins 1999). One major reason for environmental problems is that the use of products or services that fulfil certain needs and some production process that result in environmental damage, cannot be stopped (Damanpour 1991; Damanpour and Gopalakrishnan 2001). Some stakeholders are now focusing on these environmental issues and caring business organizations are committing to continuously improving the environment (Zutshi and Sohal 2004; Phoprachak 2017). Some managers put importance on enhancement of the environmental capabilities of their organization in order to compete effectively (Bloomfield and Vurdubakis 1997).

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In Thailand, environmental management is used as command and control by the Constitution of the Kingdom of Thailand, BE 2550, Section 67. There are a number of environmental laws resulting from the indulgent use of products and services without taking their impact into account, such as the Promotion and Conservation of National Environmental Quality Act, BE 2535, the Factory Act, BE 2535, etc. This is very important in terms of daily life as well as making income for the country. High levels of consumption result in tons of toxic waste, but some production processes cannot be ceased due to the high demand (Damanpour 1991; Damanpour and Gopalakrishnan 2001). However, a new generation of consumers is becoming aware of environmental issues and is ready to support environmentally friendly products regardless of the higher price. Some companies work carefully and continuously to improve the environment (Zutshi and Sohal 2004). This implies that environmental accounting is key to strategic management along with the use the data in company decisions (Rout 2010). However, the limitation of this kind of accounting is numerical measurement. Due to accounting's measurement of cost, measurement of the environment is difficult (Llodra 2006), but environmental accounting emphasizes disclosure of environmental impacts (Srijunpetch 2012).

This study aims to get insight into accountants' levels of success in environmental accounting along with community responsibility data disclosure, to raise awareness of companies' environmental management. This helps investors to be aware and support companies' sustainable growth. The researcher chooses an empirical study, collecting information from company accountants and managers related to community responsibility in order to ensure that accountants' responsibility awareness capability results in suitable community responsibility and raises the profit capability of companies listed on the stock exchange of Thailand.

2 Research Objective

In this study, the research objective is to analyze the causal relationships of accountants' recognition of environmental items influencing profitability, through the disclosure of corporate social responsibility information of companies listed on the stock exchange of Thailand.

3 Research Framework, Literature Review and Research Hypotheses

The research framework is based on three main theories:

1. Stakeholder Theory: This theory has been continuously developed since 1970 (Freeman 1984) by focusing on organizations' policy impact on stakeholders, considering the 'need', 'interest' and 'effect' of the operation of the organization.

How organizations continue to exist or decay is the legitimate interest of stakeholders (McWilliams and Siegel 2001). Studying this theory gives the perspective that stakeholders require accounting operations to be used with environmental management and environmental accounting process innovation (Fassin 2009; Mainardes et al. 2011). What follows is the capability of cash competition leading to organizational sustainability (Chenhall and Langfield-Smith 1998). As a consequence, the researcher uses this theory to support the study of stakeholders.

2. Resource-based view theory or the perspective of basic business resources: This is a subset that provides an organization with an advantage, resulting in an effective working result in the long run. This advantage is sustainable by itself. Yodyingyong (2006) suggests that a special list of resources can provide sustainable competitive advantage for a company since it does not exist in other companies and is a valuable and unique result composed of: (1) visible resources (Aphisugkul and Boonkwan 2006) such as factories, tools, land, equipment, goods, debtors or deposits; and (2) invisible resources which are difficult to evaluate such as patents, trademarks, brands, company reputation, company networking and databases. In this research, this theory is used to explain organizational capability, which is an invisible resource (Itami 1987), management environmental accounting policy, profit capability, size of business, ownership structure, debt structure and cash innovation. This method is based on an organization's ability to use resources to reach goals, and the organization's blending state which always appears in both visible and invisible resources, especially creating financial advantage. This kind of ability is usually based on the operation of accounting, for management development and data exchange.
3. Report on community responsibility: This concerns cost and profit from operating activities affecting community and society. Reporting can be financially related or unrelated (ICAEW 1991). This way of thinking emerged from the 2005 European Environment World Summit, and the research by Ewing (2005) defines the meaning of community responsibility as companies' efforts to reach the goals of the stakeholders. The research by Ihlen et al. (2011) supports previous research, stating that community responsibility is an activity that makes stakeholders and the public realize that a responsible business focuses on the economic, social and environmental impacts of the company. There are various styles and sizes of community responsibility report in Thailand (Chuaychoo 1996). This research studies the community responsibility disclosure and environmental community responsibility awareness of the accountants of the companies listed on the stock exchange of Thailand.

Based on the review of the literature, along with the concepts, theories and research findings, the researcher analyzes and considers the importance and necessity of accountants' recognition of environmental items in the provision of information in corporate social responsibility reports for organizational benefit. These significances lead to the conceptual framework of this research shown in Fig. 1 (Table 1).

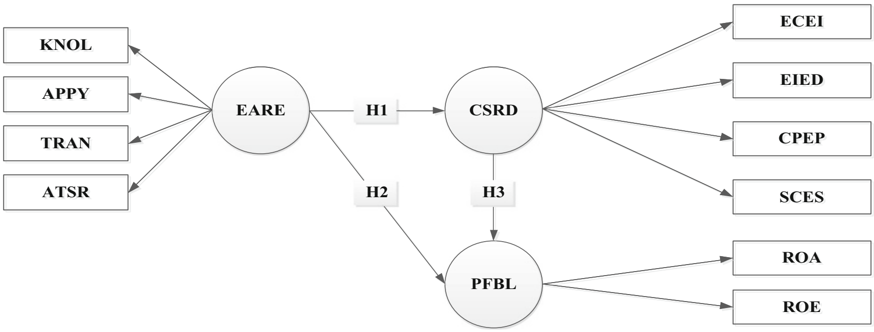

Fig. 1 The conceptual framework for accountants' recognition of environmental items influencing profitability through disclosure of corporate social responsibility information of 150 companies listed on the stock exchange of Thailand

4 Research Hypotheses

H1: Environmental accountants' ability to recognize environmental items has a positive influence on corporate social responsibility reporting.
H2: Environmental accountants' ability to recognize environmental items has a positive influence on profitability.
H3: Corporate social responsibility reporting has a positive influence on profitability.
H4: Environmental accountants' ability to recognize environmental items has a positive influence on profitability through corporate social responsibility reporting.

5 Methodology

5.1 Population and Sample

The population of this study is accountants and executives involved in CSR reporting of companies listed on the stock exchange of Thailand in 2016, approved by ISO14001. Based on the data searched, the total number of such companies is 240 (data as of January 1, 2017) (The Stock Exchange of Thailand 2017).

5.2 Sample Size

The sample size is determined based on Yamane's (1973) formula:

Table 1 Abbreviations of variables and indicators

Variable	Symbol	Type	Measurement
Environmental accountant's ability to recognize environmental items.	EARE	Latent variable	Number of items disclosed
Accountant with knowledge and understanding of environmental accounting practices.	KNOL	Observed variable	Number of items disclosed
Accountants ability to apply environmental accounting practices to operations from professional knowledge.	APPY	Observed variable	Number of items disclosed
Accountants trained to continuously improve their professional knowledge.	TRAN	Observed variable	Number of items disclosed
Accountants accountable, transparent and socially responsible, and able to report on issues that affect stakeholders in a reliable way.	ATSR	Observed variable	Number of items disclosed
Corporate social responsibility disclosure.	CSRD	Latent variable	Number of items disclosed
The company encourages people to collaborate on environmental issues.	ECEI	Observed variable	Number of items disclosed
The company encourages personnel to see the importance of environmental development.	EIED	Observed variable	Number of items disclosed
The company promotes environmental performance in a transparent manner.	CPEP	Observed variable	Number of items disclosed
The company has set a concrete environmental standard.	SCES	Observed variable	Number of items disclosed
Performance.	PFBL	Latent variable	Profitability
Return on assets.	ROA	Observed variable	Return on assets
Return on equity.	ROE	Observed variable	Return on equity

$$n = \frac{N}{1 + Ne^2}$$

where

n refers to number or size of the sample
N refers to number or size of the population (240 companies)
e refers to the error possibility (0.05)

Therefore, the sample size is calculated as:

$$n = \frac{240}{1 + 970(0.05)^2}$$

The sample size is calculated to be 150 companies. Thus, the researcher determines the sample size of this study to be 150.

5.3 Research Format

This study is quantitative research to determine a causal relationship model of accountants' ability to recognize environmental items influencing corporate social responsibility disclosure and the profitability of companies listed on the stock exchange of Thailand. The structural equation model (SEM) is used in this study. Data are collected by distributing questionnaires to the sample.

6 Results

6.1 Confirmatory Factor Analysis

Confirmatory factor analysis is conducted based on the set hypotheses for determining construct validity, and structural equation modelling is used. The results are as follows (Table 2).

The results of the measurement model analysis derived by performing confirmatory factor analysis of the variables of accountants' ability to recognize environmental items (EARE), reveal that the model is consistent with the empirical data, after model modification, without cutting any indicators. The chi-square statistical test result is 0.21, statistical probability (p) is 0.64, degree of freedom (df) is 10, $\chi^2/2$ is 0.21, RMSEA is 0.00, SRMR is 0.006, GFI is 1.00, CFI is 1.00 and AGFI is 1.00.

In other words, environmental accountants' ability to recognize environmental items (EARE) consists of 4 factors, accountants' unit of knowledge and

Table 2 Confirmatory factor analysis of variables in accountants' ability to recognize environmental items

		Factor		
Variable	b	SE	t	R^2
KNOL	0.32	–	–	0.10
APPY	0.37	0.11	2.63	0.14
TRAN	0.50	0.14	2.73	0.25
ATSR	0.32	0.09	2.48	0.11
$\chi^2 = 0.21$, df = 10, $\chi^2/2 = 0.21$, p-value = 0.64, RMSEA = 0.00				

Note: $|t| > 1.96$ means that $p < 0.05$; $|t| > 2.58$ means that $p < 0.01$

Table 3 Confirmatory factor analysis of variables in corporate social responsibility

	Factor			
Variable	b	SE	t	R^2
ECEI	0.56	–	–	0.31
EIED	0.47	0.06	4.71	0.22
CPEP	0.50	0.07	4.42	0.25
SCES	0.48	0.07	4.42	0.23
$\chi^2 = 1.23$, df = 1, $\chi^2/2 = 1.23$, p-value = 0.27, RMSEA = 0.024				

Note: $|t| > 1.96$ means that $p < 0.05$; $|t| > 2.58$ means that $p < 0.01$

Table 4 Confirmatory factor analysis of variables in profitability

	Factor			
Variable	b	SE	t	R^2
ROA	1.00	–	–	1.00
ROE	0.12	0.03	2.42	0.01
$\chi^2 = 0.00$, df = 0, p-value = 1.00, RMSEA = 0.00				

Note: $|t| > 1.96$ means that $p < 0.05$; $|t| > 2.58$ means that $p < 0.01$

understanding of environmental accounting practices (KNOL), accountants' ability to apply environmental accounting practices to operations from professional knowledge (APPY), accountants being trained to continuously improve their professional knowledge (TRAN), and accountants being accountable, transparent, and socially responsible, and able to report issues that affect stakeholders in a reliable way (ATSR). The most important factor is TRAN, followed by APPY, KNOL and ATSR respectively (Table 3).

The results of the measurement model analysis derived by performing confirmatory factor analysis of the variables of corporate social responsibility disclosure (CSRD) reveals that the model is consistent with the empirical data, after model modification, without cutting any indicators. The chi-square statistical test result is 1.23, statistical probability (p) is 0.27, degree of freedom (df) is 1, $\chi^2 2/2$ is 1.23, RMSEA is 0.024, SRMR is 0.0015, GFI is 1.00, CFI is 1.00 and AGFI is 0.98.

In other words, corporate social responsibility disclosure (CSRD) comprises 4 factors, the company encourages people to collaborate on environmental issues (ECEI), the company encourages personnel to see the importance of environmental development (EIED), the company promotes environmental performance in a transparent manner (CPEP), and the company has set a concrete environmental standard (SCES). The most important factor is ECEI, followed by CPEP, SCES and EIED respectively (Table 4).

The results of the measurement model analysis derived by performing confirmatory factor analysis of the variables of profitability (PFBL) reveal that the model is consistent with the empirical data, after model modification, without cutting any indicators. The chi-square statistical test result is 0.00, statistical probability (p) is 1.00, degree of freedom (df) is 0, RMSEA is 0.00, SRMR is 0.00, GFI is 1.00, CFI is 1.00 and AGFI is 1.00.

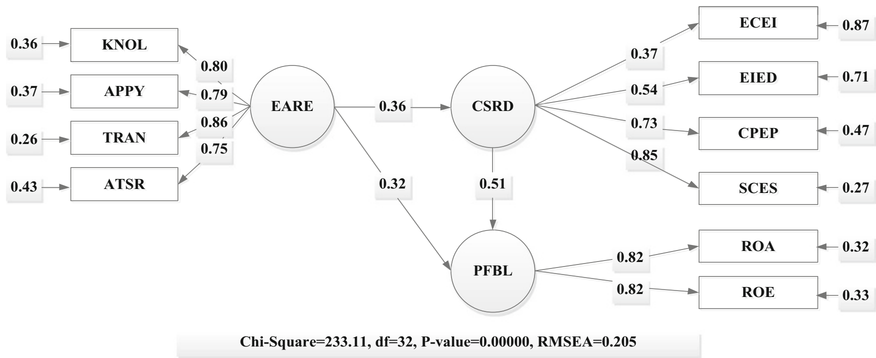

Fig. 2 Path analysis before model adjustment

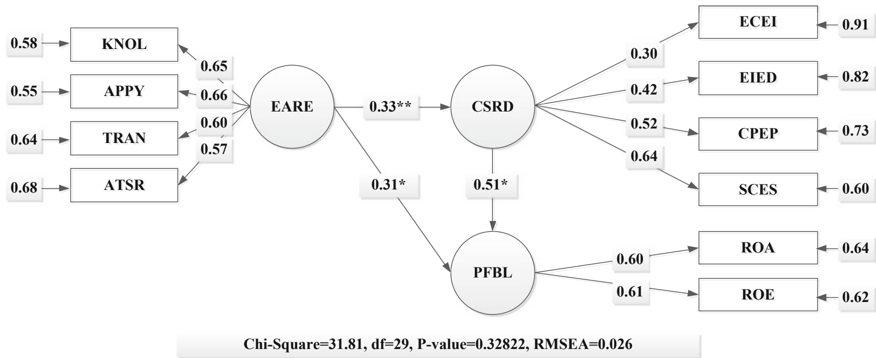

Fig. 3 Path analysis after model adjustment

Table 5 The results of path analysis

Dependent variable Independent variable	CSRD			PFBL		
	TE	DE	IE	TE	DE	IE
EARE	0.33∗∗ (0.11)	0.33∗∗ (0.11)	– –	0.48∗∗ (0.14)	0.31∗ (0.14)	0.17∗ (0.08)
CSRD	–	–		0.51∗ (0.24)	0.51∗ (0.24)	– –
$\chi^2 = 31.81$, df = 29, $\chi^2/2 = 1.10$, p-value = 0.32822, RMSEA = 0.026						

Note: p∗ < 0.05; p∗∗ < 0.01, Total effect (TE), direct effect, (DE), indirect effect (IE)

In other words profitability (PFBL) includes two factors, return on assets (ROA) and return on equity (ROE). The most important factor is return on assets (ROA), followed by return on equity (ROE) (Figs. 2 and 3; Table 5).

The results of validating the consistency of the causal relationship of environmental accountants' ability to recognize environmental items (EARE) and corporate social responsibility disclosure and profitability of companies listed on the stock exchange of Thailand show that the model is consistent with the empirical data. The chi-square test statistic is 31.81, the statistical probability (p) is 0.32822, the degree of freedom (df) is 29, $\chi^2/2$ is 1.10, RMSEA is 0.026, SRMR is 0.055, the GFI is 0.96, CFI is 0.98 and AGFI is 0.92.

The results show that environmental accountants' ability to recognize environmental items (EARE) has a positive influence on corporate social responsibility disclosure (CSRD) at a statistical significance level of 0.01 and an influence coefficient of 0.33. It can be concluded that the first research hypothesis is true. In addition, it is found that environmental accountants' ability to recognize environmental items (EARE) has a positive influence on profitability (PFBL) at a statistical significance level of 0.05 and an influence coefficient of 0.31. It can be concluded that the second research hypothesis is true. The results also show that corporate social responsibility disclosure (CSRD) has a positive influence on profitability (PFBL) at a statistical significance level of 0.05 and an influence coefficient of 0.51. It can be concluded that the third research hypothesis is true. In summary, environmental accountants' ability to recognize environmental items (EARE) has a positive influence on profitability (PFBL) through corporate social responsibility disclosure (CSRD) at a statistical significance level of 0.05 with an influence coefficient of 0.17. It can be concluded that the fourth research hypothesis is true. The results of the hypothesis testing are:

H1: Environmental accountants' ability to recognize environmental items has a positive influence on corporate social responsibility reporting, confirming the hypothesis.

H2: Environmental accountants' ability to recognize environmental items has a positive influence on profitability, confirming the hypothesis.

H3: Corporate social responsibility reporting has a positive influence on profitability, confirming the hypothesis.

H4: Environmental accountants' ability to recognize environmental items has a positive influence on profitability through corporate social responsibility reporting, confirming the hypothesis.

7 Conclusions

The results of this study are that accounts' ability to recognize environmental items could lead to greater opportunity to disclose CSR information because increased disclosure of corporate social responsibility could increase profitability. In addition, accountants' ability to recognize environmental items could increase profitability. From the results, it is obvious that companies should focus on the selection of talented accountants, because these employees could enable companies to obtain accurate and reliable information, increasing the profitability of the company. It is found that a company conducting corporate social responsibility activities and disclosing CSR information appropriately could increase profitability when its accountants have the ability to recognize environmental items properly.

8 Research Discussion

The results of this study indicate that environmental accountants' ability to recognize environmental items (EARE) has a positive influence on corporate social responsibility disclosure and profitability, which is consistent with the study of Singh et al. (2015) and the study of Bouten and Hoozee (2013) that environmental accounting practices lead to greener organizations. When an accountant performs an effective act of environmental management, it positively influences the company's environmental responsibility reporting, leading to increased profitability. Tilt (2006) shows that a company's strict corporate social responsibility increases the company's performance, and Ferreira et al. (2010) show that environmental accounting practices enable companies to recognize the environmental impact of their activities in a positive way, with process innovation, leading to sustainable organizations. Singh et al. (2015) show that environmental accounting practices are influenced positively by motivation. Companies expect that accounting practices for environmental management lead to competitiveness. At present, these elements contribute to sustainability reporting. The study finds that a company disclosing more environmental information can increase its profitability.

9 Suggestions

9.1 Practical Implications

1. Companies should emphasize selecting qualified accountants to obtain reliable information.
2. Companies should emphasize selecting qualified accountants for increased profitability.
3. Companies should appropriately disclose corporate social responsibility information to provide stakeholders with information to make decisions. Disclosure of corporate social responsibility increases company profitability.

9.2 Further Research

1. Future studies should be conducted based on a similar conceptual framework, studying other population groups for comparison.
2. Future studies should be conducted based on a similar conceptual framework, studying a population of companies not listed on the stock exchange of Thailand to extend the findings.
3. Future studies should be conducted using other cost variables in environmental accounting management that affect profitability and corporate social responsibility disclosure.

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This area of study lends itself to study at a doctoral level, through which the relationship between environmental/social responsibilities and the financial performance of firms can be identified.

Through the process of reviewing my prior experience and conducting extensive additional research, I have further developed my understanding of corporate social and environmental responsibility, particularly in relation to the types of related activities and information disclosure that can enhance the performance of firms.

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Sustainability Reporting, a New Type of Companies' Hypocrisy: Zara and Volkswagen Cases

Imane Allam, Simone Scagnelli, and Laura Corazza

1 Introduction

Since 1990, social and environmental activists raised public awareness about sustainability issues, which enables real action to create social, environmental and economic benefits for the whole world.

In today's world, there is a growing incidence of voluntary reporting for sustainability. To explain the phenomenon of sustainability reporting, many scholars demonstrated that legitimacy theory is the primary explanation for social reporting. Main supporters of the legitimacy theory believe that corporations are seeking to "gain or to extend legitimacy" of their actions areas such as safety, diversity, justice, environment, accountability, transparency by making social or environment reporting (Laufer 2003). Corporations, therefore, can manipulate the dissemination of information to mislead the public (Corazza et al. 2017).

Hence, sustainability reporting has been changing over the last few decades with the introduction of new guidelines and the creation of G4 guidelines, which helps businesses and governments to communicate their impact on sustainability issues (Truant et al. 2017) . In order to facilitate making reporting on sustainability "The Coalition for Environmentally Responsible Economies" (CERES) and the United Nations Environmental Program (UNEP) established the Global Reporting Initiative GRI in 1997 in order to create some guidelines, which become nowadays the most important and the most widely used guidelines. The Global Reporting Initiative (GRI) developed a framework for voluntary reporting. Its guidelines help organizations to report on their environmental, social and economic performance and to intensify their responsibility (The Global Sustainability Standards Board 2016). As

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part of the EU Corporate Social Responsibility strategy, the European Commission presented in April 2013 a proposal to enhance the transparency of large companies in the social and environmental fields. In September 2014, after lengthy negotiations between the three European bodies, the directive was adopted by the Council of the European Union. The EU's innovative guidance on disclosure of non-financial and diversity information (Directive 2014/95/EU) has clearly opened the way for greater transparency and greater corporate responsibility in the social and environmental spheres. By 2018 Companies must comply with the new directive's requirements for disclosure (2014). According to Toms (2002), some studies reveal that the disclosure of social and environmental responsibility can succeed in improving the perceptions of the company's reputation. Companies are not in the same stages of their progress towards sustainability. Many companies publish their sustainability actions, others hesitate to promote detailed environmental reports. Some companies take action in the right direction by publicizing more information on their policies, strategies, and actions when it comes to sustainability' matters while others still in a backward position. However, evidence from practice presents a different reality; some organizations that label themselves in sustainable leader position do not behave in a responsible way concerning sustainability goals. In general sustainability reporting are easily trusted by the public sometimes because the manifestation cannot be seen by consumers even after purchase services or products (Kirchhoff 2000). Gray and Milne (2002) concluded that after more than 10 years of development and experiment in sustainability reporting, a large number of companies were exploiting the efforts of few courageous companies which were contributing effectively to the process of growth of sustainability.

The behaviours of such companies are not well understood, there is inadequacy between speech and performance. Since the relationship between sustainability reporting and the corporate real practices is blurred in some cases, the behaviour of transnational companies covered behind the corporate sustainability reporting is worth exploring. Previous work has only focused on sustainability reporting and greenwashing. Few researchers have addressed the problem solving by knowledge management. This raises many questions that need to be answered:

– Do companies act in reality as they disclose?
– Why can sustainability reporting be a type of corporate hypocrisy?

This paper's purpose is to examine sustainability reporting by presenting a structured literature review of sustainability reporting together with documentary analysis and headlines of newspapers. It is, in part, motivated by a recent review of the greenwashing literature by scholars and on the other hand motivated by legitimacy theory to provide a possible solution for many companies to take environmental and sustainable aspects into account when undertaking actions in order to improve their performance.

The study applies a multiple typical cases study approach by documentary studies. Namely, the cases that we will focus on are the Volkswagen emissions scandal and Zara's unpaid labourers' issue. In the past years and so far, many companies were founded violating the social and environmental issue at the time they promote themselves as environmentally and socially responsible. Why choosing Volkswagen and Zara?

To answer the research's two main questions that requires analysing companies that promote themselves as environmentally and socially responsible, listed in the top sustainability ranking list based on reliable indexes (Dow Jones Sustainability) meanwhile, their real practices show a contrast situation, and they found violated social or environmental issues.

Hence, the choice of Zara and Volkswagen companies who are been listed by the Dow Jones Sustainability Index as leading sustainability-driven companies based on analysis of financially relevant environmental, social, and governance (ESG) factors.

One different variable between these two cases, which is that Zara was exposed to the same type of scandals more than time but Volkswagen, it was the first time in its life. Zara with its repeated scandals about workers "slave" and the environmental disasters of Volkswagens' carbon emission cars scandal in the United States of America in 2015.

Our findings offer contributions to the ongoing debate about the effectiveness of sustainability reporting by providing further evidence that sustainability reporting seems to be like empty promises. The present findings might help to solve this problem.

The remainder of this paper is organized as follows. The first section, the introduction and the research questions which we investigate and second the related literature and the theoretical framework, the third section is an explication of the methodology we used to answer our research questions. Forth section is our finding and discussion. The last one is the conclusions and recommendations of our study.

2 Literature Review

2.1 Sustainability Reporting

Sustainability is an important issue in contemporary international discourse. It became more relevant for corporations all over the world and more difficult to avoid it. Dyllick and Hockerts (2002) have been derived, from the sustainable development definition of the Brundtland Commission report, a definition of corporate sustainability which is "meeting the needs of a firm's direct and indirect stakeholders without compromising its ability to meet the needs of future stakeholders".

Large companies inform their stakeholders continuously about their social and environmental performance by publicizing sustainability reporting on their websites, which attracts government organization, research centers, environmental and social activists, and NGOs (Herzig and Schaltegger 2011). Many scholars criticize the sustainability accounting trend seeing that the sustainability reporting are invented for public relations issue and to win or maintain the agreement of stakeholders whose continuous support is important for the continuity and profitability of the business

(Unerman et al. 2007). Moreover, we need to undertake a detailed and complex analysis of the organization's actions for ecosystems, resources, habitats, and communities, and their interpretation in light of past and current impacts of organizations on these same systems (Gray and Milne 2002). O'dwyer indicated an increasing request from companies' stakeholders for accountability and responsibility reasons resulting in the progressing of sustainability reporting (O'Dwyer et al. 2011). Consequently, several guidelines and recommendations for Sustainability reports have been published during the past years. Many scholars have compared the sustainability performance of transnational companies to their sustainability reports based on social and environmental criteria. Lyon and Maxwell (2011) complain that the misleading reporting behaviour is illegal, and there is some flexibility in how companies choose to report their achievements. Particularly, companies may choose to report on a "project level" or "entity level".

However, as we have seen sustainability reporting should be a full and transparent reporting of how the organization contributes or probably depressed Sustainability in our planet but what is happening the firm selective what of their action should be part of its public information communications. In course of time, sustainability defenders have raised concerns about corporate dishonesty. This corporate behaviour led to introduce new term "greenwashing" and "Organizational hypocrisy". Analyzing the problem requires a clear definition of these two phenomena.

2.2 Greenwashing

After it was proposed more than two decades ago, the term "greenwashing" still attracted a notable academic and media attention (Lyon and Montgomery 2015). According to Laufer, "greenwashing" can be defined when some companies seek to improve their reputations in front of their stakeholders in order to blur out a reality or an unconformity, reform a discrepancy and conceal a deflection, not only but attempt to appear in a driving situation. In other words, greenwash is basically to mislead consumers and investors by telling the truth but not is the entire truth (Laufer 2003). Organizational hypocrisy and greenwashing attempt to explain the disparities between a corporation's reports and practices, and how these differences may let companies more flexible to respond to their stakeholder demands.

2.3 Organizational Hypocrisy

Drawing on Cambridge definition, hypocrisy is a case in which someone claims to believe something that he does not really believe or to contradict what he is doing or saying at another time (Cambridge dictionary 2018). Brunsson (2007) argue that hypocrisy is a way of dealing with situations where you cannot do what's talking about, and when you cannot talk about what's going on. For Brunsson (1989), organizational hypocrisy is a way of treating contradictions by reflecting them in the inconsistency between declarations, decisions, and practices. He assumes that companies often respond to the discordant demands of stakeholders by engaging in organized hypocrisy (Cho et al. 2015). Brunson's conception of organized hypocrisy is complex and contains a number of sub-concepts. Krasner (1999) points out that organized hypocrisy is a condition in which institutions are permanent but fragile institutionally, and thus repeatedly violated. Hypocrisy or inconsistency is considered as part of politics and "propaganda", associated with the traditional relationship between structure-process output relationship (Brunsson 1989).

2.4 Legitimacy Theory and Sustainability Reporting

In order to explain why companies, publicize their sustainability achievements by making sustainability reports, we would refer to the legitimacy theory to indicate the reasons behind such reports. Some corporations try to hide his disrespect for the environment and social issues fearing of audit and penalize from society so they feel obliged to report for sustainability. Several studies, for instance, Scagnelli et al. (2013), Guthrie and Parker (1989) have been carried out that legitimacy theory is the motivation behind sustainability reporting. Suchman (1995) defined legitimacy as "*a perception or presumption in general, that an entity acts desirably, properly, and appropriately inside some social structure of standard, beliefs, values, and concepts*". The theory of legitimacy argues that legitimacy is an essential element of an organization's survival and that communication strategies can be used as a tool to differentiate with symbols, values, and institutions that have a strong foundation of social legitimacy (Dowling and Pfeffer 1975). Lyon and Maxwell's (2011) point out that when facing activist pressure, some companies probably tend to be involved in the partial activities' disclosure are those who have the potential to produce positive environmental and social impact. Cho et al. (2015) found additional evidence that companies with harmful environmental performance use environmental disclosures report as legitimizing instrument to confront social and political pressures.

3 Research Methodology

The study applies a multiple case study approach by documentary studies. Using documentary analysis, to obtain an overview of the sustainability engagement made by Volkswagen and Zara in terms of sustainability goals in the period before their scandals. After evaluating the sustainable reports and the code of conduct of these companies, we will compare the discrepancies between reports and companies' performance by employing qualitative techniques of analysis.

3.1 Data Collection

The data we employ come from various sources; it consists of:

- Content analysis on sustainability report, the Code of Conduct of Volkswagen Group between 2014 and 2015, its official website and finally “Shift”, the sustainability magazine which is created by Volkswagen after the scandal trying to re-establish trust.
- Content analysis of sustainability report of Zara, Code of Conduct for Manufacturers and Suppliers Inditex Group 2016 and its official website.
- Content of headlines from relevant newspapers as an information source during those two scandals detection to understand what actually happened and how Zara and Volkswagen responded to the crises.
- Financial data from their official websites before and after the two companies’ scandals.

3.2 Study Context

Background of the two cases: Volkswagen and Zara.

3.2.1 Volkswagen’s Scandal

On September 18, 2015, the Environmental Protection Agency (EPA) discovered that Volkswagens cars sold in the USA had a device or software in their diesel engines that can modify the results to embellish the performance when it detects they were being tested. It is a manipulation of diesel engines to decrease their production of toxic Nitrogen Oxide (NOx) in tests comparing to that on the road. It means that the Volkswagens company was cheating the American emissions test. In fact, the nitrogen oxide emitted by Volkswagen’s car engines pollutes about 40 times above what is allowed in this country (Hotten 2015). After the emissions scandal, Volkswagen was excluded from various ranking of sustainability. During the period that followed, many clients and stakeholders feel disrupted. The ramifications of that voluntary cheating choice will reverberate for years after the detection of this catastrophe. An extraordinary write-down of 353 million € was required to cover a potential decline in the residual value of cars over the scandal diesel emissions cheats (Taylor 2016). On 25 September 2015, Matthias Muller was appointed Volkswagen’s new CEO. He had many obstacles to overcome it to restore the reputation of the Volkswagen environment partisans and redevelop the confidence of consumers, employees and government regulators and the general public.

Volkswagen responded to the crisis by creating the Council for Sustainable Development in September 2016, which consisted of international well-known experts in Science, research, and politics. The principal responsibility of the council is to advise the Group management board of Volkswagen on sustainable mobility matters, environmental protection, and social responsibility (VW Group 2017). To re-establish trust of public VW has been created a sustainability magazine consequently after the scandal, which attempts to search the opinions of others (VW's Group 2017).

3.2.2 Volkswagen Sustainability History

For years, Volkswagen has concentrated on its intensity and Competitive feature, its collection of catchy and environmentally friendly cars. After analysing the corporate economic, environmental, and social sustainability performance of The German car maker, Volkswagen, RobecoSAM (2013), a sustainability investing specialist, has classed Volkswagen as the Industry Group Leader in the automobiles and components sector of the Dow Jones Sustainability Indices (DJSI) in 2013. In the same year (2013), VW has also listed in both the CDP Global 500 Climate Performance Leadership Index and the CDP Global 500 Climate Disclosure Leadership Index According to the Climate Disclosure project Global 500 Climate Change Report 2013.

In 2009 and 2010, Volkswagen won the 'Green Car of the Year' prize by the Green Car Magazine respectively for Jetta TDI Clean Diesel and Audi A3. In 2010, Volkswagen launched the Blue Think campaign to promote green initiatives and implicated environmentally friendly products, containing the clean diesel and other technologies under the Blue Motion brand, one more modern advertising campaigns to introduced clean diesel technology to the company.

Volkswagen's annual report of 2014 contains initiatives to decrease carbon dioxide emissions and to be a promoter of environmentally friendly action. In China, there was a good sample of such initiatives, Volkswagen's company worked to increase car sharing and to raise the number of electric cars on the roads.

3.2.3 Zara's Scandal

In November 2017, Zara customers declared finding messages in their clothes left by unpaid workers. Shoppers in a Zara store in Istanbul found attached tags saying "I made this item you are going to buy, but I didn't get paid for it" (Fig. 1). Workers tried this action which appears as last chance for them to affirm that they had not been paid their wages for 3 months at the Bravo Tekstil factory in Turkey where Inditex's, Zara's parent company, had indeed been manufacturing clothing.

Fig. 1 A handmade label that shocked the world: "I made this item you are going to buy, but I didn't get paid for it." The workers claim

According to Inditex speaks person: "Inditex has met all of its contractual obligations to Bravo Tekstil and is currently working on a proposal with the local industrial affiliate, Mango, and Next to establishing a hardship fund for the workers affected by the fraudulent disappearance of the Bravo factory's owner" (Petter 2017). Inditex responded later to the crisis, by conducting three types of audits: Pre-assessment, social audits and special audits such as visits and inspections of the workers' safety without prior notice with a total of 10,883 audits in 2016 (Inditex Group 2012a).

3.2.4 Zara Sustainability History

Zara has begun to consider sustainability into account by carrying out at least some measures to minimize climate change using superior raw materials, such as organic cotton (Zara Web). Zara also, after efforts of Greenpeace campaigners, has been signed the Detox Commitment putting an end to using critical chemicals from their manufacturing process by 2020 (Greenpeace Int 2012).

The Spanish fast-fashion retailer, Inditex the owner of Zara has been ranked among the most sustainable company in the global retailing industry by the Dow Jones Sustainability Index (DJSI) (2018) for 3 years. It's noticeable that after 2011 the scoring average is almost stabilized at 80%, which is a very good score, but that reflects that the group cannot show progress anymore (Fig. 2).

In the following next discussion and for Zara's case we will focus on social issues as this is the dimension shown violated during the scandals. To improve working conditions in its supply chain Zara, collaborate from 2011 with many organizations, for instance, the Ethical Trade Initiative (Isla 2016).

The main tool used by Inditex to communicate with its stakeholders the sustainability strategy is its code of conduct. The code is an official statement of Inditex's values that govern relations with each of their stakeholders. The Inditex Code of Conduct, which sets out the minimum work standards to be met by all Zara's supplier factories, states that the maximum number of hours that workers can complete throughout their supply chain is 48, with an additional 12 h/week (Inditex Group 2012b).

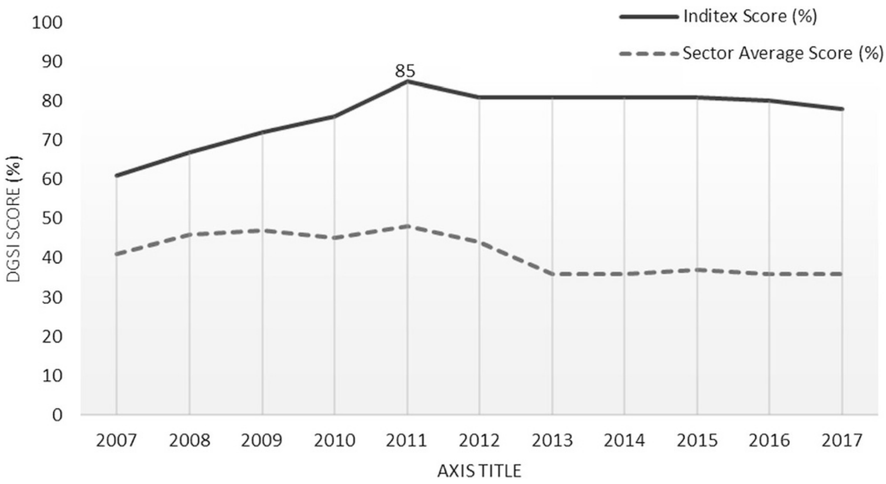

Fig. 2 INDITEX score in DJSI (own elaboration based on the information provided by Inditex annual reports 2018)

4 Findings and Discussions

4.1 Volkswagen Case Analysis

Volkswagen's Code of Conduct brings out the strategy of the company showing the engagement that improves environmental adaptation by producing ecological efficient products around the world. It is a wide range of guidelines sets out the strategy for global and individual responsibility by which each employee is also accountable (Mullineux et al. 2015). The Code of Conduct published by Volkswagen declares how Volkswagen should act to reach sustainability goals and being the basis for sustainable and successful economic activities. Take responsibility, for the benefit of the shareholders, customers, and employees in compliance with laws, internal rules and international conventions with conformity to Volkswagen's declarations. Significant gaps were found between what Volkswagen claim in their sustainability report and its code of conduct and the reality regarding respecting regulations and environmental protection promises.

By analyzing Volkswagen scandal, the reality appears to be contrary to the text of the Volkswagen's code of conduct that literally says: "We bear responsibility for continuous improvement of the environmental tolerability of our products and for the lowering of demands on natural resources" (Mullineux et al. 2015). The emission scandal where Volkswagen appears cheating the regulation of USA and contradicting itself and its reports by wrong information given about the cars to be tested. The Volkswagen Group Sustainability Report 2015 said that all of its reports, records, and statements are accurate, timely, comprehensible, and true (VW's Annual Report 2015). According to Barnett and Salomon (2006) social and

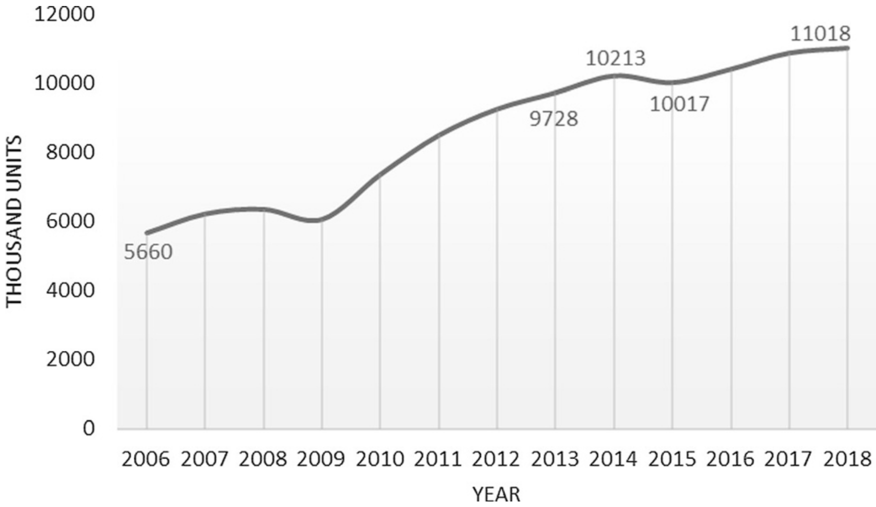

Fig. 3 VW production (own elaboration based on the information provided by Statista 2018)

environmental engagement for a company such as reducing the negative impact on the environment is expensive and distressing from an administrative point of view. Volkswagen seems to select the cheapest choice instead of the first choice left by the industry and the regulations not to mention the regulators and their customers.

VW has been by creating "shift", the sustainability magazine to regain the confidence of public directly after the scandal emission, which attempts as they have been declared to generate understanding outside but in fact to absorb anger and public's rejection.

Volkswagen had an annual loss of 4.1 billion euros in 2015, it was the biggest loss in the past 20 years, and more than what has been expected by the financial analysts in 2016, nonetheless Fig. 3 clearly shows that, based on previous years' expectations, the number of cars produced in 2015 has been reduced between 6 and 7%. We assume, even by the end of 2018, the dilemma of 2015 still affects the overall production and the company is not yet fully on track. However, that decreasing in production doesn't affect the carmaker revenue as present in Fig. 4, the revenue slope keep increasing with almost the ration (≈7.2 Billion/year) from 2012 till 2018, and give a good indicator of how VW has quickly reacted to reduce the scandal financial crisis and the loss to be just 2% of the overall revenue.

Furthermore, by checking the stock of VW we observe that has slumped directly after the scandal (September and October 2015) to restart improving after a short period (see Fig. 5).

Comparing VW's earnings before and after the mentioned scandal, we find no damaging impact instead of an increasing turnover (Table 1).

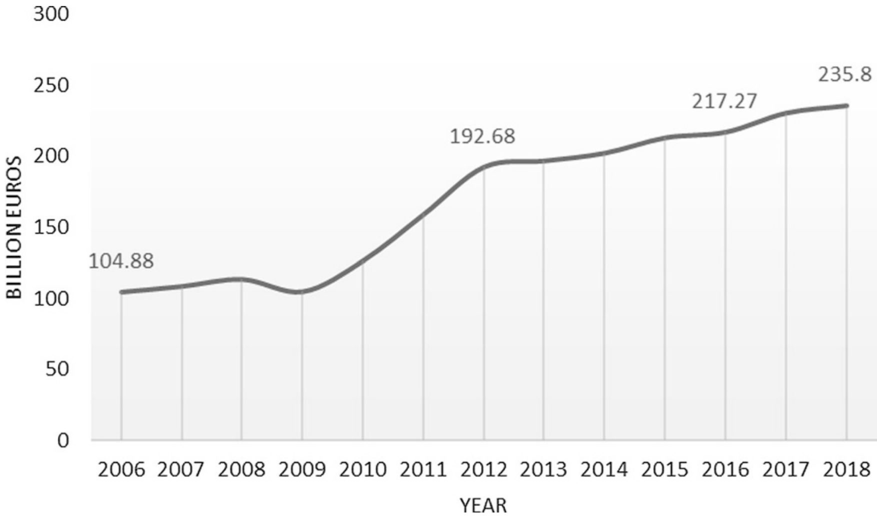

Fig. 4 Sales revenue (own elaboration based on the information provided VW's website 2019)

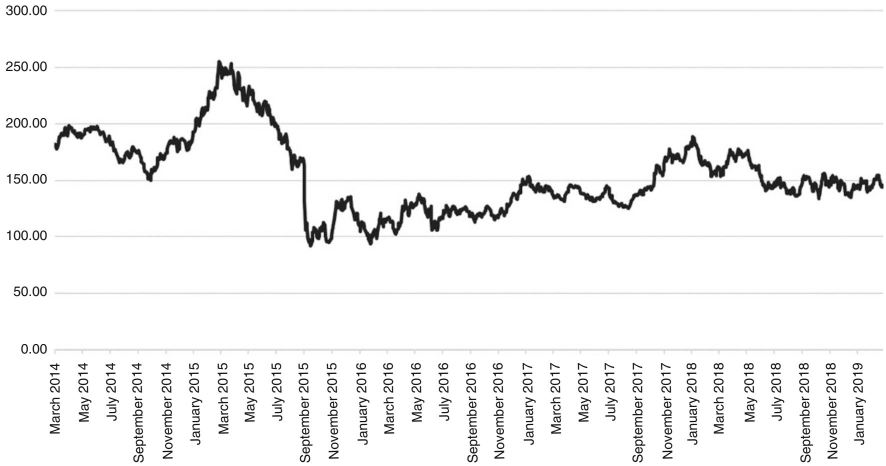

Fig. 5 Stock analysis over 5 years (own elaboration by the information collected from finance. yahoo 2019)

Table 1 vw's revenue before and after scandal

Release date	Period end	Revenues
Apr 28, 2016	12/2015	53.03B
Oct 28, 2015	09/2015	51.49B

4.2 Zara Case Analysis

For Zara, Sustainability should enter into play at every phase of the clothes' life, from the premier design to the recycling when they are exhausted.

According to Inditex's official website (the parent company of Zara, Zara Contributes About 80% of Inditex's revenues), the group clearly declared a commitment to people: "people are at the heart of everything we do. our employees have a shared vision of value built on sustainability" (Inditex 2016).

Zara was putting under investigation of unethical work practices more than time. The last one was in April 2013 when the workers' rights group discovered the use of slaves in Zara factories in Argentina. In that time Bolivian immigrant workers, including children, were found producing clothing labels under humiliating conditions, according to the investigators (Osborne 2013). The Bolivian workers primarily claimed that they worked more than 13 h/day and were forbidden from leaving the factories without permission (Roper 2013). The same scenario happened in 2011 when a group of laborers about 15 Bolivian and Peruvian immigrants with a minimum age of 14, were rescued from an unauthorized factory, in Brazil, where Zara's clothes are made. The laborers lived in unsafe and unhealthy conditions and were forced to work for 12 h just for £95–£176 a month which keeps them living in poverty (Roper 2013). Consequently, more than the problem was exposed in this situation regarding working hours, wages, working health and worker's safety. In this regard, the reality appears to be contrary to the text of the company's code of conduct that literally says: "Inditex is committed to guaranteeing its employees safe and healthy working environments where equal opportunity, work-life balance, and professional development are a reality" (Inditex Annual Report 2016). It is not enough to say that "our people are our greatest asset".

Inditex implements projects aimed to increase the productivity and efficiency of production, in order to ameliorate the working methods and systems of their workers (Inditex Annual Report 2016). After all, no concrete results have been reported. However, concrete information on minimum living wage payments accomplished is not published.

According to Inditex, in 2016 the strategy of "2014–2018 Stable and Sustainable Supply Chain Plan" overshoot the midway of execution with a very high level of conformity (Inditex Group 2012a).

Zara brand does not have a published list of direct suppliers, which collectively contribute more than 90% of the production when other companies such as Adidas, H&M, Levi Strauss & Co, Nike, and Converse do that. The pretext behind that was for commercial reasons.

Inditex didn't report clearly any outcome of its respective measures for the fabric manufacturing stages when the fabric manufacturing stages should be confirmed as socially adequate by an independent third party (Inditex Group 2012a).

Which calls into question whether Zara has a confidential complaint mechanism in its laborers' workplace to reclaim any possible violation in their supply chain, and

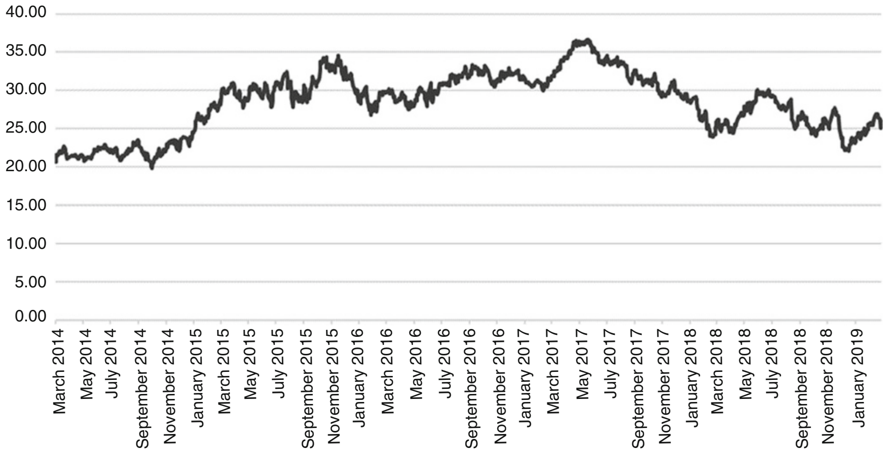

Fig. 6 Inditex stocks over 5 years (own elaboration by the information collected from finance. yahoo 2019)

Table 2 Zara revenue before and after scandal

Release date	Period end	Revenues
Mar 14, 2018	01/2018	7.37B
Dec 13, 2017	10/2017	6.29B

subsequently which cannot let for them any chance to speak about bad or abusive conditions without fear of consequences.

In their official website, we can read this highlighted phrase: "We only work with suppliers who comply with our requirements" (Zara's web 2016).

By following the stock of Inditex we observe that there is no extraordinary drop or lost after the scandals (see Fig. 6) which represent no damaging impact causing by scandals.

A comparison of Inditex revenues before and after that the scandal mentioned above have no impact on their revenues. Indeed, it shows an increase in revenue (2018) as shown in Table 2.

In general, our findings give extra evidence that companies seem to be using sustainability reporting to legitimize their actions and products. At first glance at the sustainability reports, it seemed they would do a lot on sustainability issue, but when digging deeper, we will find many violated points. The companies report shows only the results of successful projects while remaining silent about their nasty performance.

Findings of this study indicate the inefficiency of the systemic sustainability reporting between talking and performing. Transparency is a major problem, the lack of knowledge about where the resources come from, how the products are made and in which circumstances were manufactured. Customers have the right to know that their money does not support exploitation, violations of human rights or environment eradication. It is impossible to keep companies and governments responsible if we do not see what is really happening behind the scene that is why transparency is important. Transparency and cooperation across the supply chain are essential to avoid losing important information. The potential role of communication the goals is promoting sustainability rather than cheating or speaking. Knowledge management seems to be a solution to avoid unethical organizational behaviour.

5 Conclusions

The primary intent of this investigation was to identify whether companies' sustainable performance is reflected in perceptions of their sustainability reporting or not.

Our work has led us to conclude that some companies have better outcomes by evaluating their code of conduct, which shows the company's policy, for instance, working conditions. The study shows that there is an important gap between reporting for sustainability and the factual engagement of some companies in sustainability. In reality, there is no transparent sustainability reporting, this is because it is difficult, but not impossible. It is definitely possible that companies make promises they do not keep, as shown in those two cases. However, although with the promises explicitly declared in the sustainability reports, it's easier for social and environmental rights activists to remain the brands under pressure to be more responsible toward sustainability. Therefore, these pledges are still a good step better than nothing.

Corporations should treat their knowledge resources in a manner to provide a convenient environment for their members to let decisions knowledgeable and act to solve problems. Gillies et al. (2011) outlines the primary aim of knowledge management as maximizing the advantage of knowledge for the benefit of the organization. Developing confidence and credence among Managers and staff, and recruiting the qualified and competent person to be in charge of sustainability management when determining the company's sustainability program and, would be useful to fight against the appearance of greenwashing (Post et al. 2015) .Therefore, further research will be helpful to examine whether Knowledge management could solve this gap.

Limitations: We aware that our research may have limitations. The present study has only investigated two companies. Further work on examination knowledge management, would help us to improve accountability in sustainability reporting.

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Does Intangible Intensity Affect Analyst Accuracy? Some Evidence from Spanish Firms

Elena Ferrer, Rafael Santamaría, and Nuria Suárez

1 Introduction

The degree of information asymmetry is not homogeneous across firms, being higher in the case of those ones with specific characteristics that foster higher level of opaqueness around them. Previous research has examined the set of firm-level characteristics that make possible to find firms with higher levels of information asymmetries than others. In this sense, the different kinds of investments could be an important factor to determine the degree of firm's informational problems. In this vein, intangible assets are more complex and estimates of their fair values are not usually disclosed.[1] Moreover, investments on intangible assets, compared to tangible investments, involve much greater uncertainty about returns and are subject to potential transfers of risk to third parties (*risk-shifting* problems). Furthermore, given their inherent characteristics, intangible assets provide little or no collateral value (Hall 2002). According to Aboody and Lev (2000), insider-trading profits are higher in firms with high intangible intensity, suggesting that insiders exploit inside information on Research & Development (henceforth R&D) activities. Managers may

Rafael Santamaría (In memoriam)

[1]Goodwill, brand recognition and intellectual property, such as patents, trademarks and copyrights, are examples of intangible assets in the balance sheet. Intangible activity could also be approached with the expenses the firm dedicates to its research and development activities.

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also be reluctant to disclose private information because of proprietary cost concerns (Verrecchia 2001) or because of uncertainty about the capital market's response to disclosures (Nagar 1999).

Given this previous evidence, financial research has tried to identify potential mechanisms through which information asymmetries among firm's stakeholders could be reduced. It has been demonstrated that financial analysts' activity acts as a channel to reduce information asymmetries and monitor management activity and incentives (Hong et al. 2000; Yu 2008; Ellul and Panayides 2018). Moreover, and directly related to our research interests, previous papers report a negative association between intangible intensity and analysts' forecast accuracy (Gu and Wang 2005; Matolsky and Wyatt 2008; Higgins 2013). According to this set of articles, the negative relationship between firms' investments on intangible assets and analysts' forecasts is justified because of the difficulty of processing complex intangible information. This effect indeed provokes lower availability of accurate information in the market and, thus, less efficiency in the allocation of investors' financial resources. The strength of this association, however, could be shaped by other firm-level characteristics and firms' disclosure policies. Jones (2007), in fact, provides evidence of an association between analysts' forecast accuracy and intangible-related disclosures, in the sense that forecasts for intangible assets are associated with firms' future earnings and potentially convey useful information to investors and analysts.

Therefore, the goal of this chapter is to examine the relationship between firms' intangible intensity and the accuracy of analysts' forecasts of a sample of Spanish firms during the period 2000–2016. Moreover, we consider that this relationship between accuracy and intangible investments could be affected by other specific firm-level characteristics traditionally used to define the difficulty of valuation and arbitrage of each company. These hard-to-value and difficult-to-arbitrage firms (HVDA) have been usually referred to in the literature by various terms, as noted by Del Rio and Santamaria (2016). Kumar (2009) associates these kinds of firm-level features with valuation uncertainty, whereas Jiang et al. (2005) relates them to the degree of information uncertainty. Other characteristics of these firms are higher information acquisition costs and greater information risk (Shleifer and Vishny 1997; Barberis and Thaler 2003). Ceteris paribus, the level of analysts' forecast error should not be indifferent to these characteristics and, therefore, the relationship between intangible intensity and analysts' information could be affected.

This study contributes to the literature on the relationship between firms' intangible intensity and analysts' forecast accuracy in the following terms. First, the basic results show that the accuracy of analysts' forecasts is lower in the case of Spanish firms with higher level of investments on intangible assets. This significant negative relationship is robust to the inclusion of control variables for analysts' characteristics, such as analysts' coverage or dispersion in consensus forecasts. The usefulness of this set of control variables relies on its ability to rule out the possibility that the influence attributed to intangible investments is not caused by alternative analysts' characteristics. Moreover, the negative relationship between firms' intangible assets and accuracy of analysts' information remains after considering additional firm-level characteristics that traditionally define the HVDA firms.

Third, this chapter shows that the influence of intangible intensity on analysts' accuracy is not homogeneous across firms but it varies depending on the specific firm-level characteristics. In particular, our results suggest that, jointly considered, intangible intensity and HVDA characteristics increase information asymmetries and promote a lower level of financial analysts' accuracy.

Forth, we test the explanatory power of the firm-level quality of accounting information and the introduction of the International Financial Reporting Standards (IRFS) in 2005 on analysts' accuracy. Our empirical evidence shows that the basic results remain completely invariant.

Finally, we also consider that both the recent episode of financial crisis and the European sovereign debt crisis could have had also an impact on analysts' accuracy and could have influenced the relationship between firms' intangible intensity and the accuracy of analysts' information. Our findings show that the impact of intangible investments on the accuracy of analysts' forecasts for our sample of Spanish firms remains after taking into account the individual effect of both the global financial crisis and the debt crisis in Europe.

The rest of the chapter is organized as follows. Section 2 describes the sample selection criteria, database, variables and methodology. In Sect. 3 we present our empirical findings. Finally, Sect. 4 concludes.

2 Empirical Analysis

2.1 Sample and Database

We use data for a sample of listed Spanish firms examined during the 2000–2016 period. The data used in the analysis are an unbalanced panel of firm-year observations. The sample excludes firms whose analyst following may be influenced by special factors: the finance industry (SIC codes 60–69) and regulated enterprises (SIC codes 40–49, and 91–97). All variables are winsorized at the 1st and 99th percentiles. Hence, we transform our data by limiting extreme values in our sample of firms in order to mitigate the impact of potential outliers. The accounting variables used to construct the proxies for firms' intangible intensity and some of the firm-level controls are taken from OSIRIS. This is a database provided by Bureau Van Dijk that reports financial and accounting information on listed, and major unlisted/delisted, companies across the globe. Analysts' forecasts data were drawn from the FACTSET database. The firms included in the analysis are all those with available data from the above-mentioned sources. The final number of available observations is reduced to 700 firm-year observations, comprising 83 Spanish firms.

2.2 Variables

Our dependent variable is the accuracy of analysts' information (ACC) and it is based in its construction on the earnings per share (EPS) forecasts analysts made each year for each firm in our study. Data on these forecasts and the actual annual EPS are drawn from the FACTSET database. Analysts' accuracy indicates the bias of analysts comparing their forecasts with the realized earnings by the firm. The first step is to calculate the forecast error (FE). It is computed as the difference between actual EPS for the fiscal year *t* and firm *i* in industry j, minus the EPS consensus forecast made by analysts in year *t* for fiscal year *t* and firm *i* in industry *j*, scaled by the absolute value of the EPS consensus forecast.

$$FE_{ijt} = \frac{EPSactual_{ijt} - EPSconsensus_{ijt}}{abs\left(EPSconsensus_{ijt}\right)} \tag{1}$$

Accuracy (ACC) is, therefore, interpreted as how much further away the forecast is from the realized earnings, the precision of analysts in their forecasts independently if the forecasts is higher or lower than the realized earnings. As in Mansi et al. (2011), analysts' EPS forecast accuracy is defined as the negative absolute value of the analysts' EPS forecast errors.[2] Values close to 0 indicate higher accuracy, while those less close to 0 indicate deviation from the consensus.

$$ACC_{ijt} = -ABS\left(FE_{ijt}\right) \tag{2}$$

Our main explanatory variable is the relevance of firms' investments on intangible assets. Following Higgins (2013), intangible intensity is proxied by the ratio intangible assets on the balance sheet to market value of equity (INTANG), for firm *i*, in industry *j*, and in period *t*. Other alternative measures to proxy intangible activity by firms are: R&D expenses or the depreciation and amortization variable. As scalars, total assets or total operating expenses are options less used by previous works. We test the robustness of our results with the inclusion of some of them, however, and the results remain the same.[3]

Since we also need to control for additional standard firm-level characteristics potentially affecting the accuracy of analysts' forecasts, we follow previous financial literature and in all the estimates of our model include firm size (SIZE), measured as the natural logarithm of total assets at the end of the previous year. Consistently with Higgins (2013), we also include the standard deviation of ROA (DESVROA) over the past 10 years. Following this author, we also include control variables defining analysts' activity. In particular, we consider NUMEST and SIGMA, as the number

[2]To check the robustness of our results, we run the analysis with different alternatives of forecast error measures. Scaling by the price of the previous year, or dealing with problems of small scalars are some of them. Our results remain invariant to these considerations.

[3]The results are available from the authors upon request.

of forecasts (as proxy of the number of analysts that follow the firm) used to compute the consensus and the dispersion of the forecasts forming the consensus, respectively. With this set of variables, we try to capture the whole information environment affecting our sample of firms.

Table 1 shows the descriptive statistics of the variables included in the analysis (Panel A) and the correlation matrix (Panel B) between the main variables.

2.3 Methodology

In order to examine the relationship between firm's intangible intensity and the accuracy of analysts' information, we test the following basic model:

$$ACC_{ijt} = \alpha + \beta_1 INTANG_{ijt} + \sum_{r=1}^{s} \beta_{r+1} CONTVAR_{ijt} + \delta_j + \lambda_t + \varphi_{jt} + \mu_{i,} + \varepsilon_{ijt} \quad (3)$$

where the dependent variable is analysts' accuracy for firm *i*, in industry *j* at period *t*. All estimations include a set of firm-level control variables ($CONTVAR_{ijt}$) potentially affecting accuracy. The vector of control variables includes *SIZE, DESVROA, NUMEST,* and *SIGMA*. In further extensions of model [3], we also examine the potential moderating/magnifying effect of stock-level characteristics identifying HVDA firms, the quality of accounting information, and the potential influence of both the financial and European sovereign debt crisis episodes. An important concern here is that firms' intangible intensity is likely to be endogenously determined. To control for potential endogeneity among the firm-level explanatory variables, we apply two different procedures. In our baseline estimation, we control for the firm's initial level of accuracy of analysts' forecasts (ACC_{ij}*_Initial*). In further specifications of our econometric models, we include all the firm-level explanatory variables lagged by one period.

Finally, the estimation includes different combinations of fixed specific effects: industry-level fixed effects (δ_j), year-level fixed effects (λ_t), and industry-year (φ_{jt}) fixed effects to control for potential industry-year specific effects common to all industries in a given year. The aim is to account for potential misspecification of the empirical model and control for any shocks that might affect analyst accuracy and that are not directly contained in our explanatory variables. μ_i is a firm-specific effect, which is assumed to be constant for firm *i* over *t*. ε_{ijkt} is the white noise error term.

Table 1 Descriptive statistics and correlations

	ACC	INTANG	SIZE	DESVROA	NUMEST	SIGMA	PCA	VOL	MV	BTM	DPS
PANEL A: Descriptive Statistics											
Mean	–0.5852	0.3348	6.2441	0.0408	11.3957	–0.0250	0.1385	0.1442	0.0328	0.1885	0.2242
Median	–0.6061	0.1305	6.2131	0.0266	9	0.1190	0	0	0	0	0
Maximum	0	3.9962	7.9628	0.6875	41	101.52	1	1	1	1	1
Minimum	–1.0646	0	4.6168	0.0002	2	–239.2271	0	0	0	0	0
StDev	0.4459	0.6032	0.7229	0.0596	7.7185	9.9994	0.3457	0.3516	0.1783	0.3914	0.4174
PANEL B: Correlations											
ACC	1.0000										
INTANG	–0.1837***	1.0000									
SIZE	–0.1784***	0.1340***	1.0000								
DESVROA	0.0646*	0.0453	–0.1473***	1.0000							
NUMEST	0.1018***	–0.0799**	0.6742***	–0.0225	1.0000						
SIGMA	–0.0180	–0.0014	0.0034	–0.0330	0.0227	1.0000					
PCA	0.1431***	0.3305***	–0.1489***	0.0842**	–0.1744***	–0.0866**	1.0000				
VOL	0.0810**	0.3272***	0.0128	0.0309	–0.0595	–0.0984***	0.5178***	1.0000			
MV	–0.0761**	0.1667***	–0.2655***	0.0474	–0.1934***	–0.0027	0.2972***	0.0840**	1.0000		
BTM	–0.1092***	0.3064***	–0.0661*	0.0220	–0.1587***	–0.0712*	0.6100***	0.2698***	0.3004***	1.0000	
DPS	–0.1116***	0.3050***	–0.2381***	0.1044***	–0.2452***	–0.0794**	0.4089***	0.2081***	0.2467***	0.2311***	1.0000

This table shows the descriptive statistics and correlation matrix of the main variables. *ACC* is defined as the ratio of the difference between 1-year-ahead median consensus forecast and actual earnings, scaled by the absolute value of the earnings forecast. *INTANG* is the ratio of intangibles to market value of equity. *SIZE* is measured as the natural log of total assets. *DESVROA* is calculated as the standard deviation of RoA over the past 10 years. *NUMEST* is a variable measuring the number of forecasts used to compute the consensus. *SIGMA* is defined as the degree of dispersion in the consensus. HVDA firms are identified using the following four basic asset characteristics: volatility (*VOL*), computed as standard deviation over the last 12 months; firm size (*MV*) measured by market capitalization, book-to-market ratio (*BTM*), and the dividend per share ratio (*DPS*). *PCA* is an indicator to capture the commonality between these four characteristics. *, ** and *** indicate statistical significance at 10, 5, and 1%, respectively

3 Results

3.1 Intangible Intensity and Analyst Accuracy

We first test the impact of intangible intensity on the accuracy of analysts' earnings forecasts. Results are presented in Table 2. In columns (1)–(3), we provide the results of estimates using the initial value of the dependent variable (*ACC_{ij}_Initial*) plus the

Table 2 Intangible intensity and analyst accuracy

	(1)	(2)	(3)	(4)	(5)	(6)
INTANG	–0.0969*** (–3.50)	–0.0644** (–2.17)	–0.0642** (–2.16)			
$INTANG_{t-1}$				–0.0631** (–2.01)	–0.0487 (–1.44)	–0.0488 (–1.44)
ACC_{ij}_Initial	0.4444*** (5.56)	0.4498*** (5.26)	0.4511*** (5.21)			
SIZE	–0.2652*** (–6.53)	–0.0845 (–1.38)	–0.0878 (–1.43)	–0.2821*** (–5.97)	–0.0663 (–0.90)	–0.0655 (–0.89)
DESVROA	–0.2015 (–0.61)	–0.1765 (–0.52)	–0.1835 (–0.54)	0.0237 (0.06)	–0.2909 (–0.77)	–0.2839 (–0.75)
NUMEST	0.0126*** (3.67)	0.0055 (1.37)	0.0055 (1.36)	0.0121*** (3.12)	0.0054 (1.17)	0.0051 (1.11)
SIGMA	–0.0013 (–1.08)	-0.0008 (–0.67)	–0.0008 (–0.68)	0.0009 (0.66)	0.0013 (0.97)	0.0013 (0.96)
Industry – Year Dummies	Yes	Yes	No	Yes	Yes	No
Industry Dummies	No	Yes	Yes	No	Yes	Yes
Year Dummies	No	No	Yes	No	No	Yes
R^2	0.3016	0.6259	0.6228	0.0830	0.4770	0.4771
Wald Test (p-value)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
#Observations	700	700	700	579	579	579
#Firms	83	83	83	72	72	72

This table shows the results of the effects of intangible assets on the accuracy of analysts' forecasts. Columns (1)–(3) present the results using the contemporaneous values of the explanatory variables. In columns (4)–(6) we use the explanatory variables lagged by 1 year. The dependent variable, *ACC*, is defined as the ratio of the difference between 1-year-ahead median consensus forecast and actual earnings, scaled by the absolute value of the earnings forecast. *INTANG* is the ratio of intangibles to market value of equity. *ACC_{ij}_Initial is* the value of the dependent variable in the first year of our sample period (2000 or earliest available). *SIZE* is measured as the natural log of total assets. *DESVROA* is calculated as the standard deviation of RoA over the past 10 years. *NUMEST* is a variable measuring the number of forecasts used to compute the consensus. *SIGMA* is defined as the degree of dispersion in the consensus. T-statistics are in parentheses. *** and ** indicate statistical significance at 1 and 5%, respectively contemporaneous value of the rest of explanatory variables. Columns (4)–(6) show the results of the basic estimations using lagged values of the explanatory variables as an alternative method to reduce potential endogeneity concerns. In columns (1) and (4), we include the industry-year fixed effects. Results presented in columns (2) and (5) are obtained using both industry-year fixed effects and individual industry dummies. Finally, in columns (3) and (6) we consider the set of both individual industry- and year-level fixed effects. In four out of the six estimations of Table 2, we find a negative and statistically significant coefficient for our proxy of intangible intensity. Although negative, the coefficient of the INTANG variable is not statistically significant at conventional levels in columns (5) and (6). Given these results, we can confirm that there is a significant negative correlation between firm's intangible intensity and analysts' accuracy, consistently with higher investment in intangible assets being associated with higher information asymmetries between investors and managers. However, the lack of a statistically significant coefficient for our proxy of intangible investments in columns (5) and (6) is that we motivate our set of robustness tests in order to be sure that the observed relationship between intangible investments and analysts' accuracy is not a spurious one.

Regarding the remaining firm-level control variables, firm size (*SIZE*) shows a negative coefficient in columns (1) and (4). *NUMEST* presents a positive coefficient in all the regressions presented in Table 2, although it is only statistically significant in columns (1) and (4). This result may suggest that the greater the number of analysts following a firm, the lower the information asymmetries and the higher the accuracy of their forecasts. *DESVROA* and *SIGMA* do not statistically affect, on average, the accuracy of analysts forecast of our sample of Spanish firms.

3.2 Intangible Intensity, Analyst Accuracy, and Firm-Level Characteristics

Previous studies have shown that some characteristics of firms make them more difficult to value and arbitrage, more sensitive to behavioural biases (Baker and Wurgler 2006), and their earnings forecasts more likely to be biased by optimistic behaviour by investors (Corredor et al. 2014). The characteristics of the type of stocks followed by analysts show that stocks that are hard to value and to arbitrage are, in fact, those less considered—or with lower coverage—by analysts. Thus, the observed effect of intangible intensity on the accuracy of analysts' forecasts raises the possibility that high intangible intensive firms may constitute a subset of those firms identified by previous literature as hard-to-value and difficult-to-arbitrage (HVDA) firms. In line with these studies, HVDA firms are identified using the following four basic asset characteristics: volatility, firm size, book-to-market ratio and dividend per share ratio. Previous research has shown that small firms with low dividend payout, high default risk, and high volatility are more likely to be affected by behavioural biases and, thus, become HVDA firms.

In order to address the role of this type of firms in the relationship between analysts' accuracy and intangible activity, we classify the stocks into quintiles according to: volatility (VOL), computed as the standard deviation of stock returns over the last 12 months; firm size (MV), measured by market capitalization, book-to-market ratio (BTM), and the dividend per share ratio (DPS). More specifically, the quintiles identified as hard-to-value quintiles include the first quintiles in the case of size and dividend (the smallest firms and those with the lowest dividend paying); and the fifth quintiles in the case of volatility and BTM, that is, those grouping firms with more volatile stocks and high default risk, respectively. The data to calculate these HVDA characteristics come from the Datastream (Thomson Eikon) database. To construct a single variable to proxy for these HVDA firms, we construct an indicator to capture the commonality between the above four characteristics using a Principal Components Analysis (PCA) approach.

Therefore, the model to be estimated is specified as follows:

$$ACC_{ijt} = \alpha + \beta_1 INTANG_{ijt} + \beta_2 HVDA_{ijt} + \beta_3 INTANG_{ijt} * HVDA_{ijt} + \sum_{r=1}^{s} \beta_{r+3} CONTVAR_{ijt} + \delta_j + \lambda_t + \varphi_{jt} + \mu_{i,} + \varepsilon_{ijt} \tag{4}$$

$HVDA_{ijt}$ is a vector of dummy variables that take the value 1 if firm i in industry j at period t is in the fifth quintile of the different variables traditionally used to identify the HVDA firms (PCA, VOL, MV, BTM, DPS); and 0 otherwise. This analysis has two main purposes. First, by controlling for these firm-level variables, we check the robustness of our basic results. For instance, if intangible intensity is proxying for HVDA firms characteristics, then controlling for this set of firm-level additional variables will drive out the significance of intangibility intensity and explain the reasons for potential significant coefficients of the variable INTANG in our baseline regressions. In addition to this, this analysis will allow us to check if HVDA firms' characteristics have an independent influence on the accuracy of analysts' forecasts. According to previous arguments, we would expect to find a lower level of analysts' accuracy when the presence of these HVDA characteristics is more important. Second, after controlling for the direct influence of these characteristics, we also analyze how PCA, VOL, MV, BTM, and DPS, interact with INTANG to potentially shape the influence on analysts' information accuracy. Methodologically, we include interaction terms between the variable that proxies for the degree of firms' intensity on intangible assets and each of the above-mentioned measures of firm's HVDA characteristics.

Results of this analysis are presented in Tables 3 and 4. In Table 3, we present the results of our basic model to explain the impact of intangible intensity on the accuracy of analysts' information, considering the variables composing the $HVDA_{ijt}$ vector as additional control variables. In this case, and given the findings presented in Table 2, we introduce the initial value of the dependent variable and the contemporaneous value of each firm-level control as explanatory variables. We additionally include PCA, VOL, MV, BTM, and DPS as additional control variables, in a

Table 3 Intangible intensity, analyst accuracy, and firm-level characteristics: firm-level controls

	(1)	(2)	(3)	(4)	(5)
INTANG	–0.0724** (–2.49)	–0.0940*** (–3.27)	–0.0794*** (–2.78)	–0.1028*** (–3.51)	–0.0837*** (–2.94)
PCA	–0.1148*** (–2.66)				
VOL		–0.0146 (–0.38)			
MV			–0.1972** (–2.34)		
BTM				0.0237 (0.62)	
DPS					–0.0793* (–1.90)
ACC_{ij}_Initial	0.4408*** (5.50)	0.4444*** (5.53)	0.4320*** (5.36)	0.4457*** (5.53)	0.4320*** (5.37)
SIZE	–0.2755*** (–6.77)	–0.2658*** (–6.53)	–0.2881*** (–6.91)	–0.2655*** (–6.51)	–0.2717*** (–6.67)
DESVROA	–0.1582 (–0.48)	–0.1988 (–0.60)	–0.2096 (–0.63)	–0.2122 (–0.64)	–0.1720 (–0.52)
NUMEST	0.0123*** (3.59)	0.0125*** (3.62)	0.0124*** (3.61)	0.0126*** (3.65)	0.0115*** (3.31)
SIGMA	–0.0014 (–1.13)	–0.0013 (–1.11)	–0.0013 (–1.10)	–0.0013 (1.07)	–0.0014 (–1.15)
Industry – Year Dummies	Yes	Yes	Yes	Yes	Yes
R^2	0.3097	0.3003	0.3006	0.2967	0.2995
Wald Test (p-value)	0.0000	0.0000	0.0000	0.0000	0.0000
#Observations	700	700	700	700	700
#Firms	83	83	83	83	83

This table shows the results of the effects of intangible assets on the accuracy of analysts' forecasts controlling for firm-level characteristics that identify the HVDA firms. The dependent variable, *ACC*, is defined as the ratio of the difference between 1-year-ahead median consensus forecast and actual earnings, scaled by the absolute value of the earnings forecast. *INTANG* is the ratio of intangibles to market value of equity. *ACC_{ij}_Initial is* the value of the dependent variable in the first year of our sample period (2000 or earliest available). *SIZE* is measured as the natural log of total assets. *DESVROA* is calculated as the standard deviation of RoA over the past 10 years. *NUMEST* is a variable measuring the number of forecasts used to compute the consensus. *SIGMA* is defined as the degree of dispersion in the consensus. HVDA firms are identified using the following four basic asset characteristics: volatility (*VOL*), computed as standard deviation over the last 12 months; firm size (*MV*) measured by market capitalization, book-to-market ratio (*BTM*), and the dividend per share ratio (*DPS*). *PCA* is an indicator to capture the commonality between these four characteristics. T-statistics are in parentheses. *, ** and *** indicate statistical significance at 10, 5, and 1%, respectively

Table 4 Intangible intensity, analyst accuracy, and firm-level characteristics: Interaction terms

	(1)	(2)	(3)	(4)	(5)
INTANG	–0.0206 (–0.52)	–0.0819** (–2.13)	–0.0819*** (–2.72)	–0.0459 (–1.00)	–0.0244 (–0.59)
PCA	–0.0716 (–1.45)				
VOL		–0.0034 (–0.08)			
MV			–0.2157** (–2.00)		
BTM				0.0550 (1.25)	
DPS					–0.0320 (–0.66)
INTANG * PCA	–0.0920* (–1.85)				
INTANG * VOL		–0.0226 (–0.48)			
INTANG * MV			0.0179 (0.27)		
INTANG * BTM				–0.0836 (–1.59)	
INTANG * DPS					–0.0977* (–1.94)
ACC_{ij}_Initial	0.4483*** (5.74)	0.4449*** (5.58)	0.4320*** (5.32)	0.4522*** (5.83)	0.4391*** (5.52)
SIZE	–0.2811*** (–6.95)	–0.2657*** (–6.54)	–0.2888*** (–6.91)	–0.2673*** (–6.64)	–0.2788*** (–6.85)
DESVROA	–0.1458 (–0.45)	–0.1942 (–0.59)	–0.2057 (–0.63)	–0.1896 (–0.58)	–0.2006 (–0.61)
NUMEST	0.0128*** (3.75)	0.0126*** (3.66)	0.0123*** (3.58)	0.0134*** (3.90)	0.0118*** (3.40)
SIGMA	–0.0013 (–1.12)	–0.0013 (–1.09)	–0.0013 (–1.10)	–0.0013 (–1.04)	–0.0013 (–1.11)
Industry – Year Dummies	Yes	Yes	Yes	Yes	Yes
R^2	0.3286	0.3049	0.2988	0.3219	0.3089
Wald Test (p-value)	0.0000	0.0000	0.0000	0.0000	0.0000
#Observations	700	700	700	700	700
#Firms	83	83	83	83	83

This table shows if the effect of intangible assets on the accuracy of analysts' forecasts is shaped by the firm-level characteristics that identify the HVDA firms. The dependent variable, *ACC*, is defined as the ratio of the difference between 1-year-ahead median consensus forecast and actual earnings, scaled by the absolute value of the earnings forecast. *INTANG* is the ratio of intangibles to market value of equity. *ACC_{ij}_Initial is* the value of the dependent variable in the first year of our sample period (2000 or earliest available). *SIZE* is measured as the natural log of total assets. *DESVROA* is calculated as the standard deviation of RoA over the past 10 years. *NUMEST* is a variable measuring the number of forecasts used to compute the consensus. *SIGMA* is defined as the degree of dispersion in the consensus. HVDA firms are identified using the following four basic asset characteristics: volatility (*VOL*), computed as standard deviation over the last 12 months; firm size (*MV*) measured by market capitalization, book-to-market ratio (*BTM*), and the dividend per share ratio (*DPS*). *PCA* is an indicator to capture the commonality between these four characteristics. T-statistics are in parentheses. *, ** and *** indicate statistical significance at 10, 5, and 1%, respectively sequential way. The idea is to check if our basic results, this is, the negative effect of intangible intensity on the accuracy of analysts' forecasts, remains after controlling for these specific characteristics that usually define HVDA firms.

As it can be observed, the inclusion of the proxies for HVDA firms has no impact on the statistically significant negative relationship previously found between firms' intangible asset intensity and the accuracy of their analysts' earnings forecasts, thus validating our basic hypothesis. Regarding the HVDA characteristics, we find negative and statistically significant individual coefficients in the case of PCA, MV, and DPS. These results indicate that a higher value of the proxy for HVDA firms negatively affects analysts' accuracy, as these variables are indicators of higher information asymmetries and higher firms' opaqueness. In terms of the remaining control variables, we again obtain a negative and significant coefficient for SIZE. As in our basic set of results, NUMEST presents a positive sign for its coefficient in all the estimations of Table 3.

Table 4 reports the results of testing if HVDA characteristics shape the impact of intangible intensity on the accuracy of analysts' information. We find a negative and significant coefficient for the interaction terms INTANG $*$ PCA and INTANG $*$ DPS. Our results, therefore, suggest that the effect of intangible intensity on analysts' accuracy varies across firms depending on their condition of HVDA firms. Specifically, the results indicate that the most negative impact of intangible intensity on the accuracy of analysts' information occurs in the case of HVDA firms when we proxy these types of firms through the PCA and the DPS variables. This is consistent with the idea of intangible intensity and HVDA characteristics acting as complementary features to increase information asymmetries and promote a lower level of analysts' accuracy. However, we should be cautions with this result as, although negative, the interaction terms with the other characteristics identifying HVDA firms (VOL, MV, and BTM) are not statistically significant at conventional levels.

3.3 Intangible Intensity, Analyst Accuracy, and the Role of the Quality of Accounting Information

Financial reporting quality has been traditionally seen as an internal mechanism for reducing information asymmetries among the different firm's stakeholders. Therefore, it could be reasonable to ask whether the quality of accounting information has a significant impact on analysts' forecasting accuracy and if the effect of intangibility intensity remains after controlling for accounting information quality. One way to proxy for the quality of accounting information is by the relevance of the auditing firm (Fortin and Pittman 2004; Piot and Missonier-Piera 2009; Kim et al. 2013). Hence, we firstly consider a dummy variable that takes a value of 1 if the audit firm is one of the Big Four and 0 otherwise (BIG4). The expectation, based on extensive previous literature, is that auditing by one of the Big Four will reduce a firm's information asymmetries. Secondly, another relevant issue related to the quality of accounting information is the introduction of International Financial Reporting Standards (IFRS) for European firms in 2005. It might be interesting, therefore, to see if our basic results hold beyond 2005, when the European firms in the sample began reporting under this legal framework.

In columns (1)–(3) of Table 5, we present the results of our basic estimates controlling for the BIG4 dummy variable. The results obtained using the subsample of years after the implementation of IFRS are reported in columns (4)–(6). We observe that the global negative impact of intangible assets on the accuracy of analysts' forecasts remains after including the BIG4 dummy variable. In line with our expectations, BIG4 has a positive effect on accuracy, although its coefficient is not statistically significant at conventional levels.[4] Moreover, the results for the association between intangible asset intensity and analyst forecasting accuracy hold completely when the subperiod 2005–2016 is considered for our sample of firms.

3.4 Intangible Intensity, Analyst Accuracy, and Crises Episodes

In this section, we test the impact of the recent episode of global financial crisis in the Spanish economy. In particular, we create a crisis dummy variable for its inclusion as a control variable in order to test the robustness of our basic results. Hence, if the above reported negative relationship between intangible intensity and the accuracy of analysts' forecasts is proxying for the negative effect of the crisis years, then controlling for the crisis period will rule out the possibility of the significant effect of intangible intensity on accuracy. Moreover, this analysis allows us to determine whether the crisis has an independent impact on accuracy. In order to check if the negative relationship between investments on intangible assets and analysts' accuracy could be shaped by the crisis years, we include an interaction term between our proxy for intangibility intensity (INTANG) and the dummy variable that identifies the years of crisis in Spain.

Furthermore, we specifically consider that the sovereign debt crisis period in Europe has particularly affected the South European countries and has had a particular negative effect in the Spanish economy. This is why we test if the magnitude of the relationship between intangible assets and accuracy of analysts' information varies depending on the severity of the crisis and on its specific characteristics. Hence, we consider if the debt crisis episode that took place in Europe during the 2010–2012 period has had a specific effect on our basic results. Following Laeven and Valencia (2018), we create a dummy variable for identifying

[4]This absence of statistical significant maybe potentially explained by the simultaneous influence of other channels through which information asymmetries could be reduced. In particular, the effect of the analysts' forecasts.

Table 5 Intangible intensity, analyst accuracy, and the role of the quality of accounting information

	(1)	(2)	(3)	(4)	(5)	(6)
INTANG	–0.0983*** (–3.47)	–0.0626** (–2.02)	–0.0629** (–2.03)	–0.1306*** (–4.59)	–0.1090*** (–3.42)	–0.1155*** (–3.61)
BIG4	0.1675 (1.01)	0.2376 (1.30)	0.2386 (1.23)			
ACC_{ij}_Initial	0.4130*** (4.45)	0.4180*** (3.92)	0.4223*** (3.71)	0.2899*** (2.81)	0.2563* (1.92)	0.2470* (1.84)
SIZE	–0.2721*** (–6.18)	–0.0910 (–1.32)	–0.1045 (–1.49)	–0.1003* (–1.75)	–0.0449 (–0.52)	–0.0504 (–0.58)
DESVROA	–0.2416 (–0.70)	–0.2707 (–0.75)	–0.2930 (–0.80)	–0.0460 (–0.13)	–0.3456 (–0.93)	–0.3152 (–0.84)
NUMEST	0.0121*** (3.30)	0.0039 (0.90)	0.0035 (0.81)	0.0087** (1.99)	0.0089* (1.75)	0.0086* (1.68)
SIGMA	–0.00103 (–1.07)	–0.0008 (–0.69)	–0.0009 (–0.75)	–0.0460 (–0.13)	–0.0012 (–1.11)	–0.0013 (–1.13)
Industry – Year Dummies	Yes	Yes	No	Yes	Yes	No
Industry Dummies	No	Yes	Yes	No	Yes	Yes
Year Dummies	No	No	Yes	No	No	Yes
R^2	0.1939	0.6036	0.5920	0.2560	0.5409	0.5586
Wald Test (p-value)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
#Observations	661	661	661	496	496	496
#Firms	69	69	69	64	64	64

This table shows the results of the effects of intangible assets on the accuracy of analysts' forecasts taking into account the role of the quality of accounting information. In columns (1)–(3), we include BIG4 as an additional control variable. It is defined as a dummy that takes value 1 if the firm is audited by one of the Big 4 auditing companies, and 0 otherwise. In columns (4)–(6) we confine our sample to the years after the implementation of the International Financial Reporting Standards (IFRS) for European firms. Therefore, our sample period is 2005–2016. The dependent variable, *ACC*, is defined as the ratio of the difference between 1-year-ahead median consensus forecast and actual earnings, scaled by the absolute value of the earnings forecast. *INTANG* is the ratio of intangibles to market value of equity. *ACC_{ij}_Initial is* the value of the dependent variable in the first year of our sample period (2000 or earliest available). *SIZE* is measured as the natural log of total assets. *DESVROA* is calculated as the standard deviation of RoA over the past 10 years. *NUMEST* is a variable measuring the number of forecasts used to compute the consensus. *SIGMA* is defined as the degree of dispersion in the consensus. T-statistics are in parentheses. *, ** and *** indicate statistical significance at 10, 5, and 1%, respectively

both periods of crisis in the Spanish economy. First, we identify the global financial crisis episode through a dummy variable that is assigned a value of 1 for the period 2008–2012, and 0 for the remainder of the sample period. Second, in order to check the potential specific effect of the sovereign debt crisis episode, we define an additional dummy variable that takes value 1 during the 2010–2012 period, and 0 otherwise.

Panel A of Table 6 reports the results of the effect of the global financial crisis episode on the accuracy of analysts' forecasts and its potential role on the final impact of intangible intensity on analysts' accuracy. Panel B presents the results of the exactly same set of estimates when the European sovereign debt crisis period is considered. In columns (1), (2), (5), and (6), we present the results of our baseline regressions including the crisis dummy as an additional control variable. The main conclusion is that, despite both the global financial crisis and the sovereign debt crisis episode having a significant negative impact on analysts' accuracy, the findings already reported for the association between intangible intensity and accuracy of analysts' information remain unaltered. Columns (3), (4), (7), and (8) show the results for the effect of the interaction term between the firm's intensity of investments on intangible assets and the CRISIS dummy variable (INTANG∗CRISIS). In all estimates, we find a non-statistically significant coefficient for this interaction term, while the negative signs of the individual variables (INTANG and CRISIS) remain the same than in previous estimations. These results suggest that, although individually both the degree of intangibility intensity and the crisis episodes negatively influence the accuracy of analysts' forecasts, there is any neither reducing nor magnifying effect of intangible investments on analysts' accuracy of Spanish firms during the both crises periods.

4 Conclusions

This chapter analyses the relationship between firms' intangible intensity and the accuracy of their earnings forecasts in a sample of Spanish firms during the 2000–2016 period. Previous literature has shown that the different kinds of firm's investments, and particularly intangible assets, are an important factor to determine the degree of firm's informational asymmetries. Intangible assets are, by definition, more complex and estimates of their fair values are not usually disclosed. In light of this reality, information asymmetries between managers and external investors are especially higher in these types of firms, and with incentives for them to persist. According to this reasoning, our basic finding is that the accuracy of analysts' forecasts accuracy decreases significantly with the firms' intangible intensity. This set of basic results is useful from the different stakeholders' perspective, as they suggest a reduction of informational and agency costs and, thus, a potential improvement in terms of internal practices of corporate governance.

The consideration of various firm-level or analyst-following control variables does not alter the negative relationship found between firms' intangible intensity and the accuracy of analysts' forecasts. In addition to this, we show that the influence of intangible investments on the degree of accuracy of analysts' information is not homogeneous across firms. Our results indicate that both intangible intensity and HVDA characteristics are firm-level features that increase information asymmetries and promote a lower level of analysts' accuracy. We have also checked the impact of the quality of accounting information as an additional mechanism through which information asymmetries are reduced. Our basic results remain completely invariant. Finally, our work also reports some evidence about the effect of the recent period of financial and sovereign debt crisis in Spain. In particular, we find that the impact of intangible investments on the accuracy of analysts' forecasts remains after taking

Table 6 Intangible intensity, analyst accuracy, and crises episodes

	Panel A: Global Financial Crisis (2008–2012)				Panel B: Sovereign Debt Crisis (2010–2012)			
	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
INTANG	–0.0641** (–2.16)	–0.0688** (–2.23)	–0.0695* (–1.76)	–0.0764** (–2.03)	–0.0765*** (–2.67)	–0.0814** (–2.59)	–0.0745** (–2.25)	–0.0774** (–2.20)
CRISIS	–0.1261*** (–3.35)	–0.1323*** (–3.58)	–0.6281* (–1.81)	–0.7771** (–2.27)	–0.1069*** (–3.11)	–0.1104*** (–3.25)	–0.4932* (–1.65)	–0.6159** (–2.11)
$INTANG_{t-1}$*CRISIS			0.0027 (0.07)	0.0076 (0.21)			0.0053 (0.18)	0.0025 (0.08)
ACC_{ij}_Initial	0.4494*** (5.65)	0.4551*** (4.41)	0.4864*** (5.89)	0.4840*** (4.49)	0.4475*** (5.65)	0.4697*** (4.33)	0.4437*** (5.51)	0.4667*** (4.24)
SIZE	–0.2410*** (–3.85)	–0.2776*** (–3.32)	–0.2538*** (–4.05)	–0.3030 (–3.51)	–0.2673*** (–4.16)	–0.3364*** (–3.88)	–0.2684*** (–4.18)	–0.3410*** (–3.87)
DESVROA	–0.2016 (–0.36)	–0.2519 (–0.44)	–0.0500 (–0.11)	–0.1384 (–0.28)	–0.2177 (–0.36)	–0.2425 (–0.39)	–0.20006 (–0.33)	–0.2267 (–0.37)
NUMEST	0.0133*** (3.03)	0.0126** (2.53)	0.0133*** (2.92)	0.0117** (2.23)	0.0143*** (3.11)	0.0128** (2.46)	0.0138*** (3.02)	0.0119** (2.26)
SIGMA	–0.0014*** (–6.37)	–0.0012*** (–5.31)	–0.0021 (–0.17)	–0.0022 (–0.17)	–0.0011*** (–5.00)	–0.0009*** (–4.32)	–0.0010*** (–3.70)	–0.0008*** (–3.21)
ACC_{ij}_Initial*CRISIS			–0.1886** (–2.04)	–0.1394 (–1.50)			–0.0409 (–0.43)	–0.0220 (–0.23)
SIZE*CRISIS			0.0561 (0.94)	0.0823 (1.41)			0.0414 (0.72)	0.0648 (1.18)
DESVROA*CRISIS			–0.0500 (–0.16)	0.0163 (0.06)			0.2254 (1.36)	0.1891 (1.16)
NUMEST*CRISIS			0.0075 (0.96)	0.0067 (0.90)			0.0075 (0.94)	0.0061 (0.82)
SIGMA*CRISIS			0.0007 (0.06)	0.0009 (0.07)			0.0001 (0.18)	–0.0000 (–0.06)
Industry – Year Dummies	Yes	No	Yes	No	Yes	No	Yes	No

Industry Dummies	No	Yes	No	Yes	No	Yes	No	Yes
R^2	0.3447	0.5677	0.4040	0.5936	0.3257	0.5142	0.3461	0.5235
Wald Test (p-value)	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000	0.0000
#Observations	700	700	700	700	700	700	700	700
#Firms	83	83	83	83	83	83	83	83

This table shows the results of the effects of both the financial and the sovereign debt crisis on the relationship between intangible assets and the accuracy of analysts' forecasts. The dependent variable, *ACC*, is defined as the ratio of the difference between 1-year-ahead median consensus forecast and actual earnings, scaled by the absolute value of the earnings forecast. *INTANG* is the ratio of intangibles to market value of equity. ACC_{ij}*_Initial is* the value of the dependent variable in the first year of our sample period (2000 or earliest available). *CRISIS* is a dummy variable that takes value 1 during the years 2008–2012 in Panel A, and 0 otherwise. In Panel B, this dummy variable takes value 1 during the years identified as the sovereign debt crisis in Europe (2010–2012), and 0 otherwise. *SIZE* is measured as the natural log of total assets. *DESVROA* is calculated as the standard deviation of RoA over the past 10 years. *NUMEST* is a variable measuring the number of forecasts used to compute the consensus. *SIGMA* is defined as the degree of dispersion in the consensus. T-statistics are in parentheses. $*$, $**$ and $***$ indicate statistical significance at 10, 5, and 1%, respectively into account the individual effect of both the global financial crisis and the debt crisis episodes in Europe.

In terms of policy implications, our research sheds light about the effects of the level of information asymmetries among firm-level stakeholders. In particular, our findings are relevant for financial analysts' activity, in first place. Moreover, and as an extension, the users of analysts' forecasts benefit from the greater understanding on how the kinds of corporate investment can affect the availability and usefulness of information. Hence, better measurement and accounting for intangible assets help to reduce the severity of information asymmetries and, consequently, to increase market efficiency.

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Part IV
Global Perspectives and Cases

‘Unwritten Rules’ in Social Partnerships: Defining Corporate Social Responsibility (CSR) Through Institutional Theory in the Peruvian Mining Industry

Gustavo R. Espinoza-Ramos

1 Introduction

Traditionally, mining has been one of the most important Peruvian traditions since the Inca empire in the production of precious-metal, ceremonial objects. Its importance as a source of economic development has been increasing, especially since 1990s, when a neoliberal economic model developed a legal framework that promoted mining investment. For example, mining has contributed to an increasing Foreign Direct Investment (FDI) until 2013 when it decelerated (Fig. 1), a similar trend is seen in the income from taxes, fees and royalties; however, the lower prices of the exported commodities have caused a reduction in the GDP; 8.5% in 2010, 6.5% in 2011, 6% in 2012, 5.8% in 2013 and 2.35% in 2014 (Central Reserve Bank Peru 2015; INEI 2015). Despite the positive contribution to the economy, the number of socio-environmental conflicts have followed a different behaviour from FDI and income from taxes, as there is sharped increased from 2006 until 2012, when it has maintained a steady trend until 2016 (Fig. 1). The negative social and environmental impacts from mining that have led to social conflicts is due to the lack of compliance of the local community’s demands (Franks et al. 2014).

In order to reduce the number of social conflicts, mining companies have changed their approach towards dialogue and negotiation with the local community with the aim to identify their demands and balance the socio environmental impact. This approach involves the development of partnerships between the company and different groups including government, non-governmental organisations (NGOs), multilateral bodies and local community organisations. The aims are to develop CSR initiatives and obtain legitimacy, which has been defined as “A condition or status

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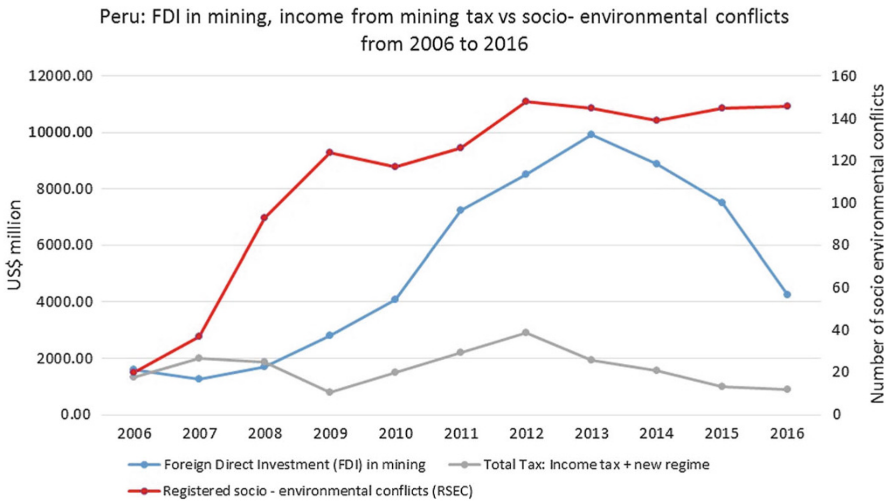

Fig. 1 Foreign Direct Investment (FDI) in Mining, income from mining taxes and socio-environmental conflicts in Peru 2006–2016 (Defensoria del Pueblo 2018; Instituto Nacional de Estadística e Informática—INEI 2017; Sociedad Nacional de Mineria 2017)

which exists when an entity's value system is congruent with the value system of the larger social system of which the entity is a part. When a disparity, actual or potential, exists between the two value systems, there is a threat to the entity's legitimacy" (Dowling and Pfeffer 1975, p. 122).

The success of the partnership requires the company to not only identify and analyse the level of influence of stakeholders but also understand the idiosyncrasy and social norms that shape the expectations of these groups. Bearing this in mind, this research endeavours to answer the question: How institutional forces contribute to the development of Corporate Social Responsibilities (CSR) initiatives through social partnerships in the Peruvian mining industry?

2 Research Aims

The aim of this exploratory research is threefold; to understand the social norms that shape the development of social partnerships in the mining sector in Peru; to develop a best-fit social partnership model between mining companies and peasant communities; and to evaluate the impact of CSR initiatives in order to attain the social license to operate in the mining industry.

3 Literature Review

3.1 CSR and Culture

The definition of CSR has evolved from arguments that do not recognise such responsibility or are centred on the shareholders' needs (Friedman 1970) and the current views that focus on stakeholders (Freeman 1984). Although the definitions have focused on the analysis of these groups, there has not been much attention to the context and culture that determine the stakeholders' expectations of the social responsibility of businesses.

The definition of CSR is socially constructed in a specific context (Dahlsrud 2008) as there is a strong influence of cultural, social, political and economic factors that are established in the country of study (Clarke 2011; Robertson 2009). In addition, there is an implicit Western view in the CSR literature where the social responsibility is seemed as more than philanthropic actions from business, which are centred on corporate ethical behaviour. Some scholars have challenged the universality of its foundations and suggested that the application of 'CSR tools' by businesses does not effectively function outside the Western countries (Newell 2005).

Meanwhile, in developing countries, social responsibility has a different view (Idemudia 2011) where local communities can perceive business as socially conscious entities that develop a positive change in society. For that reason, in developing countries with weak governance, there is a blurred boundary between where CSR ends and government responsibility begins. For example, CSR guidelines in developing countries focus on a specific social issue, including HIV, poverty, and sector-led orientation, including agriculture or mining (Desta 2010). Therefore, the definition of CSR varies according to the context of study, whether this is located in developed or developing countries.

3.2 New Institutionalism

Early definitions of the CSR include the Theory on the Firm, where social responsibility meets the best interest of its owners (Marris 1964), or the actors who have a legally binding relationship with the company as the latter is seen as an artificial person that does not have any social responsibilities other than the maximisation of profits with respect of law and ethics (Friedman 1970). A different view is seen in the Agency Theory that studies the relationship between 'the principal', who is represented by the owner or shareholder of a company, and the 'agent' represented by rational actors, who may be the Board of Directors and/or a management structure that works on behalf of the principal (Jensen and Meckling 1976). The complex relationship between both groups increased during the alignment between corporate and social goals (Barnea and Rubin 2010). Nowadays, Stakeholder Theory is the most influential approach as it identifies stakeholders or those groups who have a legitimate interest in the firm and can have an impact or be affected by it (Freeman 1984; Post et al. 2002).

The initial studies of new institutionalism under the organisational theory perspective were undertaken by John Meyer during the 1970s (Powell and DiMaggio 1991). In this theory, socio-political, economic and cultural factors in the environment shape the society's rules, the meaning, expectations and priority of stakeholders that become institutional pressures or rational myths that shape companies' structures, procedures and practices (Meyer and Rowan 1977). Another important concept in institutional theory is the institutional logic i.e. "the socially constructed, historical patterns of material practices, assumptions, values, beliefs and rules by which individuals produce and reproduce their material subsistence, organize time and space and provide meaning to their social reality" (Thornton and Ocasio 1999). An organisational field is defined as the community of organisations that share a common meaning system and there is an interaction within the actors of the same organisational field (Scott 2008a, b). Therefore, the organisational field can be different in companies operating in developed and developing countries.

Consequently, the new institutional theory supports and complements the Stakeholder Theory providing a holistic approach to understand how the 'rules of society' determine the company's response to the expectations of the stakeholder, the socially responsible initiatives are adapted to the stakeholder's motives and relationships (Campbell 2004). It, simultaneously, provides new lenses to understand how CSR may be exercised in a developing country.

Scott (2008a, b) argues that there are three 'pillars' of the institutional order that offer a different rationale of legitimacy; regulative, normative and cultural/cognitive.

- Regulative elements that determine formal constraints of behaviour and are centred on rule setting, monitoring and legal sanctioning activities. Although regulatory features are more visible than the other two, but there are subject to manipulation in order to avoid compliance (Evans 2004).
- Normative elements that define and evaluate standards of appropriateness behaviour based on moral and ethical systems that determine a social obligation (Palthe 2014).
- Cultural/cognitive elements that develop classificatory systems, shared conceptions and assumptions of social reality and a framework where meaning is interpreted. Consequently, beliefs, norms and rules are developed.

3.3 Institutionalism in the Peruvian Mining Industry

Most of the Peruvian mining companies operate in remote, deprived areas in the Andes, usually populated by indigenous origin communities (Meza-Cuadra 2008), whose main economy activities are centred on agriculture and cattle raising. In these areas, the regional and local governments have demonstrated a lack of administrative capacities, which have led to limited social and economic development. It is in this context that the elements of new institutionalism should be analysed by mining companies in order to develop a good relationship with peasant communities through the formation of partnerships.

The **regulative elements** of new institutionalism include governmental regulation that favours economic interest of mining projects over the rights of peasant communities. Some of them include the regulation of Law No. 29785: ‘Prior Consultation Law’ in force since December 2011 (Comercio 2012) where only peasant communities formally registered in a data base can be consulted; it does not imply the right of veto and in case of no agreement between the parties, the government is entitled to impose a decision. Additionally, there has been regulation that reduces the environmental control by reducing the time for the evaluation and approval of Environmental Impact Assessments (EIA) and promotes public—private partnerships and mining investment. For example, the law No. 29230 known as the ‘works in lieu of tax’ law, published in May 2008, has become a new and revolutionary financial scheme in Latin America (Balcázar 2014) where civil society identifies Public Investment Projects (PIPs) in areas of health, education, tourism, agriculture and irrigation, public order and security and accelerates their execution that will be carried out by private companies. In exchange, the latter obtains a reduction in income tax according to the total amount invested.

The **normative elements** are considered when mining company’s representatives have to comply with moral accepted values of peasant communities and the promises offered before starting operations. One of the values is the participation in the negotiation and the decision making process with mining companies in order to legitimise the operations in their lands and appease the criticism and protest by the local community and NGOs (Watts 2005).

The **cognitive elements** are considered in the historical no compliance with peasant community demands that has led to an increasing distrust towards the government (at the local, regional and national level) and mining companies. This has also created a rise in the number of social conflicts in order to stop mining operations and the start of the renegotiations of the demands. History is an important factor to develop cognitive elements as North (1987) argued that historical obstacles influence political and economic institutions limiting the range of options available to develop economic growth.

The compliance with these three elements of institutions in a host country can create a clash with the institutional logics of the parent company in a home country as both companies operate in different organisational fields (Scott 2008a, b) which consequently leads to an institutional change. The institutionalisation of protest by peasant communities in Peru has led to an institutional change in mining companies as the latter have undertaken initiatives to listen to the demands of local communities. The participation in the negotiations is linked to the development of partnerships between mining and peasant communities. Hamann (2003) identifies three levels of the increasing involvement with the community:

- The lowest level concerns ‘philanthropy and impact mitigation’, whereby companies are seen as being against social development.
- The middle level concerns ‘community investment and eco-efficiency’, whereby business provides funding for CSR projects, but there is little trust from the communities.
- The highest level concerns ‘social partnership for social development’.

In the case of Peruvian mining sector, the key actors in the partnership involve the mining companies and peasant communities. However, the study explores whether other groups in the civil society, including NGOs and government, should have a participation.

3.4 Social Partnerships

The collaboration between different societal actors in order to develop CSR initiatives has produced different forms of partnership such as tri-sector partnerships (Hamann 2004), social partnerships (Waddock 1988) or cross-sector partnerships to address social issues (Selsky and Parker 2005).

This study focuses on the social partnership that involves the private company and civil society (Hamann and Boulogne 2008) to tackle social problems (Crane and Seitanidi 2014), such as social justice and the environmental dimension of sustainability (Dienhart and Ludescher 2010). The development of social partnership between mining companies and local Andean peasant communities or NGOs in the Peruvian mining sector has led to the signing of agreements that enable:

- Infrastructure projects
- Environmental monitoring
- The payment of royalties and donations for activities that include the ‘community anniversary’

The use of social partnerships to solve social problem means that private companies understand the distinctive socio-economic, legal, political and cultural conditions of the partners and the society where they operate in order to design and implement CSR programmes.

4 Methodology

A qualitative study addresses the research questions as it allows a more in-depth study of the phenomenon and takes in consideration that reality is socially constructed based on the interpretations, beliefs, values and experiences of the individuals (Denzin and Lincoln 2005; Merriam 2009). The research uses mixed methods combining qualitative and indigenous methodologies. The participants of the study include representatives of the community relations department in mining companies, peasant communities in the Peruvian Andes, government at the local, regional and national level and non-governmental organisations.

The peasant communities from the Peruvian Andes are descendants from the population that inhabited that area during the colonial period. They have a culture and ways of life that are different from those of the other segments of the national population. For that reason, it is necessary for the research to incorporate an ontological and epistemological methodology of indigenous studies, which develops the notion of social justice to change the relationship between researcher and participants (Potts and Brown 2005).

Indigenous methodologies acknowledge the untold stories of the indigenous people, taking into consideration the ways of knowing in Western and indigenous research (Smith 1999), and recognise the unheard voices and visions of the original people (Yankah 1999). For that reason, the methodology gives due consideration to the observation, the stories, traditions and culture that create knowledge and cannot be found in written documents, as they are passed on verbally from generation to generation.

The first phase was carried out from 15th to 30th August 2016 in the region of Lima, where 7 interviews were conducted amongst members of the group of study except peasant communities. The second stage of the fieldwork was from June 14 to September 6, 2017 where interviews of the groups of study were conducted in the regions of Lima and Ancash. During this stage, 46 interviews, one focus group in a communal assembly, observations in 5 peasant communities and dialogue during informal meetings in the city square were carried out. The transcription of the interviews into Spanish has been completed and the analysis is currently in progress through NVIVO. Afterwards, the recurrent themes will be translated into English.

The secondary research is based on the study of 25 sustainability reports produced by mining companies and the analysis of 3 partnership agreements between a peasant communities and a mining company in the region of Ancash collected during the fieldwork.

5 Potential Contribution

The original contribution to knowledge of this research resides in the empirical research of CSR practice in developing countries (Jamali and Mirshak 2007; Visser 2008) as there is a paucity of CSR literature regarding Latin America (Haslam 2004) and most of the research is centred on developed countries in Western Europe, United States and Australia. Additionally, the CSR studies in Latin America have only focused on Argentina, Brazil and Mexico and there is a need of more studies in South American countries such as Colombia, Peru, Bolivia, Paraguay and Venezuela (Haslam 2004).

There is a need for more studies to be carried out on the implementation of partnership between business and civil society in order develop CSR initiatives

(Seitanidi and Crane 2009). There is also a paucity of literature in the measurement of the long-term impacts of CSR actions through the development of partnership (Solomon et al. 2008; Selsky and Parker 2005). More importantly, there is a need for research using institutional theory to evaluate macro-institutional pressures for CSR and how institutions shape the socially reasonable behaviour of companies (Doh and Guay 2006; Bondy et al. 2012).

6 Conclusion and Preliminary Findings

In-depth analysis of the interview is currently in process. Nonetheless, it has been possible to define the following preliminary findings:

Firstly, some peasant communities are more prepared than others in the negotiations with mining companies that will lead to the signing of partnership agreements.

Secondly, public protest in the form of blocking access to the mining compound has been used as a legitimate, but in some cases not legal, mechanism by peasant communities to manage the unbalanced power during the negotiation with mining companies.

Thirdly, the strong level of distrust from peasant communities towards representatives of mining companies, government and NGOs has increased due to the no compliance of community investment and training by these actors, which deaccelerated after the boom of the commodities prices between 2004 and 2007.

Fourthly, in the majority of the cases, peasant communities demand in the agreements opportunities of employment in the mining company or the development of communal businesses.

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Isomorphic Mutation and Strategic Adaptation in China's CSR Standards for Overseas Investors

Ciprian N. Radavoi and Yongmin Bian

1 Introduction

The Chinese capital expansion via foreign direct investment was sometimes associated with negative impacts on the social and natural environments of the host countries, especially in the developing world (Shinn 2016, for Africa; Ray et al. 2017, for Latin America). Given that a large share of Chinese overseas foreign direct investment is directed towards the developing world (Wang and Gao 2018, p. 626), where the environmental standards are sometimes vague and sometimes unenforced by governments keen to attract foreign investment, it is important to understand what the Chinese government and other relevant entities did in order to minimize negative environmental impacts of the overseas projects undertaken by Chinese investors.

In dealing with the tensions and needs associated with foreign investment in the developing world, Western capital exporting countries rely, as normative framework, on the voluntary OECD Guidelines for Multinational Enterprises, last updated in 2011. At the same time, China sent a strong signal of attitude change in this field by incorporating in the 12th Five-Year Plan (2011–2016) a statement that companies operating overseas should ensure they fulfil their social responsibilities and bring benefits to local people. Consequently, the Chinese International Contractors Association (CHINCA) adopted OECD-style guidelines in 2012 (and replaced them with sustainability guidelines in 2017). However, in 2013, specific, environmental guidelines came, with the powerful Ministry of Commerce (MOFCOM) as one of their

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authors. This disjunction between environmental and other fields in the CSR standards was reconfirmed in later documents, as shown in the next section.

The aim of this chapter is therefore to explain the preference given by Chinese governmental policy makers to environmental matters, when it comes to overseas investors, in contrast with the more comprehensive and balanced approach of the industry. The research question of this theoretical study is as follows: *why the industry/government overseas CSR standards are different, in spite of the fact that business associations in China are controlled by the government?* The chapter will abduce theoretically possible explanations, as foundation for future empirical studies.

We proceed in Sect. 2 with an overview of the existing soft-law instruments meant to improve the Chinese overseas investors' behaviour, i.e. the comprehensive, OECD-style ones issued by the industry associations, and the governmental ones, showing preoccupation mainly with environmental protection. We examine CSR standards issued by associations in the fields of *contracting* and of *mining*; their relevance to our paper derives from the fact that energy and power, metals, and construction are among the preferred destinations of Chinese capital, while at the same time they are areas prone to environmental or social abuse by investors.

Section 3 sketches out the analytical framework, drawing on theories explaining institutional change in organisations: the older but still relevant sociological neo-institutionalism, emphasising isomorphic alignment to taken-for-granted models in the organisational quest for legitimacy, and newer theoretical models reintroducing agency as explaining why organisations confronted with a multiplicity of logics favour some over the others. The discussion section is built along two distinct scenarios, since we cannot objectively know the real authorship of the industry guidelines. In the first scenario, the business associations issue their standards independently, while in the second, the government, who in China is behind the business associations, is in reality the author. Conclusions follow.

2 Standards for Chinese Overseas Investors

2.1 Sample Delineation: 'Export-Only' CSR Standards

The Chinese CSR standards that are the object of our chapter are designed for exclusive overseas use. Ideally, corporations should follow the same standards at home and abroad, as per the principle of consistent bests practices (Kerr et al. 2009). However, delineation of CSR in Developing Countries (CSR-DC) as an institution is already recognised in the academic literature, defined as "the ways in which business make contribution to improving the governance, social, ethical, labour and environmental conditions of the developing countries in which they operate, while remaining sensitive to prevailing religious, historical and cultural contexts" (Visser et al. 2007, p. 149; see also Jamali 2007).

The need for CSR-DC as a distinct category was also confirmed by the tentative adoption of extraterritorial CSR acts in some developed countries: United States (2000), Australia (2000), UK (2004) and Canada (2009). In the end, the non-binding solution of the OECD guidelines was preferred in the Western world, as all these proposals failed in their journey from Bill to Act (Radavoi and Bian 2014). Admittedly, the adoption in 2017 of the French 'Duty of Vigilance' Law, making large parent corporations responsible for the CSR performance of their subsidiaries and suppliers, may signal a change in this trend, but this remains to be seen.

In the meantime, the voluntary model now prevailing in the Western world was also followed to various degrees by China's business associations and governmental CSR-DC, as detailed in the following. The question is why in China, the business organisations and the government have understood differently, as shown in the remainder of this section, the institution of CSR-DC.

2.2 Standards Issued at Business Association Level

2.2.1 The Contractors' Association CSR Guidelines

CHINCA, founded 1988, is a business association engaged in foreign investment and international project contracting. CHINCA members operate mainly in developing countries, which makes their CSR performance important, in the context of looser host country approaches to environmental and social justice matters.

According to its website, CHINCA has among its functions the promotion of social responsibility, and its most important contribution in this field was until recently the Guide on Social Responsibility for Chinese International Contractors (CHINCA-GSR), drafted with support from the Sino-German CSR Project. Its Core Subjects were: project quality and safety, employee rights, proprietor rights, supply chain management, fair competition, environmental protection, community involvement and development.

The chapters on environment in the CHINCA-GSR addressed the same issues (environmental management system, risk assessment through EIAs, community interaction, emergency plans and mitigation, customer awareness, employees training etc.) as the OECD Guidelines for Multinational Enterprises (OECD 2011). Relevantly for this article's theme, the provisions on labour in CHINCA-GSR were extensive and aligned with the world standards. They covered non-discrimination, non-use of child or forced work, minimum wage, regular employment, rights of association etc., all grouped under a chapeau acknowledging the workforce as an essential stakeholder, and requiring that "[e]ntreprises should respect human rights and guarantee the legal rights of Chinese and foreign employees. . ." (CHINCA 2012, p. 6). In the more recent version, built along the four pillars of sustainable development (economy, society, environment and governance), labour is dealt with under social sustainability in similar terms, with references to rights of trade unions, prohibition of race and gender discrimination, local workforce recruitment etc.

Notably however, unlike in the 2012 guidelines, there is no reference to human rights (see CHINCA 2017, pp. 9–10).

2.2.2 Mining Association's CSR Guidelines

China Chamber of Commerce of Metals, Minerals and Chemicals Importers and Exporters (CCCMC) is an industrial association aiming to promote investment and trade operations of the Chinese companies in fields like mining, oil, and chemical industries. According to the association's website, in the Top 500 Importing and Exporting Companies of China, half are members of CCCMC. In 2014, CCCMC issued—and revised in 2015—Guidelines for Social Responsibility in Outbound Mining Investments (CCCMC-GSR), designed with the Sino-German CSR Project.

The document states in the guiding principles that "[c]ompanies should respect human rights and comply with the eight fundamental Conventions of the International Labour Organization and the host country's labour laws, regulations, and standards," (CCCMC 2015, Art. 1.3) but at the same time, going beyond those standards is encouraged (Art. 1.1). The Guidelines contain chapters on organisational governance, fair operating practices, value chain management, human rights, labour issues, occupational health, environment, and community engagement. The two pages dedicated to human rights request observance by Chinese investors of the UN Guiding Principles on Business and Human Rights. Both passive acceptance and active involvement in human rights violations are to be avoided. Complicity in human rights violations, an issue that plagued many high-profile investment projects in underdeveloped countries, is referred to in quite straight forward terms.

Labour issues are also dealt with extensively, in three pages, starting from the premise that responsible labour practices are essential for social justice. The document asks investors to respect freedom of association and collective bargaining, to not use child or forced labour, to pay social benefits, to not discriminate, and to adhere to international standards on working hours, overtime and annual leave.

Environmental issues, though detailed, are approached in a less strict manner than labour ones, possibly a reflection of the inevitable impact of mining on environment. Unlike other sections, which refer to international standards, the one on environment urges Chinese investors to stick to the local ones. On the positive side, the CCCMC guidelines require Chinese corporations to "not explore or mine in World Heritage properties", a notable alignment with the International Council of Mining and Metal's commitment (ICMM 2003) to stop mining in these areas. Another positive aspect of the environmental section is the use of strong wording when it comes to the obligations of transparency and community engagement, and indigenous' rights protection.

2.3 Standards Issued at State Level

At government level, signs of preoccupation with CSR-DC appeared as early as 2006, when the State Council issued the Nine Principles on Encouraging and Standardizing Foreign Investment, which requested Chinese enterprises to comply with local laws and regulations, commit to social responsibility, pay attention to environmental protection (Bernasconi-Osterwalder et al. 2013). Similar calls can be found in other policies of the period. For example, the 2012 Opinions of Seven Ministries on the Cultural Development of Overseas Chinese Enterprises, with MOFCOM among its initiators, pointed to the importance of morality in international business relations (Bath 2015).

Under this general shift of paradigm, one may have expected the government to issue detailed CSR guidelines of the OECD guidelines type. This was not the case; only environmental guidelines were adopted. Symptomatic for the lack of interest in labour issues in overseas operations is the brief reference to this domain in the Administrative Regulation on Contracting Foreign Projects, issued in 2008 by the highest administrative organism of China, and showing in Article 4 that "[i]n contracting foreign projects, entities shall safeguard national interests, social public welfare and the legitimate rights and interests *of their expatriate employees*" (our emphasis).

The CSR-DC policies issued by the government reveal a focus on environmental protection that is generally at the level encountered in Western countries, but a coverage of labour and human rights issues that is either absent or very limited. The environmental guidelines for overseas operations issued by various ministries are introduced in the next subsection.

2.3.1 Guidelines for Environmental Protection

We identified three relevant sets of guidelines issued in the last decade by Chinese ministries for the use of corporations operating overseas. All focus on environmental sustainability exclusively, although labour issues, for example, should be just as important for a Chinese company operating overseas.

First, the selective environmental focus is visible in the set of standards issued in 2009 by the Ministry of Commerce (MOFCOM) and the State Forestry Administration. The Guide on Sustainable Overseas Forest Management and Utilization by Chinese Enterprises was drafted in cooperation with major NGOs and requires high standards in forest exploitation. While the document has a wide breadth, going beyond ecological aspects, it does not mention labour standards.

Second, the Guidelines on Environmental Protection in Foreign Cooperation issued jointly MOFCOM and the Ministry of Environmental Protection (MEP) in 2013 cover the entirety of the problems usually addressed by the environmental chapters in CSR codes of conduct. The detailed coverage of the environmental protection aspects makes the Chinese instrument largely similar with the OECD chapter on environment protection, speaking inter alia of community engagement, transparency, or environmental impact assessments. However, it falls short on one essential aspect, by making it clear that it only requires Chinese investors to follow the host country standards. The OECD guidelines aim further than that, stipulating at the beginning of their environmental chapter that enterprises should obey "relevant international agreements, principles, objectives, and standards" (OECD 2011, p. 42).

Most recently, in 2017, MOFCOM, MEP and the Ministry of Foreign Affairs issued Guiding Opinions on Promoting Green Construction of 'One Belt One Road'. These urge businesses to observe international regulations on economy and trade, but again when it comes to the environment protection, the Chinese managers are only asked to obey the local laws. The Guiding Opinions are comprehensive and provide detailed procedures, which can inspire optimism that development along the OBOR will be green; however, there is no guarantee that it will also be democratic, accountable, and human and labour rights compliant, since no guidance was provided in these areas.

2.3.2 Provisions in Relevant International Instruments to Which China Is a Party

The standards introduced above are examples of direct (and exclusively environmental) guidance to Chinese overseas investors. Indirectly relevant to our argument are some multilateral and bilateral international agreements to which China is a party, presented below: the social and environmental framework of the Asian Infrastructure Investment Bank (AIIB), and China's Bilateral Investment Treaties (BITs).

Multilateral development banks (MDBs) are international organisations created, via multilateral treaty, to pull financial resources for development projects in the member states. The environmental, social and governance standards they issue are important CSR drivers, as they establish norms of behaviour to be followed by the borrowing countries, and by way of consequence, by the corporations that will contract the financed projects in the borrowing countries. AIIB was created in 2015, with China having an initial subscription of some 30% to the authorised capital stock—the highest disproportion in share allocation between the main shareholder, and the party states. Like the other MDBs, AIIB has issued Environmental and Social Framework (AIIB-ESF), and the control exercised by China in AIIB suggests that seeing this instrument as reflecting Chinese official policy is not an exaggeration.

Admittedly, as a development bank, AIIB will lend to countries, not to investors. But with the strong political ties of China with Central Asian or SE Asian countries, and with the categories of projects to be financed by AIIB (infrastructure), it is foreseeable that a significant proportion of work in the field may be done with Chinese contractors.

While being at the level of global standards in environmental matters, AIIB-ESF is significantly weaker than other MDBs' safeguards when it comes to labour rights, an area where it uses vague language, as shown by Radavoi and Bian (2018). For example, AIIB "... believes that the following measures contribute to the quality of the Project: providing workers with living wages, ..." (AIIB 2016, p. 4); as for discrimination against vulnerable groups, the project should "incorporate measures to ensure that [this] is mitigated to the extent possible" (AIIB 2016, p. 33). This formulation allows for exceptions, which is unacceptable in international law.

Moreover, in the operational part of the document, the working conditions are dealt with briefly and under a mixed heading (Working Conditions and Community Health and Safety). Interestingly, labour actually is the chapter in which other MDBs provided clearer—and not weaker, like AIIB—standards of protection. For example, the African Development Bank (AfDB) states its objective to "[a]lign Bank requirements with the ILO Core Labour Standards, and the UNICEF Convention on the Rights of the Child, where national laws do not provide equivalent protection" (AfDB 2013).

The BITs to which China is a party are also suggestive of the different approach to environmental and labour issues. BITs are created to secure the rights of investors from one country into the other, but there is now a trend to include provisions related to various CSR aspects. China's BITs however are silent on labour issues, unlike for instance the U.S. Model BIT, whereby each party commits "to not waive or otherwise derogate from or offer to waive or otherwise derogate from its labour laws" (US 2012, Art. 13/2) in order to attract investment. For comparison, in the BIT signed with Canada in 2012, China only recognizes in Art. 18/3 that "it is inappropriate to encourage investment by waiving, relaxing, or otherwise derogating from domestic health, safety or environmental measures". The fact that China managed to avoid the inclusion, in a treaty with a strong liberal democracy like Canada, of a provision against lowering the labour standards speaks of China's determination to keep full control of labour matters, even though it is willing to compromise when it comes to health or environmental policies.

3 Institutional Change as Analytical Framework

3.1 Institutions and Organisations

Institutionalist theories inform much of the debate on how institutions emerge, evolve, and shape social actors' behaviour in a variety of fields throughout the social sciences. 'Institution' means different things in different fields. While studies in organisational theory usually use 'institution' and 'organisation' interchangeably, and those in political science see institutions as including organisations (Black 1997, p. 56), this article follows the view prevailing in sociological analysis, that institutions are distinct and do not include organisations. While the latter are material entities, the former are "formal rules, compliance procedures, and standard operating practices that structure the relationship between individuals in various units of policy and economy" (Hall 1986, p. 19). Or, in another widely cited definition, "[i] nstitutions are the humanly devised constraints that structure political, economic and social interaction. They consist of both informal constraints (sanctions, taboos, customs, traditions, and codes of conduct), and formal rules" (North 1991, p. 97).

Both definitions make it clear that in terms of coercive power, institutions, although not necessarily inscribed in law, are more than prevailing social behaviours, due to their rule-like status; that is, their taken-for-granted character across the relevant social actors. This is undeniably the case with the CSR norms, which have evolved in the last decades into a largely unchallenged normative framework of how corporations should interact with other social actors. The entity, e.g. firm, having its behaviour governed by CSR norms is the organisation, while the norms are the institution.

3.2 Institutional Change: From Mechanically Embracing Taken-for-Granted Models, to Rationally Choosing

The issue of whether organizational behaviour is mainly shaped by macro social structural forces or by organizational agency has for half century preoccupied institutional change scholars. Neo-institutionalism has first emerged on the structuralist side of the 'structure-agency' debate, being concerned with the constitutive role of legitimate models of action, regardless of the existence of more efficient alternatives (Meyer and Rowan 1977; DiMaggio and Powell 1983). It aimed to reveal the influence of higher-order factors on lower-level entities, claiming that it is not the characteristics or the motives of an entity that will dictate its actions, but scripts and schemas drawn from some shared cultural system (Schneiberg and Clemens 2006, p. 195).

As the higher-order factors that inform and constrain behaviour vary, so too several types of institutionalist analysis have been developed. Sociological institutionalism, as one of these forms, has as its starting point "legitimacy-seeking actors who face cognitive and normative pressures to conform to cultural rules, norms, and expectations" (Miller and Banaszak-Holl 2005, p. 191). Institutions are seen here as independent variables, thus institutional change is motivated cognitively and culturally, via processes as isomorphic homogenisation, rather than being a mere aggregation or a direct consequence of individuals' attributes or motives (DiMaggio and Powell 1983, p. 8).

From the early 1990s however, institutional change scholars put under closer scrutiny the mechanisms underlying the organisation's response to conflicting imperatives, and developed models that brought individual and organisational agency back into focus. Central to the new approach was the concept of institutional logics, defined as "… symbolic systems, ways of ordering reality, and thereby rendering experience of time and space meaningful" (Friedland and Alford 1991, p. 243). Institutional logics were shown to shape rational, reflexive behaviour of individuals and organisations. In this perspective, the taken-for-granted models are therefore not unwittingly and ceremonially conformed to, as the sociological institutionalism claimed; they are but one of the competing institutional logics underlying practices *wittingly* pursued by particular actor in a particular field at a particular time.

The main institutional orders, i.e. sources of (sometimes conflicting) institutional logics, are the market, the corporation, the professions, the family, the religions, and the state (Thornton 2004, p. 12; Friedland and Alford 1991, p. 232). Each is associated with a distinctive institutional logic. Depending on several variables, like dependence on key resource providers, or the identities and preferences of individuals in key positions, organisations embrace, with various logics to different degrees, a range of orientations, from passive acceptance to active manipulation (Oliver 1991). In fact, even the early institutionalist scholars acknowledged that rules unwittingly adopted under the legitimatory pressure of universal models can conflict with the logic of efficiency an organisation may consciously develop. They proposed the concept of *decoupling* as way of resolving inconsistencies between these competing logics: the organisation ceremonially pretend to conform to taken for granted institutional models, but in the day-to-day operations, it 'decouples' them—that is, it ignores them for the sake of efficiency or due to attachment to 'older' logics (Meyer and Rowan 1977). With the understanding of institutional change evolving from isomorphic, routine adaptation to legitimatory models, towards reflexive and purposeful navigation through competing logics, organisational responses more complex than decoupling were observed (Kraatz and Block 2008).

In sum, theorising institutions as the result of struggles over meaning between potentially contradictory orders has brought agency back into institutionalist analysis (Klein 2015, p. 327). However, the 'older' new (sociological) institutionalism has always remained relevant to explaining institutional change:

> To observe that multiple logics are available within a field, therefore, is not to imply that individuals are able to pick and choose freely from their prescriptions. Due to their prior socialization, the expectations of their referent audiences, and other structural determinants, actors continue to face the constraints presented by the need for legitimacy, as identified by the earliest exponents of neo-institutionalism. (Martin et al. 2017, p. 106)

Whether favouring structuralist or agency-based views of institutional change in organisations, most authors focus on the firm or other sub-national entity as the organisation, but nothing bars from applying their findings, *mutatis mutandis*, to the state or the business associations active in a particular field. These entities are seen in the literature as sources of institutional logics, as mentioned above; however, in their turn, they are themselves subject to higher order pressure and competing logics. With institutional logics defined as "the formal and informal rules of action, interaction, and interpretation that guide and constrain decision makers" (Thornton and Ocasio 1999, p. 804), they guide and constrain decision makers at higher hierarchical levels just the same. In fact, the state and the national business associations may be seen as filters in making sense of competing logics and in distilling them through standards and rules for the use of organisations under their jurisdiction. This passage from one of the most comprehensive overviews of studies of the multiplicity of logics shows with clarity that the discussion on logics plurality can be easily moved from firm to state and national business association level: “Organizations comply with logics in order to gain endorsement from important referent audiences and because logics provide a means of understanding the social world and . . . acting confidently within it” (Greenwood et al. 2011, p. 318).

For states, the “important referent audiences” may be different than for corporations, but the mechanisms of responding to logic multiplicity are the same. Moreover, if we restrict the discussion to a particular field—such as mining—the main competing logics informing state practice and business association practice are the same: the taken-for-granted logic of the market, ethical demands, and societal expectations. By ‘practice’ in this case we refer to the standards of behaviour laid down as guidance for corporations.

4 Discussion: Why Do the Government and the Industry Diverge in Their Approaches to CSR-DC?

The CHINCA and CCCMC guidelines introduced in Sect. 2 are instantiations of institutional change. Their adoption was a combination of governmental and industries’ will, but we remain uncertain as to which was preponderant. Therefore, we approach the standards in two distinct scenarios.

The first scenario, i.e. *industry norms issued independently from the government*, resonates with the symbolic perspective on organisations, which argues, from a subjectivist ontological perspective, that “organizational realities emerge as people work and interact with each other and with the material resources surrounding them” (Hatch 2013, p. 113). In this scenario, both the government and the business association are relevant organisations, and institutional change may respectively be governed by different mechanisms. The high quality of the industry guidelines, which starkly departs from practice and cultural traditions in China, suggests that institutional change is better explained by isomorphic adaptation to Western models universally accepted as ‘the right way’.

The second scenario, in which *the government is in reality the main promoter of the industry CSR-DC standards*, echoes modernist organizational theories seeing organizations as social structural objects combining hierarchy with various integrating mechanisms (Hatch 2013). Accordingly, the government is the only relevant organisation, therefore agency-based models of organisational coping with institutional pluralism are better suited in this scenario.

These considerations inform the discussion below. Obviously (state), agency also plays a role in explaining institutional change even in the first scenario: government’s *laissez-faire* attitude allowing overseas investors to adopt global models necessarily implies a calculated decision. This is best explained by the concept of strategic flexibility, used in strategic management studies with reference to firms’ ability to respond to demands from competing environments (Sanchez 1995). Strategic flexibility leads to an intentional loose coupling of an organisation's learning processes at sub-system levels (Weick 1976).

4.1 Scenario 1: CSR Guidance Is a Genuine Industry Initiative

4.1.1 High Isomorphism of Industry's CSR-DC Norms

Initially designed for organisational studies, sociological institutionalism was later stretched to cover the analysis of institutional change more generally, including the analysis of global processes of socio-political change:

> The institutionalization of world models helps explain many puzzling features of contemporary national societies, such as structural isomorphism in the face of enormous differences in resources and traditions, ritualized and rather loosely coupled organizational efforts, and elaborate structuration to serve purposes that are largely of exogenous origins. (Meyer et al. 1997, p. 145)

In the case of business associations, the global convergence of CSR norms is well researched in recent years (e.g. Shamir 2011). In an instrumentalist perspective, many authors have shown that the adoption of comprehensive codes of behaviour was the corporate response to increased societal pressure, an attempt to avoid, by self-regulation, the worse, from their angle, perspective of governmental or intergovernmental regulation (e.g. Sklair 1997). Chinese corporations share this concern with their Western counterparts, so if there is any truth in the instrumentalist view, it stands for all corporations.

The sociological institutionalist perspective has also no difficulty in explaining the diffusion of the comprehensive, OECD-style Western CSR model. Homogenization of institutional environments across national boundaries relies mainly on cognitive processes that lead to increasingly standardized practices in organizations across industries and national boundaries. Once a practice achieves the status of uncontested legitimacy, like CSR, it is institutionalised worldwide across the industry by three key processes: coercive isomorphism, mimetic processes, and normative pressures. The three homogenising processes, briefly introduced below as applied to Chinese CSR-DC, were shown by DiMaggio and Powell as the drivers of structural change in organisations.

Coercive isomorphism exerted on an organisation is explained by DiMaggio and Powell with reference to economic pressures from other organisations. In the case of Chinese overseas investors, coercive pressures may come from supply chain driven CSR global initiatives, when other elements in the supply chain have adopted tight CSR rules, or even from a host country government which may expect participants to a tender to adhere to highest CSR standards. *Mimetic processes* refer to copying practices of organisations perceived as being more successful. Imitation processes occur through exchange relationships between organisations, and sometimes through the engagement of consulting firms that represent and implement a specific concept, thus becoming diffusion agents that reinforce imitation processes (Edelman et al. 2001, p. 1601). Here, it is significant that the Chinese business associations chose a German organisation to help in designing their CSR-DC norms, as mentioned in the previous section, and that Sweden, perceived as among the 'greenest' countries in the world, also plays an important role in shaping CSR in China (see the Sino-Swedish CSR Cooperation). But mimesis also occurs unintentionally, through employee transfer (DiMaggio and Powell 1983, p. 151), which again is increasingly the case as Chinese companies are more internationally interlinked.

Finally, *normative isomorphism* is also relevant to our case, as it has to do with the professionalization of occupational groups, i.e. the collective effort of members of an occupational group to define the 'rules of the game' in their field, and to create legitimacy for it. Two important vehicles of normative standardisation among professional groups are universities and occupational networks, formal or informal (DiMaggio and Powell 1983, p. 152). Chinese business uses both; thousands of Chinese managers graduate yearly from Western universities, and Chinese corporations are active in dialogic webs in their area of activity. All these influence managers' mindsets and behaviour patterns, contributing to normative alignment of the Chinese industries with their Western counterparts.

That local culture did not prevent integration of the Western system into the CSR of Chinese business associations by the three processes is not surprising, since a large part of the Chinese executives belong now to what Sklair (1997) has identified as the transnational capitalist class, consisting of corporate executives, capitalist-oriented professionals, scientific experts, and 'globalizing' state bureaucrats. In fact, even before the fall of the iron curtain, one author was noting that "owners and managers of multinational enterprises are coming to constitute themselves as a powerful social class … attempting to include top economic managers in the socialist countries" (Goldfrank 1977, p. 35).

4.1.2 Limited Isomorphism of Governmental CSR-DC

The forces shaping the adoption of CSR policies are different when the adopter of CSR-DC norms is a governmental institution. So far, Scenario 1 has shown how world polity contributed, via national business associations, to the genesis of norms relevant to firm behaviour in environmental and social justice fields. The isomorphic and normative processes at work, best explained by sociological institutionalism, are to some extent the same when the state is the norm author, since policies of nation states, including CSR-DC, are often reactions to a world polity rather than to national-level factors such as economic development or political conflict. Studies abound on how national institutions converge in spite of locally divergent traditions (see e.g. Finnemore 1996, on the similarity of governments' structures around the world).

The question then is why China's CSR-DC stayed distinct from the global comprehensive model. One possible answer is provided by sociological institutionalism itself, in its application to nation-states isomorphic socialisation, i.e. the world polity theory put forward by Meyer et al. (1997): there are limits to isomorphism. As opposed to firms, states embrace global universals to varying degrees and in selective domains. Here, the limits are related to both the actor (China) and our fields of interest (environment social justice issues). With regard to the actor, numerous institutionalist studies have shown that cross-national differences in adherence to global universals are explained by the country's position in the international arena (e.g. Carruthers and Halliday 2006). In light of the above, China's weight in the world allows it to partially resist global universals, in certain fields more than others, as detailed in the following.

In recent years, to employ a term from customary international law, China has been a 'persistent objector' to institutional labour and human rights models practiced elsewhere, reinforcing its strong cultural identity and keeping out institutional models seen as alien to it. China ratified only half of the Conventions deemed by ILO as fundamental; for comparison, China is a member of more than 50 multilateral environmental treaties. This cleavage in China's vision between environmental stewardship on the one hand, and labour and human rights on the other, is also visible in its international cooperation. On the one hand, China advanced substantially in foreign cooperation on environmental protection. For example, for Chinese investors in Africa, the 2009 Declaration of Sharm el-Sheikh and the accompanying action plan put a significant emphasis on the environmental aspects (Tan-Mullins and Mohan 2013). On the other hand, China has repeatedly suspended its human rights dialogue with the Western states. Also, during his visit to Washington in 2015, President Xi committed that AIIB would abide by "the highest international environmental and governance standards" (Donnan 2015)—but the social standards were not mentioned.

China's differentiated attitude to environmental stewardship and social justice, described above, fits well into existing theories. On the one hand, modern environmentalism has an intrinsic global character (Buttel 2000, p. 118), and states increasingly conform to responsible global models in this area (Frank et al. 2000). Few countries will openly oppose environmental rights on cultural grounds, even though at a deeper level, a conflict still exists between sustainability and economic growth. Even autocratic states may be more permeable to exogenous pressures in the field of environment, since these do not challenge established local inter-human relations and their fabric of dominance (interesting to note that conversely, even liberal democracies are more reluctant in designing high CSR standards for the field of labour (see Kazmi et al. 2016).

On the other hand, the above considerations do not stand with regard to labour rights, and human rights in general. In their study on the globalisation of law, Halliday and Osinsky (2006) note that the closer the globalizing legal norms and institutions are to transformations in core local values and practices, the more likely that contestation will occur. This tension may explain the government's resistance to adopting Western standards: transnational pressures on Chinese state-owned enterprises (SOEs) towards the adoption of comprehensive Western standards of CSR are outweighed by pressures from the national context to limit the CSR coverage. This balancing mechanism was analysed in Whelan and Muthuri (2017); more generally, the importance of home-country characteristics as co-determinant of the CSR-DC shape in case of Chinese corporations was demonstrated in Miska et al. (2016).

In sum, the pressure towards isomorphic convergence is high for global firms, while for states, it can be limited by claims to cultural exceptionalism. There is more propensity towards isomorphism in the case of corporations and their associations, because they act under the paradigm of capitalist globalisation, being themselves the vehicles of the process, and thus the first to absorb its influences. For states, resistance is well explained in the world-culture paradigm under sociological institutionalism, which shows why states are more immune than business associations to contagion of legitimacy.

4.1.3 The Suspicion of Decoupling

Organisations sometimes “elaborate rational plans and procedures in response to institutional requirements in order to disguise the fact that they do not intend to implement them” (Oliver 1991, p. 154), thus acquiring a fake aura of legitimacy. This is described by concepts like ‘decoupling’ or ‘ceremonial adoption’ (e.g. Colyvas and Jonsson 2011; Cole and Ramirez 2013). In our case, this would mean that the comprehensive guidelines of CHINCA and CCCMC, and the environmental ones of the government, are not meant to be implemented, but to window-dress Chinese companies engaged in the global competition for resources, in order to gain access to contracts in ecologically sensitive areas, attract top qualified employees, and raise the status of the managers in the local community (Misangyi 2016 explains why organisations use decoupling).

For mining, the suspicion is further reinforced by the fact that no Chinese entity (neither CCCMC, nor individual corporations) has joined the International Council for Mining and Metals (ICMM), which has strong CSR standards. Moreover, the top-quality of the labour protections in the CCCMC and CHINCA standards raise suspicions, if we bear in mind that for emerging economies, labour protection in CSR codes tend to mirror the general quality of labour governance in those countries (the ‘mirror effect’, see Preuss et al. 2016). For China, rather oppositely to this empirically confirmed tendency, the guidance on labour issues seems to follow the ‘substitute effect’, i.e. elements missing in the country governance are provided by industry CSR guidance, which is unusual in an authoritarian system and thus suggests decoupling.

Whether the CSR-DC codes are indeed a case of decoupling can only be inferred from circumstantial factors. First, in order to achieve the purpose of image washing, the codes need to be highly publicized to external audiences via substantial advertising campaigns. This seems not be the case with CHINCA and CCCMC codes: references to their adoption and contents is rather discrete in the online medium. As with most CSR communication in China (Wang and Chaudhri 2009, p. 249), the codes are mainly communicated to the internal audiences—in this case, the member organizations and their managers—which suggests a genuine desire to make them work. This is however but one interpretation of the low degree of advertising to external audiences; a more suspicious mind may see it on the contrary as fear that communities in the developing countries where the Chinese investors operate may take the codes seriously and use them to shame those who do not live up to those standards.

Another indicium as to whether the CSR standards are meant to make a change in real life is their quality, i.e. their scope and level of detail (Graafland and Smid 2016). As mentioned above, the two codes are of high quality, being wide in scope, strict in language, and often setting the international standards as the ones to be followed by Chinese overseas investors. But in the end, the clearest sign that the codes are not merely ceremonial is the quality of their implementation, as evidenced in the field, by managers' cognition of the respective industries' standards and behaviour in accordance with them, which can only be confirmed or infirmed by further empirical studies.

A suspicion of decoupling is also raised by the government's environmental norms. In its quest for a dominant position on the global scene, the government is keen on reputation, which may suggest ceremonial adoption of these norms. Moreover, the degree to which institutional logics are incompatible matters to how organizations respond to institutional complexity (Greenwood et al. 2011, p. 332), and in our case, the two dominant logics at work are rather incompatible: environmental sustainability and profit maximization. Even more, the example of the Green Credit Guidelines (GCG), adopted in 2012 by China Banking Regulatory Commission and specifically requiring that "[b]anking institutions shall strengthen the environmental and social risk management for overseas projects to which credit will be granted" (article 21), suggest that the government may be in certain situations prone to ceremonial adoption of norms for overseas operations. This assertion is based on the fact that in spite of the clear language of GCG, there is factual evidence that Chinese banks continue to finance numerous problematic projects over the world (Friends of the Earth 2014).

On the other hand, a look at the broader picture of governmental action in the field of environmental protection suggests that this is taken seriously, and if there are cases where organisations and managers fail to abide by governmental standards, this is not because the standards themselves were not meant to be implemented, but likely because poor implementation. Besides, the environmental standards only require overseas managers to abide by local standards. Had the government wanted to gain reputation by just pretending to do the right thing, the environmental guidance would have been built with reference to the minimum international standards. Other authors also found that "[w]ith respect to the public initiatives, . . . it is fair to say the Chinese government may be sincere in promoting CSR to the exclusion of human rights issues" (Lin 2010, p. 66).

4.2 Scenario 2: Industry Standards Are in Reality Imposed by Government

The preceding section has shown the different logics at work in the cases of industries and countries embracing legitimatory institutional models, and the different degree to which they resist isomorphic pressures. But the argument built on the different influences shaping industry and state CSR-DC ultimately rests on the assumption of a loose coupling between the associations of corporations and the government. While plausible that the government may have adopted a *laissez-faire* attitude, letting industries do whatever they believe is best for them, this is rather unlikely with China. The associations in China are created and supervised by the government. CHINCA specifies on its website that in designing CHINCA-GSR, it was entrusted by China's Ministry of Commerce, while CCCMC is, according to its website, a subordinate unit of Ministry of Commerce of China. This suggests that the two types of CSR-DC we identified, the comprehensive one coming via industries, and the environment-focused ones coming via the government, have in fact the same author. Why then the government follows different logics when acting via the business associations it controls, and when acting directly?

When presented in Scenario 1, the question of why the industry and the government CSR-DC behave differently (as seen through their policy output) was answered with reference to sociological institutionalism: they are different because isomorphic global forces impact differently on business associations and on states—and in the particular case of China, the size of its territory and economy, the specificities of its political system, and the deep roots of its social and cultural traditions prevent those isomorphic forces from bringing about institutional change beyond the field of ecological sustainability. In Scenario 2 however, explaining the differences between government and industry CSR-DC (now, seen as emanations of the same organisation, namely the government) necessarily relies on agency. That is, the industry-issued CSR-DC norms are stronger than those coming directly from the government *because the government wanted it*.

But why did it want it? The answer may be provided by the concept of structural compartmentalisation as a strategy to cope with conflicting institutional logics (e.g. Binder 2007). Like in Scenario 1, this has to do with modularity in the organisational architecture; the difference lays in the degree of coupling. In the scenario of loose coupling, the state simply allows its corporations to immerse themselves in the globally prevailing logic of CSR-DC, while here, the state operates itself, via one of its 'sub-units'—the business associations. The organisation's strategy of securing multiple institutional endorsements by aligning itself with multiple institutional logics via partitioning into separate units was termed structural hybridisation (Greenwood et al. 2011).

Compartmentalisation as a coping strategy raises a suspicion of decoupling, perhaps in a subtler version than in Scenario 1: here, it could for instance be claimed that when acting through the veil of industries, the danger for the government of being pointed at as hypocritical if ceremonially adopting norms was lower. So, it sought to extract reputational benefits by pushing its corporations, via the business associations, to signal good faith and a desire to play by global CSR rules, but without taking the risk of itself directly showing adherence to the respective rules, which would have brought about a risk of being criticised for hypocrisy in cases of failure.

However, logic and factual information stand against this scenario. The government's position, summarised in the previous section, is well known internationally: comprehensive adherence to environmental cooperation, but consistent opposition to civil rights. A different discourse towards its overseas investors sent via business associations would not change this perception in the international public opinion, but will only confuse its addressees, the Chinese managers overseas. Moreover, had the government wanted merely to window-dress its corporations' positions on CSR globally, it would have done it quietly and without emphasising its part in the background, so as to not compromise the credibility of Chinese overseas business actions. Instead, the government makes it clear that it is the source of the CSR-DC norms.

This suggests that the CHINCA and CCCMC codes are intended to be put at work, and the explanation of the divide between industry and governmental CSR-DC may be found in the interplay of the state's needs and limitations. CHINCA and CCCMC group investors are active in fields of dam building, mining, oil processing i.e., the fields most prone to corporate wrongdoing in all the areas usually addressed by CSR codes. By selectively coercing these companies into global models of CSR-DC, the government addresses what was, in early 2000s, a growing reputational problem.

This explanation is consistent with China's obsessive preoccupation with reputation. Indeed, there is probably no other country with so much *explicit* reference to national reputation in its policies. The Nine Principles on Encouraging and Standardizing Outbound Investment, launched by the State Council (China highest administrative body) in 2006, included "preserving China's corporate image and reputation". The 2012 Opinions of Seven Ministries on the Cultural Development of Overseas Chinese Enterprises are heavily focused on the importance of Chinese companies presenting a favourable image of China (Bath 2015, p. 237). For AIIB, reputation is so important, that is listed among the very ESF objectives—a unique case among development banks. The aforementioned environmental guidelines for Chinese overseas investors mention reputation in its very first article.

The instrumental character of this approach to CSR-DC does not invalidate it ethically, given that in a certain perspective, instrumentality lies at the core of all institutional homogenisation, under sociological institutionalism as well:

> [O]rganizations are rewarded for being similar to other organizations in their fields. This similarity can make it easier for organizations to transact with other organizations, to attract career-minded staff, to be acknowledged as legitimate and reputable, and to fit into administrative categories that define eligibility for . . . grants and contracts. (DiMaggio and Powell 1983, p. 153)

Our argument in this subsection explains the apparent paradox that although designed by the same author (government), the government and the industry CSR-DC look very differently. In short, the government intentionally compartmentalised and differentiated the source of policy in order to increase the adherence of its overseas investors to internationally sanctioned models, because this would enhance its reputation abroad without having to alter its position on labour and human rights issues domestically. We refuted, using data and logic, a possible suspicion of ceremonial adoption, or decoupling, but what if the norms were really adopted only as window-dressing? The answer, as demonstrated in the literature, is that with regard to their impact on behaviour, there is little difference between sincerely adopted and ceremonially adopted norms. After decoupling occurs, a chain of events and mechanisms that follows decoupling ultimately undermines decoupling itself. That is, even purely symbolic adoption of a formal policy still leads to its actual implementation (Tilcsik 2010; see also Graafland and Smid 2016, showing that complete decoupling is rare, and in any case weak CSR programs are better than having no program at all).

Another critique of compartmentalisation may be that such selectivity is cynical: human rights are universal, and it cannot look good from the Chinese society's perspective that large firms' managers are supposed to give more deference to the rights of foreign citizens than to those of people in China. But there is a good side to this apparent discrimination. In the language of institutional theory, sustainability and social responsibility imply a gradual process of re-institutionalisation; that is, organisational fields succumb to change incrementally. This can be seen from an optimist perspective, given China's recent tendency to integrate inbound and outbound investment policy (Bath 2015, p. 237). In this process of integration and diffusion of new practices, Chinese overseas managers who have learned new patterns of reasoning will play an important role.

To be sure, the diffusion of the overseas CSR norms into domestic operations of Chinese business will not be an easy process. The cognitive features of institutional reproduction have been often insisted upon in literature. For example, it was shown that the ubiquity of a norm or practice means little if it does not develop foundations to enable it to persist (Colyvas and Jonsson 2011). In our case, cognitive diffusion may encounter serious hurdles, as suggested by a survey on views on CSR among Chinese managers and other categories relevant to CSR in China (CSR Asia 2015). The study indicates views rather different from those professed in the guidelines discussed in this paper. For example, the survey found that economic performance is the main CSR theme in China, and that CSR mainly means philanthropy, public relations and crisis management, thus being a 'cost' that cuts into profitability, and not something that can create value and help to improve business performance. These differences should not surprise, as it is already proven that CSR is nationally contingent (Matten and Moon 2008), but they still place a question mark on the internalisation of the Western model by Chinese managers. Time will tell whether the bold, comprehensive CSR-DC initiatives taken by the government via its most active business associations investing overseas will diffuse and shake the cognitive foundations revealed by this study.

5 Conclusion

This chapter unveils an interesting pattern in the genesis of a new institution, in China: the CSR norms meant to govern overseas investment. Focusing on the fields of contracting and mining as among the most prone to social and environmental wrongdoing in corporate projects in the developing world, we pointed at the different characteristics of the CSR standards issued by the business associations most relevant to overseas investment, and by the government, respectively. While the former are comprehensive, detailed and sometimes refer to international standards, the latter mostly focus on environmental action and simply recommend observance of local laws. This misalignment may seem paradoxical in a country where the government keeps control over business.

We explain the different regulatory approaches drawing on an institutionalist perspective, in two scenarios: first we assumed that the industry norms are issued in relative independence from governmental control, and then we looked at them as government emanations. For the first scenario, we explain institutional change using sociological institutionalism, in its world-level variant: the world-polity theory. That is, in a process of institutional homogenisation, corporations and governments, as organisations, display a selective balance between convergence and resistance towards global universals. Individual states show a high degree of resistance grounded in power relations and exceptionalism. For the second scenario, we drew on more recent theories explaining how organisations wittingly cope with competing institutional logics.

In both scenarios we address the suspicion of decoupling, that is, adoption of norms internationally legitimated as the rule of the game, without any real intention to make them work. While this is always possible with CSR norms, we are inclined towards rejecting this suspicion. Insincere CSR is known to be extremely damaging in the long run to entities that claim it; in our case, with China's preoccupation with national image, it is likely that the standards are expression of a genuine intention to improve corporate behaviour overseas.

A possible criticism of our theoretical analysis is its focus on institutional genesis, in isolation from the impact of the new institution on managers' behaviour. A simple answer to this criticism would be that before being expected to change organisational behaviour, a norm has to exist. We demonstrate that most likely, the unexpectedly comprehensive and straight forward shape of the CCCMC and CHINCA guidelines is not a case of ceremonial adoption. Even if this was so, it would still be a positive step, since decoupled norms lead in the end to normative progress. Therefore, our focus on norm genesis is not a shortcoming in itself, as it offers a theoretical base for future studies on these norms' impact on managers' behaviour.

In this respect, we are aware of the challenges posed by institutionalisation, i.e. norm spreading, in the case of China. A study we referred to indicates a general mentality in the Chinese society rather incongruent with that in the West, i.e. Chinese managers see CSR more as a burden for a firm, and more to be fulfilled via philanthropy and crisis management. This theoretical paper would be well complemented by an empirical one having Chinese overseas managers as subjects, seeking to bring more light as to how their views have been influenced by industry and (home) government CSR-DC in the short time elapsed since their genesis. If the norms we discuss are to be ever diffused, the first to adopt them, cognitively speaking, are the overseas managers, who would become agents of change at home. Therefore, we encourage social researchers to investigate the extent to which the industry CSR-DC norms are known and internalised by overseas managers.

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Getting Personal About Corporate Social Responsibility (CSR): Exploring the Values That Motivate Leaders to Be Responsible

Patricia MacNeil and Maggie Matear

1 Introductión

Why are some companies socially responsible while others are not? Researchers have devoted considerable time to understanding this dilemma (Walls and Berrone 2015). Efforts, both academic and applied, have tended to focus on corporate governance to explain irresponsibility (Erakoviç and Overall 2010; Filatotchev and Nakajima 2014; Harjoto and Jo 2014; L'Huillier 2014; Merry et al. 2012; Ntim and Soobaroyen 2013; Scherer et al. 2013). Despite governments' anti-corruption regulations, published codes of conduct, and the popularity of balanced scorecards (Armstrong et al. 2013; Ghobadian et al. 2015) socially irresponsible behaviour remains a persistent problem (Devinney et al. 2013; Global Reporting Initiative 2015; Lauesen 2013).

Corporate social responsibility (CSR) is manifested in the ways a firm expresses its organisational actions and policies to a wide range of stakeholders, not just shareholders. The topic began to appear in the literature in the 1950s (Carroll 1999; Ghobadian et al. 2015; Visser 2010). There are two broad and opposing viewpoints that both define and divide CSR: The stakeholder/normative view and the shareholder/instrumental view. A modern approach to CSR tends to reflect a combination of the two extremes, as leaders make many decisions—strategic, instrumental, or even altruistic at times—depending on the business–society relationship (Aguinis and Glavas 2012; Husted and de Jesus Salazar 2006; Lauesen

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2013). As a result, we see a great deal of inconsistency in how CSR is displayed in the marketplace, making it a subject of considerable debate (Acquier et al. 2011; Aguinis and Glavas 2012; Bowen 1953; Carroll 1999, 2015; Dahlsrud 2008; Devinney et al. 2013).

While the CSR literature has been relatively silent on the role of business leaders in corporate social responsibility outcomes, some scholars have begun to look at how these leaders make the decisions that shape policies and practices of firms (Witt and Redding 2012). For example, we understand that personal values influence the behaviour of senior leaders but are unsure of the effect values may have on actual decision-making (Adams et al. 2011; Chen et al. 2013; Godos-Diez et al. 2011; O'Riordan and Fairbrass 2014; Pless et al. 2012; Stahl and Sully de Luque 2014). Knowing more about the motivations of senior leaders can help to explain the varying expressions of social responsibility as well as inform ongoing questions about the irresponsible practices of organisations (Eccles et al. 2014; Greenwood and Van Buren III 2010; Ingenhoff and Sommer 2010; Mostovicz et al. 2011). Aguinis and Glavas (2012) put a label on this gap in the literature—a *black box*.

1.1 CSR and the Role of Senior Corporate Leaders

Consider the following paradox. The business world has made an increasing commitment to CSR, yet corporate leaders have not consistently displayed what many would consider socially responsible behaviour. The variability in interpretation and application of CSR is evident in the examples of irresponsible behaviour (Fleming et al. 2013; Lindgreen and Swaen 2010; Schneider 2014). For example, British Petroleum's CEO was deeply insensitive to social impacts on local communities during the company's massive oil spill in the Gulf of Mexico (Lange and Washburn 2012; Sherwell and Lawler 2015). In Canada, Bombardier's corporate plan to pay out multimillion-dollar bonuses to executives while laying off thousands of employees drew the ire of many taxpayers (Financial Post 2017; Kiladze 2017). Yet both companies had touted their CSR credentials, and prepared annual sustainability reports using the respected Global Reporting Index framework (Global Reporting Initiative 2018). Of course, not all senior leaders demonstrate purely instrumental or unethical behaviour. The CEOs of Johnson and Johnson (the makers of Tylenol) and Maple Leaf Foods showed how senior leaders could put the public first and profit second, at least in the short-term (Crossan et al. 2013; Fletcher 2009; Knight 1982; Stevenson 2008).

Since the 2008 financial crisis, with its corporate scandals and unprincipled risk-taking, we have seen a renewed interest in CSR, particularly around notions of transparency and ethical decision-making (Ghobadian et al. 2015; Junaid 2013; Kemper and Martin 2010; Lauesen 2013). The attendant research switched to learning more about the personal characteristics of business leaders and how they make decisions that impact the firm's performance and culture.

1.2 Responsible Leadership

Scholars have begun to employ new approaches to identify factors that explain responsibility (Pless et al. 2012). For example, research around responsible leadership is attempting to explain the characteristics and motivations of the individual leader (Doh and Quigley 2014; Maak et al. 2016; Pless et al. 2012; Pless and Maak 2011; Stahl and Sully de Luque 2014; Waldman et al. 2011; Voegtlin 2016).

Responsible leadership can be defined as a social-relational and ethical phenomenon that involves a broad-based, stakeholder approach to responsibility (Maak and Pless 2006). There are generally two basic types of responsible leaders in the business world: the integrative leader and the instrumental leader. The leader's personal perspective—integrative or instrumental—influences the choices and decisions he makes at the strategic level of the firm (Maak et al. 2016; Pless et al. 2012).

Integrative leaders demonstrate a balanced approach to business decisions that reflects moral reasoning, a commitment to engaging legitimate stakeholders to create shared value, and leadership that inspires employees (Doh and Quigley 2014; Hahn et al. 2014; Maak et al. 2016; Pless and Maak 2011; Sully de Luque et al. 2008; Voegtlin et al. 2012). In this context, responsibility is not interpreted as a legal liability, but as part of a social contract that addresses social, financial, and environmental concerns (Pless et al. 2012; Voegtlin 2016; Waldman and Siegel 2008; Waldman et al. 2011). In contrast, instrumental leaders take a narrower approach to responsibility, focusing primarily on the immediate shareholders/owners, or on a limited number of stakeholders. They tend to focus on core business activities to maximise profits and growth, have a transactional vision that includes setting high-performance goals for employees, and pursue CSR for competitive advantage (Pless et al. 2012; Waldman et al. 2011).

1.3 A Leader's Mindset and the Influence of Personal Values

Scholars are increasing their focus on leaders' mindsets, examining the characteristics and behaviours of individual leaders (Maak et al. 2016; Pless et al. 2012; Tideman et al. 2013; Voegtlin 2016). A leader's mindset drives choices that affect business strategy, which in turn influences whether the firm earns a social license to operate (Hockerts 2015; Tideman et al. 2013). Pless et al. (2012) describe a responsible leader in terms of social responsibility, a definition that is foundational for this study. They suggest that an Integrator demonstrates five characteristics: moral motivation, a commitment to shared value creation (i.e. for business and society), ability to balance rationality and emotion, transformational leadership, and meaningful stakeholder engagement (Pless et al. 2012; p. 58). However, missing from this definition is a set of personal values or principles that explain the integrative leader's motivations (Voegtlin 2016).

Personal values are the strongest predictor of any leader's behaviour. However, they have not formed part of the definition for the integrative mindset to date (Brandt 2016; Chin et al. 2013; Greenwood and Van Buren 2010; Hambrick 2007; Hambrick and Mason 1984; Voegtlin 2016). We know that senior leaders make values-based decisions that affect social and financial results, but we still need to understand how leaders are motivated to make these decisions (Brandt 2016; Pless et al. 2012; Tideman et al. 2013; Voegtlin 2016). A better understanding of how personal values affect leaders' behaviour can help to explain displays of responsibility and irresponsibility across organisations (Edelman 2017; Ingenhoff and Sommer 2010; Mostovicz et al. 2011).

1.4 Purpose of the Study

The purpose of this study was to gain a better understanding of how social responsibility manifests in some senior leaders' decisions, and how values-based decisions can explain responsible and irresponsible CSR outcomes (Edelman 2017; Ingenhoff and Sommer 2010; Mostovicz et al. 2011). The literature discusses behavioural characteristics for the responsible leader, but it does not examine how values are involved in the socially responsible leader's decision-making. By exploring leaders' decisions through the lens of personal values, we proposed to demonstrate the motivations of responsible leaders, thereby adding a new element to the responsible leadership framework (Carter and Greer 2013; Voegtlin 2016; Waldman and Siegel 2008). We posed the following research questions to inform this area of the research and practice: (1) What are the personal values that motivate responsible leaders; and (2) How do values affect the decisions and actions around social responsibility?

This chapter presents a study that attempts to address a gap in the literature—the often-ignored role of senior leaders in defining the responsible or irresponsible actions of their firms (Aguinis and Glavas 2012; Eccles et al. 2014; Klenke 2011; O'Riordan and Fairbrass 2014; Pless et al. 2012). We begin with an overview of the subject area and a review of the literature around CSR, leadership and responsible leadership, and the role of personal values in defining a leader's behaviour. Next, we outline the theoretical framework, research design, analysis, and findings of the study. We then discuss the findings, including qualified implications for research and practice. We close with appendices that provide further information on the study sample and illustrative quotations from its participants.

2 Theoretical Framework and Research Design

We used a multi-theoretical approach to facilitate a comprehensive response to the organisational and individual complexities within contemporary business environments (Aguinis and Glavas 2012; Doh and Quigley 2014; Freeman et al. 2010;

Morgeson et al. 2013; Stahl and Sully de Luque 2014). We integrated work from two domains: stakeholder theory and responsible leadership theory. Stakeholder theory puts the focus on the macro environment, i.e., management's capacity to address multiple and diverse groups of stakeholders (Kemper and Martin 2010). Responsible leadership theory addresses the micro-level factors, i.e., the individual leaders and the personal values that motivate them (Doh and Quigley 2014; Pless et al. 2012; Stahl and Sully de Luque 2014).

Until recently, CSR research has focused primarily on the macro environment—the organisation, sector, or governance structures—and quantitative methodologies (Aguinis and Glavas 2012). We heeded the demand for more qualitative methodologies and more emphasis on the micro-foundations of CSR—the individual actions and interactions within organisations (Aguinis and Glavas 2012; Barney and Felin 2013; Bridoux and Stoelhorst 2014; Jones Christensen et al. 2014).

In keeping with this direction, we employed a qualitative multiple-case study research design with an emphasis on individual leaders. Findings from multiple cases are often regarded as being more robust than those from single case studies (Creswell 2014; Yin 2014). Indeed, the case study design provided flexibility and the necessary level of data to develop a thorough understanding of the real-life values and behaviours of the senior leaders in the sample.

Population The primary population was the index of Top 100 Employers in Canada in 2016; the Regional Top Employer lists were included as a secondary source to ensure a large enough sample. A senior leader was defined as a CEO or a member of the senior leadership team reporting to the CEO; for example, a vice-president (VP). We obtained representation from a variety of sectors and business areas across Canada that would sufficiently reflect the global market environment (Bondy and Starkey 2014; Knudsen and Moon 2013).

The leaders were good candidates for the study because the Top 100 selection criteria included a demonstrated commitment to engagement and community involvement. Our assumption was that these leaders would thus reflect the characteristics and behaviours of Pless et al.'s (2012) Integrator. As previously described, the integrative responsible leader is characterised by high moral standards, stakeholder orientation, and the capacity to build value for the business and the community through collaborative, transformative efforts (Pless et al. 2012).

Sampling To be eligible for our study, an employer had to represent a large firm (500 or more employees), have national or international scope, and publicly espouse a CSR strategy. After these criteria were applied, the number of eligible participants dropped from 100 candidates to 59.

The revised list of 59 top employers represented a range of sectors, from pharmaceuticals to oil and gas, and thus reflected a diverse group of senior leaders. We confirmed that a population of senior leaders in Canada would sufficiently reflect the global market environment, since an organisation's location does not appear to be a factor in defining a global company (Bondy and Starkey 2014; Knudsen and Moon 2013). Using a purposive sampling procedure, we secured interviews with

12 senior leaders from across Canada. We interviewed over a five-month period, March to July 2016.

Interview Protocol The primary researcher identified the CEO for each organisation through the company's website and contacted the firms via email. Negative responses from more than half of the sample arrived within 3 weeks; many of the remaining candidates had responded positively (i.e., they expressed interest in the study but requested further information). We pursued these employers and all of those who had not yet responded. We exchanged several emails with numerous employers and followed up with telephone calls when appropriate. Within 2 months we had received positive responses from eight Top 100 employers. Frequently, but not always, the leader's personal assistant was the main contact, setting the date and time for the interview with the primary researcher. The period for interviews was extended from 3 to 5 months to accommodate the busy schedules of the senior leaders who agreed to be interviewed.

Sample Size There is no absolute standard for sample size in qualitative research; the key is to achieve saturation (Davis 2013; Fusch and Ness 2015; Guest et al. 2006). For example, Guest et al. (2006) determined that data saturation (i.e., evidence of repeating themes) can occur within the first six interviews of a study. For case study research, however, Rowley (2012) specified a sample size between one and ten participants. Fusch and Ness (2015) recommended considering data from both a quality and quantity perspective, and not just the sample size. Based on this advice, we aimed for a sample of 10–12 leaders.

The data were showing some repetition by the eighth interview. Five months into the interview process we were seeing repetitive themes in each of the final four interviews. We chose to close the interview process at 12 interviews because the data demonstrated sufficient quality and quantity to begin the analysis process in earnest (Fusch and Ness 2015). (Table 2, Appendix 1 provides an overview of the 12 leaders in the sample.)

Interviews and Questions The primary researcher performed all the interviews using the more flexible semi-structured interview process to enable the participants to elaborate on their opinions and experience (Boudville et al. 2013; Gubrium et al. 2012). The questions were open-ended to enable the interviewer to delve deep into the various components under study, leading ultimately to more informed responses (Cooper and Schindler 2014; Eriksson and Kovalainen 2008; Gubrium et al. 2012; Whittemore 2014).

The questions were informed by the literature review, particularly the definition of responsible leadership developed by Maak and Pless (2006), and the characteristics of responsible leaders further explicated by Pless et al. (2012). (A list of key questions and prompts is included as Appendix 2) To avoid bias, the lead investigator submitted the queries and prompts for peer review to ensure they were not leading questions.

The 12 leaders in the sample opted for telephone interviews. This method proved to be satisfactory with participants providing detailed responses, often extending the

30-minute time limit to 45 or more minutes (Rowley 2012). The interviews were recorded, transcribed, and returned to each participant to confirm accuracy. All responded with (a) some revisions, or (b) full agreement with the transcription.

2.1 Analysis Framework

We used QSR International's NVivo (v11) to organise, store, code and manipulate the text data, and display the results of queries in a more manageable way (Bergin 2011; Bridgstock et al. 2010; Petty et al. 2012; Rowley 2012). We also incorporated other qualitative research techniques to ensure a sound research method. For example, methodological triangulation—multiple sources of data—helped to expand on data collected from the interviews. This involved collecting secondary data in the form of company documents from the firms' websites (e.g., strategies and plans, news releases, and reports), and further documentation voluntarily provided by the individual leaders. As noted previously, member checking verified the researcher's interpretation of the data, enhancing accuracy and decreasing interview bias (Harper and Cole 2012; Hudson et al. 2014; Lincoln and Guba 1985; Rowley 2012; Stake 1995).

Identifying Integrative Leaders As a first step in the analysis, we used Pless et al.'s (2012) Integrator characteristics as the gold standard to identify the leadership orientation of participants. Each leader in the study was assessed using the five Integrator characteristics to determine if she were an integrative leader or not. Once the leader type was determined, we analysed the entire data base. Braun and Clarke's (2006) six-step thematic analysis process was used to extract a series of themes. This broad assessment informed the second major step in the analysis, identifying and exploring the values.

Identifying Value Dimensions To determine the values, we used two benchmarks: Rokeach's (1973) Value Survey (RVS) and a contemporary value set for business leaders developed by Brummette and Zoch (2015). The RVS is cited widely and has relevance for contemporary research; in fact, Brummette and Zoch (2015) used the RVS to develop their scale which was based on what stakeholders believed to be the most socially desirable values for business leaders.

Since value systems have not been empirically identified for any type of responsible leader, we had to design a process for this step in the analysis (Voegtlin 2016). The process was an iterative one that involved working back and forth between the benchmarks, literature, and study findings. This exercise helped to ensure we did not miss any highly relevant values that would be characteristic of an integrative leader. Eventually, we developed a master list of 36 potential values from the various sources, having eliminated duplicate and irrelevant items.

Next, we selected values from the master list that were clearly aligned with each of the characteristics of Pless et al.'s (2012) Integrator. Given the range of values that were available, the multiple terms that could describe one value, and a desire to be efficient, we chose to use *value dimensions.* By defining a value dimension as a range or degree, we could demonstrate a more objective, measurable interpretation of each one. This approach enabled us to organise the many potential values around a reasonable number of dimensions.

3 Findings

When we applied Pless et al.'s five Integrator characteristics to the Canadian leaders, 11 of the 12 were aligned, albeit to varying degrees, with an integrative mindset. This finding confirmed our choice of top employers for the study. Since the criteria for becoming a top employer in Canada included a capacity for stakeholder engagement and community engagement, the leaders already had demonstrated key characteristics of the Integrator (Jermyn 2014; MediaCorp Canada, Inc. 2016; Pless et al. 2012). However, while we chose this list deliberately, we acknowledge that the 12 leaders who opted into the study may be a self-selected subgroup of top employers. Still, as accredited top employers, they should be similar to the others on the Top 100 list.

The alignment between the characteristics typical of the Integrator and those of the 11 leaders was not perfect, however. While our leaders did indeed demonstrate integrative characteristics, they also displayed a tendency to be competitive, a quality more often associated with the instrumental leader (Maak et al. 2016; Pless et al. 2012; Waldman et al. 2011). That being said, competition to some extent is likely to be a motivating factor in any senior leader's corporate decisions (Christ et al. 2017; Frynas and Yamahaki 2016; Porter and Kramer 2011; Wang et al. 2016). Indeed, we suggest that not being competitive in a modern business environment will most assuredly limit a leader's effectiveness and reduce options for promotion.

After again reviewing the literature, we concluded that our view of competition as dichotomous might not be appropriate. As Doerfel and Taylor (2004) suggest, one's level of competitiveness can be viewed along a spectrum anchored by co-operation at one end and competition at the other, with the concept of "co-opetition" near the middle. Co-opetition occurs when two competing organisations work together for mutual benefits (Emec et al. 2015). They typically co-operate in such areas as efficiency (e.g., sharing trucks to ship goods to market, or streamlining the supply chain), but compete around brand and market share (Christ et al. 2017; Limoubpratum et al. 2015). If we look at competition through this lens, then leaders demonstrating competitive characteristics need not be excluded from the Integrator category.

Since the 11 Canadian leaders were similar but not identical to Pless et al.'s (2012) Integrator, we labelled them *pragmatic integrative leaders.* We use this term when we discuss the 11 participants in the study; otherwise we use the two terms, Integrator or integrative leader. (Appendix 1 includes illustrative quotations from the Canadian leaders that demonstrate this pragmatic integrative mindset.) The 12th leader was clearly different from the 11 and more appropriately characterised as an instrumental leader, as described by Maak et al. (2016). The instrumental leader was analysed to confirm the characteristic mindset but excluded from the remainder of the analysis.

3.1 Defining the Final Value Dimensions

The 12 value dimensions that distinguish the pragmatic integrative leader as a unique leadership style are presented in Fig. 1 (O'Toole 2012; Voegtlin 2016). Through the iterative analysis process, we identified seven intrinsic value dimensions and five extrinsic value dimensions (Table 1).

The one value dimension that separates our leaders from the Integrator is competition–co-opetition. Figure 1 includes this value dimension as one of the integrative characteristics that involves creating value for business and society. Following are the definitions for each value dimension along with illustrative quotations from the leaders in the private, public, and not-for-profit sectors.

Intrinsic Value Dimensions The following value dimensions help to define the intrinsic motivation of the pragmatic integrative leader. Notably, while the competition–co-opetition dimension distinguishes the pragmatic integrative leader from the Integrator, the two are very similar on other dimensions. This suggests that competitiveness is merely an extension of Pless et al.'s Integrator mindset.

Responsibility–Accountability Responsibility does not appear in the value sets of any other relevant leadership style, yet almost by definition, it is the essence of an integrative leader (Owen 2012; Voegtlin 2016). For such leaders, responsibility is broader, proactive, and not simply one person's liability, as in the legal sense of the word (Pless et al. 2012; Voegtlin 2016; Waldman and Siegel 2008; Waldman et al. 2011). Rather than focusing only on financial outcomes, he works with stakeholders to balance social, economic, and environmental interests. Being accountable facilitates openness and transparency, public proof of responsible activity. The accountable leader proactively communicates his actions and decisions to stakeholders and the public, not waiting for questions or accusations (Voegtlin 2016).

The CEO of a recreational retail co-operative (co-op) in the not-for-profit sector revealed the responsibility–accountability value dimension when he described how sustainability was implemented within his organisation, "This approach [to sustainability/social responsibility] is deeply embedded in the operational functions of the organisation and into the day-to-day roles of the organisation" (NFP-Co-op-Rtl). The senior leader within the public sector who was responsible for CSR showed responsibility–accountability with the following comment, "[Social responsibility] is our obligation to society to do that job in a way that builds public trust" (PS-Fin-CSR). In the private sector, the VP representing transportation showed responsibility–accountability when she said, "I don't think you can be a successful company today... and ignore your responsibility towards sustainability" (Pri-Tran-1).

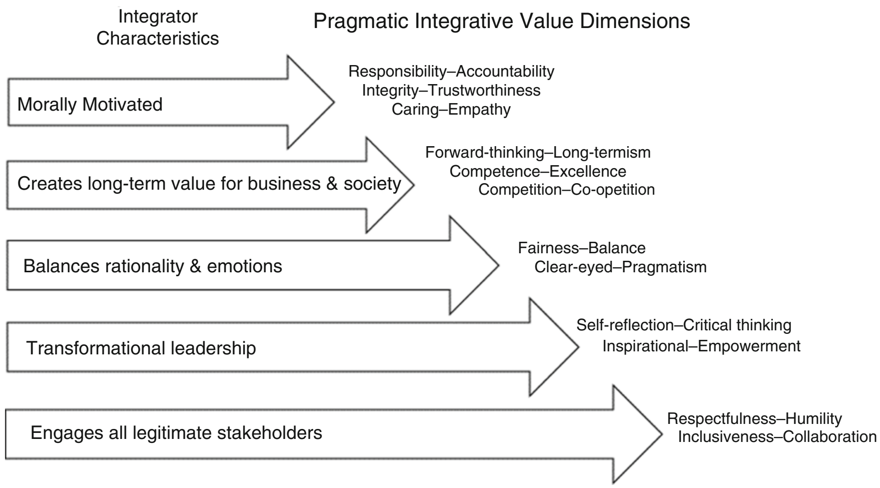

Fig. 1 Integrative Characteristics and Proposed Value Dimensions Note. Integrator characteristics used with permission and adapted from "Different Approaches Toward Doing the Right Thing: Mapping the Responsibility Orientations of Leaders," by N.M. Pless, T. Maak, & D.A. Waldman (2012), Academy of Management Perspectives, 26, p. 58. Copyright 2012 by the Academy of Management

Table 1 Twelve proposed value dimensions

Intrinsic value dimensions	Extrinsic value dimensions
Responsibility–accountability	Caring–empathy
Integrity–trustworthiness	Fairness–balance
Forward-thinking–long-termism	Inspirational–empowerment
Competition–co-opetition	Respectful–humility
Clear-eyed–pragmatism	Inclusiveness–collaboration
Self-reflective–critical thinking	
Competence–excellence	

Forward-Thinking–Long-termism Scholars have criticised business for not being forward-thinking, and for causing social, environmental, and economic problems for society while prospering at the expense of communities (Pearce et al. 2014; Porter and Kramer 2011; Voegtlin 2016). The forward-looking perspective is a strategic departure from the short-termism that has led to a singular focus on financial gains on a quarterly basis, or not thinking ahead to consider the impacts of certain decisions on society or the environment (Maak et al. 2016; Sethi et al. 2015; Voegtlin 2016). The leader takes a longer-term perspective to enable the development of stakeholder relationships, trust, and the achievement of outcomes (Doh and Quigley 2014; Lin-Hi and Blumberg 2011; Maak and Pless 2006; Maak et al. 2016; O'Riordan and Fairbrass 2014; Tien et al. 2013).

The natural resources CEO showed private sector forward-thinking when he spoke about how the company was growing and how he wanted to ensure the values of the original owners were maintained, “The challenge for us as the company has grown is to make a big company still feel small” (Pri-NR). His long-term approach was demonstrated when he talked about the changes happening in the industry and how the company needed to adapt, “We’re in a digital world and we have to change; we have to adapt. Employees want different things today.... The skillsets we need in our mills are completely different” (Pri-NR).

A senior partner within the consulting industry demonstrated forward-thinking when he questioned whether or not the organisation was incenting the right behaviours in employees to create a better, more sustainable workplace, “Are we incenting the right behaviours? Are we leading organisations in a way that truly drives us to a better place?” (Pri-CS-1). His belief in a long-term approach to management was articulated in his criticism of the financial crisis, “The financial crisis of 2007–2008 is an example of short-term thinking, self-interest, ego, leading to the ultimate demise of many organisations or a massive impact on the personal wealth of many of our citizens” (Pri-CS-1).

In the public sector, the VP of Human Resources described the organisation’s long-term approach to employee engagement, “We can see this very strong correlation between engagement, high client satisfaction, and results/organisational success... Turnover goes down, so your retention levels go up, and being able to attract quality talent improves over time” (PS-Fin-HR).

Integrity–Trustworthiness The integrative leader demonstrates consistent words and actions, honours commitments, and strives to be honest, ethical, and moral (Maak et al. 2016). In return, the leader garners trust from stakeholders and builds sustainable relationships (Mostovicz et al. 2011; Veríssimo and Lacerda 2015). Other leaders, especially ethical leaders, share this value, yet it is particularly necessary for the integrative leader who must be able to garner the trust of so many and varied stakeholders (Yasir and Mohamad 2016).

The CEO of the not-for-profit co-op showed integrity with his comments about his role in the organisation, “I really believe that the organisation takes on a tone from the top. I believe you have to mirror or model the behaviour you want to see from your organisation” (NFP-Co-op-Rtl). In the private sector, the VP representing the transportation area showed integrity when she stated, “We carry the flag and the country’s name as part of our name.... Sustainability for us means being mindful of all these expectations and governing ourselves accordingly” (Pri-Tran-1).

Competition–Co-opetition The original designers of the Integrator persona (Pless et al. 2012) saw competitiveness as belonging more appropriately to the instrumental leader. However, we find this value dimension in nearly every instance of the leaders we interviewed. Creating value for business and society requires a leader who can do double time in achieving financial and social outcomes that satisfy a diverse set of stakeholders, including the shareholders to whom she is directly accountable. The notion of co-opetition adds nuance to the competitive value dimension and demonstrates the pragmatic integrative leader's capacity to work with others—including the competition—to achieve organisational goals.

As noted earlier, co-opetition is the process of two competing organisations working together for mutual benefits (Emec et al. 2015). There are four main strategies for adopting co-opetition: risk reduction, greater efficiencies, social branding, and the creation of new markets (Christ et al. 2017). In practice, companies tend to see more potential in process-oriented opportunities, like risk management and efficiency, while brand and market share tend to remain in the competitive arena. For example, the transportation leader described how the company worked with industry competitors and government to improve national standards, "We can't do it on our own. We work very actively with [international associations] and... [industry] committees.... We share the goals of where we want to be on carbon emissions" (Pri-Tran-1).

Yet, there was a strong element of competitiveness, particularly in the private sector. The natural resources CEO cared about employees, valued employee engagement, and was prepared to spend considerable time ensuring employees had the best experience possible, "I spend a lot of time worrying about our employees... Until everybody in this company is fully engaged, I don't think we're doing our jobs" (Pri-NR). At the same time, he believed that engagement should lead to better performance and higher profits, "If we do [engagement] well, our employees will be engaged and... we could operate 2–3% better than our competitors" (Pri-NR). His comments may suggest instrumentalism, but the compassion he showed for employees reaffirmed the employee engagement literature which states that a caring leader goes beyond a classic means-to-an-end approach (Houghton et al. 2015; Mirvis 2012).

While competition was not the same or as intense in the not-for-profit or public sectors, the leaders still encountered some form of it. In the not-for-profit sector, the CEO of the retail co-op talked about staying competitive with other companies involved in the same retail field, leading in specific areas of strength, and continuing to grow the business for the benefit of the owners, "If you want to improve the efficiency and impact of everything you do it has to be at the coal face. We're very proud of what we do on this front.... We're definitely a leader in many of these things" (NFP-Coop-Rtl). Noteworthy was how this organisation co-operated with others to achieve certain goals, like reducing environmental impacts, "We also collaborate very, very actively behind the scenes... A lot of what we get done is through collaborations.... The more people, organisations, and money chasing a solution, the more likely it is to affect change" (NFP-Coop-Rtl).

The leadership literature provides some support for including the competition–co-opetition dimension within an integrative leader's value set. Scholars have noted that all leaders encounter competition and there is no exception for those who practice CSR (Christ et al. 2017; Frynas and Yamahaki 2016; Porter and Kramer 2011; Wang et al. 2016). In fact, leaders working in global contexts are subject to even higher levels of competition (Caligiuri and Tarique 2009; Javidan et al. 2016; Porter and Kramer 2011).

Clear-Eyed–Pragmatism Balancing rationality with emotions requires a leader who is comfortable and adept at complexity, ambiguity, and paradoxes. The leader must see through stakeholders' interests and demands and determine the best solution. Being clear-eyed reduces bias and introduces a critical thinking approach to complex problems. Responding to a question about his organisation's stakeholder engagement process, the CEO of the retail co-op responded, "As long as you are pragmatic about it and you understand exactly how stakeholders drive your business, it is not unwieldy. But you have to be clear-eyed about which stakeholders have the veto" (NFP-Co-op-Rtl).

Balancing stakeholder and shareholder interests requires a deep intellectual base and sound reasoning that makes sense of paradox while being pragmatic and efficient (Baker and Schaltegger 2015; de Colle et al. 2014; Mazutis and Slawinski 2015). Pragmatism enables the leader to implement a sensible and reasonable decision or policy based on a sound understanding of the practical needs of each group. The same CEO demonstrated pragmatism in a comment about the ambiguity involved in doing business today, "For leaders today you have to be able to live in a state of ambiguity" (NFP-Coop-Rtl).

One of two senior partners in the consulting industry was clear-eyed and pragmatic when he discussed social responsibility in the private sector, "You can't just talk about [social responsibility] and hope... If it's important you have to have some discipline... Ideally, you make it part of the culture of the organisation" (Pri-CS-2).

Self-reflective–Critical Thinking The integrative leader knows her strengths and weaknesses, and constantly evaluates her behaviour and impact on others. The leader understands her assumptions, what she believes in, and why (Eriksson and Kovalainen 2008). Being self-reflective prepares the leader for the times when her values and beliefs are challenged (e.g., the discovery of corruption or human rights violations within the company). Taking a critical approach is essential for the leader who works with many competing stakeholder interests, evaluates complex problems, or oversees major change.

The transportation VP was self-reflective and showed her capacity as a critical thinker when she summed up her thoughts at the end of the interview:

I think this company has the right values. . . . Our platform of engaging employees is in the right direction. There is room for progress, for sure. Our employees are starting to trust us, but we are still very much under probation. . . . It makes us work harder. (Pri-Tran-1).

The health services VP (public sector) embodied this dimension when she spoke about how her senior team was working to understand trust:

If we say an organisation has a particular value, we have to examine every decision we make, every action we take, every behaviour we exemplify, and make sure that it is actually consistent with that value. That's how people trust you. (PS-HltSvs).

Competence–Excellence This value dimension supports the leader's desire to create long-term value for business and society. The competent leader strives for excellence in decision-making and ensures that costs are aligned with value.

Stakeholders must have confidence in the leader's capacity to represent the organisation and move it forward in the best possible way. The leader demonstrates an appropriate level of knowledge with the operations of the firm, the sector, and other relevant areas (Kouzes and Posner 2017). All good leaders require a level of competence that enables success and there is no exception for the socially responsible leader (Yasir and Mohamad 2016).

The natural resources CEO demonstrated competence–excellence when he described the company's success in hard economic times, "We went through a major economic and housing crisis in our industry and our company emerged financially stronger than we went into it" (Pri-NR).

Representing the public sector, the health services VP showed competence–excellence when she described how she needed to be creative within the constraints of government systems and regulations, "One of the things we're looking at here is how to change things within certain hard constraints… There are some hard and fast standards and guidelines… But within that structure, we need to know the extent of creativity and flexibility we can offer people" (PS-HltSvs).

Extrinsic Value Dimensions The next five value dimensions we describe reflect a pragmatic integrative leader's capacity to communicate and collaborate with stakeholders, setting the leader apart from the typically individualistic focus of other leaders (Maak 2007; Maak et al. 2016; Pless and Maak 2011; Pless et al. 2012; Voegtlin 2011).

Caring–Empathy The leader demonstrates caring through actions, including compassion, kindness, and empathy. For example, employee engagement processes, when done well, demonstrate that the leader cares about employees, as opposed to seeing them as a means-to-an-end (Houghton et al. 2015; Mirvis 2012). Voegtlin (2016) and Pless and Maak (2011) emphasised the importance of caring in their responsible leader archetype.

One of the best examples of caring–empathy in the private sector was when the transportation VP spoke of her work with the company's foundation, "The work that we do in the community… is so important. We don't look at putting our energies where we will get the greatest visibility; we look at putting our energies and resources where they will make the most difference" (Pri-Tran-1).

Caring and empathy were evident in the health services VP with her account of a new program model, "We were asked to develop and establish a new comprehensive model of care for transgender individuals… Our steering committee… had over 50 percent transgender individuals… to make sure their lived experience drove the creation of the model" (PS-HltSvs).

The VP representing applied research in the not-for-profit sector defined a good leader as empathetic, "Really good leaders are able to understand others, empathise, and keep an energy about their own direction that doesn't mean they abandon themselves" (NFP-ApRes).

Fairness–Balance The business–society dichotomy is central to the integrative leader, requiring him to be fair, and apply both rational and emotional sensibilities in the right balance (Maak et al. 2016; Pless et al. 2012). The leader weighs all sides and reaches the optimum solution for a given problem, integrating requisite amounts of his Intelligence Quotient (IQ) and Emotional Quotient (EQ). Given a broader sense of accountability, the leader works to balance multiple interests (Pless et al. 2012).

The VP representing a large financial services co-op spoke directly about the fairness and balancing required when a company internalises sustainable development, "When we talk about sustainable development... it's not about treating the three values in a different way; we try to balance all three of them" (NFP-FinSvs). The former dean who also represented the not-for-profit sector, described a management approach that was fair and balanced, "If I'm asking people to be circumspect about managing the budget and I'm not circumspect about managing my own travel expenses, that breaks down trust.... You don't set one set of standards for yourself and another for your employees" (NFP-Acad).

The private sector VP representing transportation also demonstrated fairness and balance when she described employee engagement, "You owe [employees] transparent communication, conversations, frank discussions when things are not going well, and you need to recognise when they do good work and reward them for that. You need to be fair" (Pri-Tran-1). A further demonstration of her ability to balance rationality and emotion came through with the following statement, "Engaged employees understand and buy into the company's mission and objectives... [but]... there has to be something in it for the employee to be engaged" (Pri-Tran-1).

Inspirational–Empowerment Pless et al. (2012) saw the integrative leader's approach as going beyond social responsiveness and integrating social issues into the business operations. Integrative leaders are often viewed as visionary and inspire others with hope, a distinct difference from a more transactional leader (Sully de Luque et al. 2008). Empowerment is considered a key component of the leader's mindset (Patzer et al. 2012; Pless and Maak 2011; Pless et al. 2012).

The health services VP demonstrated a leadership style that was inspirational and empowering when she spoke about the need to transform the current hierarchical structure of management today, "In a very networked, global economy and if you think about information flow, the whole old-fashioned notion of top-down hierarchy... is really dead" (PS-HltSvs). Another public sector VP in the financial area spoke as an inspirational leader who understood the nature of empowerment when she reminisced about her work in various global companies, "I've worked for large, global organisations with 35,000 employees and in many countries.... At the end of the day, it's the one-on-one connection [with employees] that really is the most impactful for our people" (PS-Fin-HR).

One of the senior partners in the consulting industry described a new inspirational approach to leading and empowering others to be better leaders, "When I launched our revitalised leadership development [program]... it was intended to start to change how we really think about leadership .... We... make it about three big stages: leading self first, leading others second, and leading the business third. (Pri-CS-1).

Respectful–Humility The leader treats staff, external stakeholders, and others as important, ensures good benefit programs for employees, and is courteous (Brummette and Zoch 2015). Pless et al. (2012) described their Integrator as one who focuses on all legitimate stakeholders. A CEO's humility is related to firm performance: Humble leaders build integrative senior management teams that are more likely to collaborate, share information, make joint decisions, and hold a shared vision (Ou et al. 2015).

The private sector natural resources CEO spoke to the importance of respect and showed a convincing humility in how he expected to be treated as the CEO, "I don't want to be treated any differently today than when I was 20 years old. I don't feel any different and I have a view that people want to be treated with respect and that their values are important" (Pri-NR).

The VP of the financial services co-op was respectful of stakeholders, "For me, engagement is a kind of promise that you give to someone—your people, your clients.... When you promise something, you put all your energy into keeping that promise" (NFP-Coop-FinSvs). She showed humility in her approach to setting priorities with stakeholders, "We asked our members and clients to help us to prioritise our CSR priorities.... We had 5,000 people answer the questionnaire and the results... indicated we were on the right path" (NFP-Coop-FinSvs).

Inclusiveness–Collaboration An important reality for the integrative leader is that he is under pressure to work with greater diversity, competing stakeholder interests, and more intense competition, uncertainty and ambiguity than ever before (Gregersen et al. 1998; Maak et al. 2016; PricewaterhouseCoopers 2016). The integrative leader works with groups to build consensus, and considers different ideas, cultures, and stakeholder groups. He collaborates with stakeholders to create shared value (Pless et al. 2012).

The health services VP was inclusive in her approach to engagement, "We're trying to reach out in different ways.... Twice a year we bring 500 of our leaders to an all-day forum. We're using a lot of online platforms.... Our CEO has started to do bi-monthly town halls" (PS-HltSvs). She also collaborated with regional authorities and partners, "We do a lot of external engagement with the regional authorities who we work in partnership with." She also saw collaboration as a necessary value for success, "Partnership, collaboration, and cross-functional work is much more the type of values and characteristics that are required to be successful today" (Pub-HltSvs).

Inclusiveness was evident when one of the senior consultants in the private sector referred to his company's senior leadership table, "Getting different people's thoughts and ideas on the table is one way of getting much better diversity in our leadership ranks and is really critical. It is a strategic imperative" (Pri-CS-2). He valued collaboration at the senior table and in the company, "In a partnership I have many people around me I can rely on for input, but there are very few solutions that are all me.... It's about including other people's opinions and drawing on the spirit of partnership" (Pri-CS-2).

4 Discussion

The underlying assumption of this study was that while there is a tendency to ignore individual leaders in the CSR literature, they play a significant role in the social responsibility outcomes of their organisations. We sought to investigate this research gap by trying to understand a socially responsible leader's mindset and the motivations behind her decisions. The purpose of the study was to identify and explore the values that motivate a leader to be socially responsible.

By focusing on the practices and motivations of the integrative leader (a subset of the responsible leader genre), we gained a deeper understanding of what traits motivated these leaders to make socially responsible decisions in their organisations. We devised a list of value dimensions that align with integrative leader characteristics; these dimensions are informed both by multiple literatures and findings from the study. In doing so, we noted that our leaders demonstrated some anomalous characteristics that did not align with the current conceptualisation of the integrative leader.

The leaders in our study demonstrated integrative characteristics but were not true Integrators according to the current literature (Pless et al. 2012). The difference between the two groups is that those in our study were also committed to maintain the competitiveness of their organisations. While the instrumental leader develops a competitive advantage through his social responsibility strategy (the enlightened self-interest approach), our leaders embraced social responsibility as a personal commitment. Their more internalised understanding of social responsibility meant that any socially responsible initiatives they undertook were linked to personal values rather than a corporate program (Hemingway and Maclagan 2004). The competitiveness they demonstrated was simply part of their overall management approach. In essence, the pragmatic integrative leader managed to straddle two responsible leader mindsets, the integrative and instrumental, promoting social responsibility and competing successfully in the corporate world. We captured this quality through the competition–co-opetition value dimension.

5 Limitations, Potential Contributions, and Future Developments

Limitations The fact that small sample sizes may limit the potential to generalise does not negate the usefulness of qualitative studies (Ali and Yusof 2011; Yin 2014). Our sample of leaders reflects an elite group of senior leaders of large corporations, as well as public sector and not-for-profit organisations throughout Canada. Unlike studies that refer to published speeches, written content, and pre-recorded interviews, our data collection process was dynamic, personal, and unrehearsed. The interviewees were confident, self-aware, and articulate. They understood the confidentiality of the study and were comfortable in providing candid responses, with no attempts to inflate positions or opinion. Because these leaders chose to be interviewed, there may be some self-selection bias. However, the sample is a subset of the top employers in Canada in 2016 so they should reflect many of the characteristics and qualities of the larger group.

Potential Contributions to Research and Business Practice By identifying an introductory framework of value dimensions for the leaders in the study, we suggest a component that has been missing within the responsible leadership literature (Voegtlin 2016; Witt and Stahl 2016). In doing so we have advanced research around the little-known interface of leaders' personal values and decisions on social responsibility policies and programs (Aguinis and Glavas 2012; Pearce et al. 2014). Opportunities for future research could include testing the dimensions for conceptual and statistical independence and validating them against other external measures (Hofstede 2011).

In terms of business practice, we have contributed to a deeper understanding of how leaders with integrative characteristics and values perform in a contemporary business environment (Jones Christensen et al. 2014; Mostovicz et al. 2011; Pless et al. 2012). There may be little evidence of leaders being hired for their values, but perhaps we should consider doing so. Corporate leaders who take many risks, have questionable integrity, and are generally less charitable reduce shareholder wealth in the longer term (Chin et al. 2013; Omar et al. 2017). Our findings suggest firms could benefit by incorporating values in their recruitment processes, especially when filling senior management posts. New research could focus on developing a values assessment scale for leaders and on improving measures to assess leadership performance.

Potential Contributions to the Responsible Leadership Framework A leader who espouses these value dimensions is socially responsible yet performs well in a competitive environment. The pragmatic integrative leader facilitates the connection between organisations and CSR because she is naturally committed to a broad form of responsibility that includes environmental, financial, and social concerns. The expression of social responsibility is personal, and she models behaviours that support a culture of social responsibility (MacNeil 2018).

At the same time, the leader employs competitive strategies to operate successfully in contemporary corporate environments. Indeed, this leader can straddle two mindsets, integrative and instrumental, within the responsible leadership framework described in the literature (Pless et al. 2012). Our research includes a value dimension that is specific to the pragmatic integrative leader, competition-co-opetition.

Contributions to Organisational Change The dominant leadership style of corporate leaders typically involves efficiency, calculability, and measurable results, but little regard for others or building lasting inter-personal relationships (Maak et al. 2016; Pless et al. 2012; Tolofari 2005; Waldman et al. 2011). Various leaders have disappointed the world with their displays of individualism, corruption, elitism, and hubris (Schwab and Larkin 2015; Owen 2012). A different type of leadership could restore trust in our institutions and leaders (Edelman 2017; Fifka and Berg 2014; Schwab and Larkin 2015; Patzer et al. 2018; Witt and Stahl 2016).

Our proposed value dimensions reflect a leader who can offer genuine change not only in the corporate world, but also in society. Scholars and thought leaders have warned that we are experiencing a leadership crisis. We need a different type of leadership based on personal values (Edelman 2017; Kouzes and Posner 2017; Owen 2012; PricewaterhouseCoopers 2016; Ree 2014; Waldman and Balven 2014; World Economic Forum 2014). For example, the World Economic Forum (2014) suggests that global leaders must exemplify morality, empathy, courage, long-term perspective, a pragmatic planning approach, strong communications skills, collaboration, and an emphasis on social justice over financial growth (Sarid 2016; Strand 2011; World Economic Forum 2014). These features bear a striking resemblance to the value dimensions proposed in our study.

6 Conclusion

We explored an area of the research less examined—the personal values that influence leaders' commitment to responsible management (Eccles et al. 2014; Greenwood and Van Buren III 2010). It adds to the body of leadership research, which generally highlights the social and environmental responsibility of organisations, as opposed to the individual leaders of those organisations (Aguinis and Glavas 2012; Crane et al. 2008; Jones Christensen et al. 2014; Scherer and Palazzo 2007; Waldman and Siegel 2008). Indeed, focusing on senior leaders is a way to gain insight into what some scholars have termed the black box of leadership and social responsibility (Aguinis and Glavas 2012; Gehman et al. 2013; Maak et al. 2016).

While researchers have studied leadership and CSR for decades, there is little known about how leaders' personal values motivate their organisations' social responsibility activities (Cots 2011; Pearce et al. 2014; Witt and Stahl 2016). We know that personal values affect the attitudes, behaviours, and decision-making of leaders, but we don't know how these values influence decisions (Burton and Goldsby 2009; Jones 2015). This study builds on extant research by describing some value dimensions that characterise pragmatic integrative leaders in Canadian organisations. These leaders demonstrated how a combination of integrative and instrumental characteristics and motivations can be an effective form of responsible leadership in a capitalist-centric marketplace.

Corporations have tremendous power to address social challenges and influence a more inclusive, sustainable, global society (Maak et al. 2016; Owen 2012; Stahl and Sully de Luque 2014; Terrell and Rosenbusch 2013; Williams 2014). The pragmatic integrative leader combines the qualities recommended for global leadership with a practical approach to competing effectively in the corporate world.

Appendix 1: Secondary Tables

Table 2 Canadian leader sample

Sector	Private (Pri)	Public (Pub)	Not-for-profit (NFP)
Business area	Transport-1 (Tran-1)	Health Services (HltSvs)	Retail Coop (Rtl-Coop)
	Transport-2 (Tran-2)	Finance-CSR (Fin-CSR)	Fin Services Coop (FinSvs-Coop)
	Natural Resources (NR)	Finance-HR (Fin-HR)	Academic (Acad)
	Consulting Services-1 (CS-1)		Applied Research (ApRes)
	Consulting Services-2 (CS-2)		

Note. The Tran-2 leader did not meet a sufficient number of Pless et al. (2012, p. 58) Integrator criteria and was excluded from the tabular analysis

Table 3 Canadian private sector leaders—pragmatic integrative leaders

Integrative characteristic and descriptors	Business area	Leaders' illustrative quotations
1. Morally motivated		
Outlook is rooted in moral values and principles	Tran-1	We believe that everyone is worthy of personal respect and that you should treat employees with respect.
Shows strong, broadly conceived concerns for others		We chair a foundation. . . . I am personally involved with that foundation and it provides a lot of rewards on a personal level.
Outlook is rooted in moral values and principles	NR	This company started 61 years ago with very simple values. The key for us is making sure our people in leadership roles have those values.
Outlook is rooted in moral values and principles		We think there's a downside to [celebrating leaders] in that people's egos get really big and they go from being great team players and leaders to letting it get into their heads.
Leader has a broad responsibility	CS–1	We're engaging in the pursuit of excellent service delivery that's tied to quality, integrity, ethics, and collaboration.
Outlook is rooted in moral values and principles		When our clients ask us to do something that's not in our capability, we need to tell them so, and recommend someone else.

(continued)

Table 3 (continued)

Integrative characteristic and descriptors	Business area	Leaders' illustrative quotations
Leaders don't count on the market or govt to provide socially responsible outcomes	CS-2	It tends to start with doing the right thing. . . . We should, as an organisation and individual leaders, be demonstrating social responsibility and building environments. . . that promote sustainability, strength, and vibrancy.
Shows strong, broadly conceived concerns for others		You can ask any question, but there's only one of three answers: we will give you the answer; we don't know, but we'll try to find out; and we know but can't tell you. They deserve as my teams, colleagues, peers, whatever, to know.
2. Creates long-term value for business and society		
Creating value for business and society at large	Tran-1	In the [transportation] industry, environmental protection, as in reduction of carbon emissions, correlates directly with fuel efficiency, which correlates directly with the bottom line.
Considers profits to be an outcome that is likely to result from running a purposeful and responsible business		We are reducing our carbon footprint by purchasing newer airplanes. . . . You get a 30% efficiency out of a new airplane like the 787.
Considers profit to be an outcome that is likely to result from running a purposeful and responsible business	NR	If we do [engagement] well, our employees will be engaged, and the company will be better off. If we could operate 2–3% better than our competitors, that's over $100 million dollars on $4 billion dollars in sales.
Has a broader sense of accountability		We're competitive people. . . I want people to be individually humble, but collectively arrogant. . . . We need to do it in a humble way, and we need to be careful because I respect our competition and I like our competitors.
Has a broader sense of accountability		Government relations are super important to us. . . . And we want forestry policy to be important to our governments.
Driven by a desire to serve the needs of broadly defined constituent/stake-holder groups	CS-1	We've moved away from the large scale, firm-wide 9000 people engagement surveys. We are introducing a new performance management system which involves pulse surveys.
Considers profits to be an outcome that is likely to result from running a purposeful and responsible business		If you actually have well harnessed, engaged people who are diverse, you get better outcomes.

(continued)

Table 3 (continued)

Integrative characteristic and descriptors	Business area	Leaders' illustrative quotations
Has a different understanding of the purpose of running a business and the extent of their accountability	CS-2	We think we've learned from the crisis of the financial system that short-termism isn't always in everybody's best interest.
		The financial crisis of 2007–2008 is an example of short-term thinking. . . . All that stuff causes people to pause and say, "Are we incenting the right behaviors? Are we leading organisations in a way that truly drives us to a better place?"
3. Balances Rationality & Emotions		
More effective strategic decision making	Tran-1	Engaged employees understand and buy into the company's mission and objectives and wish to work co-operatively with management to achieve those objectives. There has to be something in it for the employee to be engaged, however.
Brings together rationality and analytic thinking with a concern for emotions		[Engagement] is needed because employees who only pay lip service to something that they don't believe in or agree with are not doing the best job they could.
Brings together rationality and analytic thinking	NR	You can have good values, but not be accountable, or you don't hold other people accountable. Some people have all the values, but they don't manage the values that are important.
More effective strategic decision making		Sustainability is a big thing right now. . . . We got beaten up for 25 years. . . Then we understood: First, we needed to get better at what we do, and then we needed to engage with the public.
Brings together rationality and analytic thinking with a concern for emotions	CS-1	We went to a homeless shelter for late teens/early 20-year-olds. . . . It was fascinating and horrifying all at once. . . . That's an example of how we gain insight—through the exposure of what others are going through and why.
Likely to understand and take into account the emotions of others		The only way leaders can lead from a place of engagement is understanding what their impact is around them.
More effective strategic decision making	CS-2	We've deliberately chosen to include personal as well as professional because you bring your whole self to work. . . . We'll create a different experience than someone who says to keep your

(continued)

Table 3 (continued)

Integrative characteristic and descriptors	Business area	Leaders' illustrative quotations
		professional work and your personal life separate.
More effective strategic decision making		Diverse teams don't by definition give you better outcomes because they conflict, but if they're all engaged collectively around a common goal then we do definitely see better outcomes.
4. Displays transformational leadership		
Goes beyond social responsiveness or economic returns for doing good	Tran-1	We buy equipment for the pediatric hospital. . . . We look at what is really needed. . . and the special projects are what our employees want. We think that is real social responsibility.
Pursues a more proactive and even transforming approach		You need to listen to stakeholders. It's really important to do that because you don't always have the best perspective and you can't work in isolation.
Pursues a more proactive and even transforming approach	NR	Number one, it's the most important thing I do. Number two, it's what I enjoy the most. I don't tell people how to do things; they know what I want. There's a high degree of trust in this organisation.
May try to change the game of business	CS-1	[W]e take leadership development and make it about three big stages: leading self first, others second, and the business third. We had typically invested in almost the complete reverse direction.
Pursues a more proactive and even transforming approach	CS-2	We want to make sure we're incenting the right type of behavior that naturally lends itself to these kinds of natural CSR, not so it has to be mandated. On a personal basis, I think doing the right thing and suspending personal interest is key.
5. Engages all legitimate stakeholders		
Works well with all legitimate stakeholders	Tran-1	You need to listen to stakeholders. It's really important to do that because you don't always have the best perspective and you can't work in isolation.
Not likely to see conflicts in how the firm can meet the needs of various stakeholders		It makes a huge difference when you get [stakeholders] on board. When they understand what the issue is and how you can work together to make things better, it's huge.
Not likely to see conflicts in how the firm can meet the needs of various stakeholders	NR	We've worked hard on external communications, and we've worked hard on external stakeholder engagement. That's

(continued)

Table 3 (continued)

Integrative characteristic and descriptors	Business area	Leaders' illustrative quotations
		a necessary thing to do, and in the long run, it's the right thing for us.
Likely to envision and attempt to realise positive employee relations		Until everybody in this company is fully engaged, I don't think we're doing our jobs. For example, I probably spend 40% of my time at the mills.
Likely to envision and attempt to realise positive employee relations	CS-1	When I launched our revitalised leadership development program. . . it was intended to start to change how we really think about leadership, with the result of getting to better engagement on all fronts.
Works well with all legitimate stakeholders		I don't believe I have all the answers. . . I have many people around I can rely on for input. . . It's about including other people's opinions and drawing on the spirit of partnership.
Likely to envision positive employee relations	CS-2	We had outside help, but we engaged many of our staff to establish how they want to work. . . . This space was basically designed with a significant amount of influence by them.
Sees stakeholders in a broad perspective		[Our clients] are a primary stakeholder group. Academic organisations are very important to us. . . . Regulators. . . . Influencers. . . the people who have a significant voice in our external environment. . . Our alumni.

Note. Integrator characteristics used with permission and adapted from "Different Approaches Toward Doing the Right Thing: Mapping the Responsibility Orientations of Leaders," by N.M. Pless, T. Maak, & D.A. Waldman, 2012, Academy of Management Perspectives, 26, p. 58. Copyright 2012 by the Academy of Management

Table 4 Canadian public-sector leaders—pragmatic integrative leaders

Integrative characteristic and descriptors	Business area	Leaders' illustrative quotations
1. Morally motivated		
Outlook is rooted in moral values and principles	HltSvs	You don't have to be perfect. I don't think patients expect us to be perfect. . . . But I do think they expect us to be honest.
Broad responsibility		With health care, and in the broadest context, we have an obligation to steward the system.
Has a broad responsibility	Fin-CSR	Our social responsibility is. . . our obligation to society to do that job in a way that builds public trust.
Considers the needs of various stakeholders to be legitimate		[Engagement] is a terrific source of validation. It's a terrific source of new ideas and. . . healthy scrutiny.
Outlook is rooted in moral values and principles	Fin-HR	It's one thing to measure, to listen, but if you're not prepared to act, you very quickly lose your credibility as senior management.
Show strong, broadly conceived concerns for others		The tone at the top is so important. Employees see right through what is going on in an organisation by just watching the leaders.
Outlook is rooted in moral values and principles		Be genuine. Don't do things just because you want to say you're doing an engagement survey. Do it because you really mean it.
2. Creates long-term value for business and society		
Leader considers the needs of various stakeholders to be legitimate	HltSvs	We develop criteria that are values-based and that helps us make decisions about program investment or disinvestment.
Shows strong, broadly conceived concerns for others		We're going to go through. . . a period where not only will the demand grow because of the aging population, but many of our people. . . will start to retire.
Has a stronger or broader sense of accountability		We have to find ways to keep the people we manage to hire truly interested and contributing to the work environment.
Leaders don't count on the market or government to provide socially responsible outcomes	Fin-CSR	We establish parameters to ensure we keep the trust we earn. Ethical business practices, very surgically precise things like an anti-money laundering directive to pay close, harsh attention to the sources of money or the relationships that we may be building.

(continued)

Table 4 (continued)

Integrative characteristic and descriptors	Business area	Leaders' illustrative quotations
Considers profits to be an outcome that is likely to result from running a purposeful and responsible business	Fin-HR	Turnover goes down, so your retention levels go up, and being able to attract quality talent improves over time. . . . That's why the investment of time and effort that senior leaders need to take with engagement can be so powerful.
Has a stronger or broader sense of accountability		I think when we're hiring people, we have to ensure there is an alignment/link between personal values and the values of our organisation.
3. Balances rationality and emotions		
Brings together rationality and analytic thinking with a concern for emotions	HltSvs	In terms of decision making, we're increasingly using. . . Program Based Marginal Analysis. We develop criteria that are values-based, and that helps us make decisions about program investment or disinvestment.
More effective strategic decision making		We would invest in smaller scale, real engagement rather than larger scale, token engagement (surveys).
Likely to understand and take into account the emotions of others		One of the advantages we have is that we tend to attract people who are attracted to health care because the work involves helping others. . . . We haven't always leveraged that depth to the degree we could.
Better able to understand the emotional commitment and identity generated among employees in firms with stronger emphasis on CSR	Fin-CSR	[Employees] feel proud that even though they deal in money, people benefit from every dollar. So, they're in an organisation from which other people benefit.
More effective strategic decision making	Fin-HR	[Engagement] brings a lot to the organisation. It brings a lot to our image as a good employer. . . . Candidates today. . . specifically go looking for employers who have high engagement and who have a commitment to corporate social responsibility.
More effective strategic decision making		We can see this very strong correlation between engagement, high client satisfaction, and results/organisational success.
4. Displays Transformational Leadership		
Likely to pursue a more proactive and transforming approach	HltSvs	In a very networked, global economy and if you think about information flow, the whole old-fashioned notion of top-down hierarchy is really dead.

(continued)

Table 4 (continued)

Integrative characteristic and descriptors	Business area	Leaders' illustrative quotations
May even try to change the game of business		Partnership, collaboration, and cross-functional work is much more the type of values and characteristics that are required to be successful today.
Likely to pursue a more proactive and even transforming approach	Fin-CSR	The larger an organisation gets, the more important it is for senior leaders to remain open and have a certain intellectual humility.
May even try to change the game of business		[Engagement] has given us the pulse of the organisation. . . . If you have latitude and. . . the ability to design things, you can use that pulse like a good barometer and guide to affect change.
Likely to pursue a more proactive and even transforming approach	Fin-HR	Trust is so important; if you don't have it, things break down. It is so fundamental to an organisation and to its employees to know that we have high standards when it comes to trust.
Likely to pursue a more proactive and even transforming approach		Keeping your feet on the ground is so important. . . . I've worked for large organisations: 35,000 employees, global, and in many countries. . . . It's the one-on-one connection that really is the most impactful for our people.
5. Engages all legitimate stakeholders		
Sees stakeholders in a broad perspective	HltSvs	We're trying to reach out in different ways. Twice a year we bring 500 of our leaders to an all-day forum. . . We're using a lot of online platforms: blogs, and other kinds of feedback mechanisms.
In collaboration with stakeholders, sets innovative industry standards and develops business innovations that have a positive impact on society		We were asked to develop and establish a new comprehensive model of care for transgender individuals. . . . It ended up being a really successful process with heavy engagement across the province, including over 100 people from the transgender community.
Likely to envision and attempt to realise positive employee relations coupled with satisfied customers/clients	Fin-CSR	[I]t can be difficult to engage a large employee body. But when you have one clear, unifying purpose and an ensemble of sophisticated practices, you'll do fine.
Not likely to see conflicts in terms of how the firm can meet the needs of various stakeholders		We have the mother of all stakeholders in parliament. . . . Through parliament come the wishes and expectations of the entire population of Canada.

(continued)

Table 4 (continued)

Integrative characteristic and descriptors	Business area	Leaders' illustrative quotations
Likely to envision and attempt to realise positive employee relations coupled with satisfied customers/clients	Fin-HR	The challenges don't get any easier but keeping your feet on the ground is so important because that's what connects us to our people and to our clients.
Not likely to see conflicts in terms of how the firm can meet the needs of various stakeholders		For us, [engagement] has been very important, not just internally, but with all the relationships that we have, externally with our shareholders, with our clients, all the stakeholders.

Note. Integrator characteristics used with permission and adapted from "Different Approaches Toward Doing the Right Thing: Mapping the Responsibility Orientations of Leaders," by N.M. Pless, T. Maak, & D.A. Waldman, 2012, Academy of Management Perspectives, 26, p. 58. Copyright 2012 by the Academy of Management

Table 5 Canadian not-for-profit sector leaders—pragmatic integrative leaders

Integrative characteristic and descriptors	Business area	Leaders' illustrative quotations
1. Morally motivated		
Outlook is rooted in moral values and principles	Rtl-Coop	I really believe that the organisation takes on a tone from the top. I believe you must mirror or model the behavior you want to see from your organisation.
Leaders don't count on the market or govt to provide socially responsible outcomes		We endeavor to ensure the dignity and fair treatment of the workers through our ethical sourcing programs.
Leaders don't count on the market or govt to provide socially responsible outcomes	FinSvs-Coop	Very early in my career, I decided to identify my life's mission. . . I decided to work to bring back the common good in corporations.
Outlook is rooted in moral values and principles.		It was very hard in the beginning. . . at that time I had no financial resources. I had to convince people because it was not a very popular topic.
Integrators show strong, broadly conceived concerns for others	Acad	If you're in the people service industry, as we are as educators, this kind of agenda—to be very people oriented and to treat others fairly—is really critical.
Leader has a broad responsibility		At a university, we're there to serve a numerous set of complex constituents, but we're there to serve.
Outlook is rooted in moral values and principles		If I'm asking people to be circumspect about managing the budget and I'm not circumspect about managing my own travel expenses, then that breaks down trust.

(continued)

Table 5 (continued)

Integrative characteristic and descriptors	Business area	Leaders' illustrative quotations
Shows strong, broadly conceived concern for others	ApRes	I've made it clear that I respect them as professionals. . . . I treat them as I expect to be treated. And as I expected to be treated when I was in their roles.
Considers the needs of various stake-holders to be legitimate		To actually make CSR work outside the firm, one of the things that needs to happen is to actively engage the community or the special groups in the area most affected by your decisions.
2. Creates long-term value for business and society		
Holds a different understanding of the purpose of running a business and the extent of their accountability	Rtl-Coop	It's a big system. You need to know as much as possible about what is going on all the time. . . . [I]f you try to just push on one part of it there can be unintended consequences.
Creates value for business and society		We also collaborate very, very actively behind the scenes so a lot of what we get done is through collaborations.
Attempts to deliver on multiple bottom lines by reconciling, or actively integrating, goals across stakeholder groups	FinSvs-Coop	When we talk about sustainable development... it's not about treating the three values in a different way; we try to balance all three of them.
Does not run the business primarily to make profits		Today you have to make sure you really understand the needs of the individual and the community.
Does not disregard economic performance and value creation	Acad	You always want to have students with relevant education; you always have to do that test of the market place.
Does not run the business primarily to make profits		We're educators. We're setting people, hopefully, along a successful career path. If we're not doing our jobs, we can have a huge negative impact on people.
Creates value for business and society	ApRes	We're just in the process now of establishing a new institute. . . . There's a growing sense that corporations need to be engaged in the communities in which they operate.
3. Balances Rationality and Emotion		
Considers profits to be an outcome from running a purposeful and responsible business	Rtl-Coop	We endeavor to ensure the dignity and fair treatment of the workers through our ethical sourcing programs.
Likely to understand and take into account the emotions of others		We do... seek to understand our positive and negative impacts and... mitigate the negative to ensure our business can be healthy and vibrant over the long term.
Likely to understand and take into account the emotions of others	FinSvs-Coop	For me, trust is the first condition to achieve what you want to achieve. . . . As

(continued)

Table 5 (continued)

Integrative characteristic and descriptors	Business area	Leaders' illustrative quotations
		a financial institution, we must have the trust of the people.
Brings together rationality and analytic thinking with a concern for emotions	Acad	You've got to walk the talk. It sounds really trite, but you have to do what you say you are going to do. You have to be consistent. . . . You've got to be transparent.
Brings together rationality and analytic thinking with a concern for emotions		People may not agree with the decision you make, but they should understand the process that you went through and the criteria that you used.
Likely to understand and take into account the emotions of others	ApRes	We believe that leadership is an interesting combination of strong personal will and drive and strong emotional intelligence (EQ).
		Really good leaders are able to understand others, empathise, and keep an energy about their own direction that doesn't mean they abandon themselves.
4. Displays Transformational Leadership		
Likely to pursue a more proactive and transforming approach	Rtl-Coop	Know yourself. It's very much like personal issues. If you're absolutely honest and self-aware, it is the best starting point.
Likely to understand and take into account the emotions of others		Not only do I believe people need to be learning and growing and having continuous experiences, they also need clarity of purpose, why we do what we do, and to be part of team.
Likely to pursue a more proactive and transforming approach	FinSvs-Coop	We asked our members and clients to help us to prioritise our CSR priorities.
May even try to "change the game of business"		You have to engage senior management first to make sure they understand. After that, the Board of Directors . . . partnerships with other organisations, like NGOs and the employees.
Translates social and environmental issues systematically into business operations	Acad	[CSR] is extremely important to me; that's why I came to [this university]. . . . [It] had a mission to be a values-led faculty but didn't have somebody with deep expertise.
Likely to pursue a more proactive and transforming approach		You have to be authentic when you're doing this. You have to believe that it's important and you have to be a strong communicator.
Likely to pursue a more proactive and transforming approach	ApRes	They set up as a group and created their own weekly online newsletter. . . . I had

(continued)

Table 5 (continued)

Integrative characteristic and descriptors	Business area	Leaders' illustrative quotations
		said to them, "Communicate. Let's open channels and engage people by whatever means we have."
May even try to "change the game of business"		[Y]ou've got to motivate your people, but a lot of the time motivation in the past was a stirring speech that shared your thoughts but didn't get into theirs.
5. Engages all legitimate stakeholders		
Works well all legitimate stakeholders	Rtl-Coop	Like any organisation, we have a small, very vocal minority that has very strong opinions on things. We listen to them, and we engage with them. . . . We have to listen.
Sees stakeholders in a broad perspective		Our supply chain is a stakeholder. . . . The communities are stakeholders and. . . the ecology on which we depend is a stakeholder. So, we look at a very wide stakeholder group.
Likely to envision and attempt to realise positive employee relations and satisfied customers/clients	FinSvs-Coop	We asked our members and clients to help us to prioritise our CSR priorities.
Sees stakeholders in a broad perspective		You have to engage senior management first to make sure they understand. After that, the Board of Directors. . . . partnership organisations, like NGOs and universities. . . . the employees.
Works well all legitimate stakeholders	Acad	We have a standard set of stakeholders, and then there are others we consider because of their influence on our decisions or vice versa.
		The internal stakeholders, like faculty, have a huge impact on the decisions. . . and how you craft a strategy.
Sees stakeholders in a broad perspective	ApRes	We're going to be dealing with government, business, some communities, some of the larger public-sector institutions, and hospitals/health systems.
Likely to envision and attempt to realise positive employee relations and satisfied customers/clients		Whenever we are undertaking a corporate initiative, we always have groups of employees engaged in the process.

Note. Integrator characteristics used with permission and adapted from "Different Approaches Toward Doing the Right Thing: Mapping the Responsibility Orientations of Leaders," by N.M. Pless, T. Maak, & D.A. Waldman 2012, Academy of Management Perspectives, 26, p. 58. Copyright 2012 by the Academy of Management

Appendix 2: Interview Questions

1. Engagement is taken seriously by (your organisation) based on the success you have had with the Top 100 Employer listing:
   - What is your understanding of engagement? [Define engagement, meanings, experience]
   - How important is engagement to you as a senior leader?
2. Employee engagement can be challenging, especially with a large company. How does (your organisation) engage employees? [Types of activities, policies, experience, etc.]
   - How involved are they in decisions? [Types of input, other experience]
   - What, if anything, does employee engagement achieve for the company? [Benefits-culture, performance, competitive advantage, etc.]
3. External stakeholders come in many forms and with diverse needs. How do you decide who your key stakeholders are?
   - What does external stakeholder engagement look like at (your organisation)? [Examples, experience]
   - How involved are stakeholders in the decisions of the organisation?
   - What, if anything, does external stakeholder engagement achieve for the organisation? [legetimacy, trust, reputation, competitiveness]
4. (Your organisation) contributes to the community (i.e., social responsibility) and produces regular sustainability reports. Why is social responsibility and sustainability important to [your organisation]?
   - How effective are your strategies? [Examples, experience, stories]
   - How involved are stakeholders in these strategies? [community input, committees]
5. What suggestions would you have for other business leaders who want to improve engagement and CSR/Sustainability strategies in their organisations? [leadership, policies, practices, programs, etc.]
6. Levels of public trust in business, government, and other institutions have been low for a number of years. How important is trust, to you? To (your organisation)? [meanings, experience, loss of trust]
   - Do you have any suggestions for others who want to increase trust in their organisations?
7. Senior leaders make the decisions that drive organisational processes and strategies. We know that personal values affect behaviour, but there is little information about the influence of personal values on leaders' decisions. How do you think personal values enter into your decisions? [Examples, experience, expectations]

- What values would you say are important for leaders to be successful in today's global marketplace? [Have they changed? Meaning of values, role of values]

8. Are there any other comments or suggestions that you would like to make?

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Mission-Based Corporate Sustainability: The Aigües de Barcelona Model

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1 Introduction

Companies are incorporating sustainability into the definition of their mission and objectives (Mirvis et al. 2010; Morrish et al. 2011; Baral and Pokharel 2017). Corporate Sustainability is already a common term in the theoretical research and in the practice of management (Wilson 2003). However, it is also recognised that the definition of the concept of sustainability is still muddled and that there is a lack of knowledge about how to implement it effectively in business practices (Fergus and Rowney 2005; Linnenluecke and Griffiths 2010; Gibson 2012; Kates et al. 2012; Engert and Baumgartner 2016).

The strategy of corporate sustainability has been rolled out and implemented in companies by means of the Triple Bottom Line concept, according to which companies must seek balanced development of the economic, social and environmental benefits (Bansal 2005; Mirvis et al. 2010; Baral and Pokharel 2017; Jiang et al. 2018). However, multiple objections to this model have been raised: it is "simple business reporting", which has little effect on achieving a society that is truly more sustainable (Lee and Saen 2012; Milne and Gray 2013); it does not cover the intertemporal perspective (Bansal and DesJardine 2014), the method of balancing the three dimensions included in the Triple Bottom Line is not clear (Bañon et al. 2011); it is meaningless, without content and unconnected to

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reality (Kates et al. 2012); or it does not add anything new to corporate social responsibility (Norman and MacDonald 2004).

Moreover, it appears clear that incorporating sustainability into the company's strategy affects how it defines its mission and at least two aspects of how the effects of company business are assessed: (1) concerning "who" considers themselves affected (stakeholders) by such activity and (2) concerning "how" the effects of actions should be assessed (Bastons and Armengou 2017). From this double perspective, sustainability is presented as a means of developing the corporate mission which both includes the involved parties in the mission "more", and also provides a criterion for assessing the effects of the action in meeting the needs of the affected parties. This explains why sustainability, mission and responsibility should in some way be integrated and cannot be handled as separate and unconnected policies (Payne and Raiborn 2001).

Following the methodology used in other research (Ferguson et al. 2013; Kumar et al. 2013; Doorn 2016; Engert and Baumgartner 2016), here we present the case study of the company Aigües de Barcelona (AB). The company has developed an original sustainability management model which sets out and proposes solutions to some of the issues arising for companies in their efforts to effectively implement a sustainability strategy. Their strategy integrates the mission, sustainability and CSR, treating them not as three separate elements but as three aspects integrated into a single model which, in order to be effective in practice, is rolled out according to the three dimensions of effective mission implementation: as statement, motivation and practice (Rey and Bastons 2017). Firstly, the special relationship between sustainability and mission is analysed and the idea of corporate sustainability and business responsibility entailed by this relationship is defined. Secondly, the rollout of the sustainability strategy is described, as carried out in three dimensions: statement, motivation and practice. Finally, conclusions are drawn from the example and an analysis conducted of the difficulties encountered in effectively developing the strategy and of several open questions. It should also be indicated that this case study is based on the company's internal and external reports and that the analysis is based on in-depth interviews with eight managers with special responsibility for the sustainable development strategy.

2 Incorporating Sustainability into the Mission

Since it was founded in 1867, Aigües de Barcelona has had a special connection to the City of Barcelona and its surroundings, contributing to making the city one of the major metropolitan areas of Europe. AB belongs to the Suez Group, has around 1000 employees and, using a circular economy model, manages the entirety of the urban water cycle, serving approximately three million people in the municipalities of the Barcelona Metropolitan Area. The sustainable development initiative began in 2014 with the idea that the company should develop its own strategic model. As Ignacio Escudero (CEO of AB) said, "the idea of sustainable development did not just suddenly appear. Concern about society and the environment is implicit in our business. We saw that the idea of sustainable development had to become a major 'structuring factor' in everything we do".

As in many strategic analyses, one of the first actions they took was to analyse the existing level of development of sustainability within the company (internal analysis) and to seek different external models that could be used as a reference (benchmarking). With respect to the former, they recorded projects, initiatives and plans that AB had already developed in the past or that were being implemented and that had constituted an important part of its strategy for several years. It was observed that AB had carried out or was carrying out educational projects, exhibitions, studies, debates, citizen awareness activities for responsible water consumption and various corporate social responsibility actions, all focused on promoting sustainable consumption. In fact, as Elisabet Bergés (member of the sustainable development team) stated, "AB was drafting sustainability reports as far back as 1998". However, as in other companies, the first thing they discovered was that "the company had a plethora of sustainability initiatives but no consistent strategic thrust behind them… Too many unaligned programs and messages" (Mirvis et al. 2010, p. 318).

To seek external references various benchmarking studies were conducted, analysing the sustainable development and corporate social responsibility actions of companies from different sectors. The relevant sustainable development documents of international organisations were also analysed in order to identify the factors with the greatest impact on companies' positions. Finally, a study of the context was conducted using a Pestel analysis, which assesses variables in the national context which may directly or indirectly affect the company's activity. Here again however it was observed that while many sustainable water management policies offered interesting ideas, they were not a model to be followed. This was partly due to the fact that water management is still seen as a "service to be provided" and, as many studies have demonstrated, this approach is no longer sufficient to tackle the challenges arising in modern cities (Marlow et al. 2013). Strategic approaches in the field of water management are required (Martínez 2015).

It was also observed that in many companies the procedure for implementing a sustainability strategy takes the form of a "departmentalisation". This method of incorporating a new practice into an organisation is observed, for example, in CSR policies. Whether to meet the growing social demands on the company or for image and reputation reasons, many organisations create a "department" or "sub-departments" responsible for promoting certain "programmes". Some companies also choose this option for implementing the concept of sustainability, assigning it to a Corporate Development, HR, CSR or Communications "department". The result of this process of "departmentalisation" is the "plethora of sustainability initiatives but no consistent strategic thrust behind them" (Mirvis et al. 2010, p. 318). The "departmentalisation" of sustainability did not match what AB considered sustainability should be in a water management company. "We need to do away with the department vision. Sustainability is a transversal issue" (E. Bergés). In a water management company, sustainability cannot be solely an issue for one department, which launches programmes and issues certifications, because in this kind of company sustainability "is not 'a part' of the strategy, but it 'is the strategy'" (I. Escudero). It was not that a sustainability "management system" was required, but that sustainability needed to be the "management method" for the whole company. Sustainable water management was a matter that affected the essence of the company, because "by its very nature water management is closely connected to sustainability" (Ramón Albareda, sustainable development team manager). "Until 2015 each of the company's different plants had 'its own' strategy. This changed when the approach was turned around and focused on incorporating all strategies into the mission" (Xavier Iraegui, Operations Director). Various pieces of research have demonstrated that the best way of achieving sustainable water management in modern urban areas is the implementation of integrated management (Cardwell et al. 2006; Ferguson et al. 2013; Kumar et al. 2013; Cosgrove and Loucks 2015; Doorn 2016). "Integrated management implies unification of all essential actions into the handling and control of water resources to accomplish some goal or objective. Integrated Water Resource Management is a coordinated, goal-directed process" (Cardwell et al. 2006, p. 9; see also Harandi et al. 2015). A mission-based approach is required and sustainability must be incorporated into the company's mission to be the "structuring" factor for all of its activity.

As a result of incorporating sustainability into corporate strategy, many companies have redefined their mission and their role in society (Mirvis et al. 2010; Baral and Pokharel 2017). The mission is commonly understood as the 'why we exist', or the raison d'être, of an organisation (Bart 1997; Mirvis et al. 2010). The mission consists of the people's needs that an organisation meets or intends to meet (Campbell and Yeung 1991; Bartkus and Glassman 2008). For example, Unilever redefined its mission as: "To add vitality to life by meeting everyday needs for nutrition, hygiene, and personal care brands that help people feel good, look good, and get more out of life" (Mirvis et al. 2010, p. 318).

Yet the connection between sustainability and mission has not been made only in business practice. There is also a "logical connection" between sustainability and mission. If we take the most accepted definition of sustainability as "development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Brundtland Report, World Commission 1987), it can be seen that (1) the concepts of both mission and sustainability refer to "meeting the needs of others" and that (2) sustainability provides "a way" of fulfilling the mission: meeting needs without compromising the ability of others (present and future generations) to meet their own needs. This sustainability-mission "logical connection" allows us to define corporate sustainability as "the way of developing one's own mission without compromising the ability of others (stakeholders) to meet their mission". It should however be noted that this is a "negative" version of sustainability while a positive version should be given. Amartya Sen (2011) emphasises the underlying negative sense of this definition of sustainability ("not compromising" other generations). He proposes a positive meaning of sustainable development, according to which true sustainable development does not consist of "not compromising" the ability of others, but rather of trying to "improve" their abilities. In this "positive" meaning corporate sustainability can be understood as "fulfilling the company's mission by improving the abilities of the stakeholders to fulfil theirs".

2.1 The Corporate Sustainability: CSR Connection

The sustainability-mission connection requires that the idea of corporate responsibility (CSR) be revised and the relationship between the three concepts clarified. Certainly, there is some confusion about the relationship between sustainability policies and CSR (Bansal and DesJardine 2014). The literature shows us that sustainability and CSR cannot be confused and mission, responsibility and sustainability cannot be treated as separate and unconnected realities (Payne and Raiborn 2001; Montiel 2008; Bansal and DesJardine 2014; Martínez 2015). In fact, the concept of "corporate sustainability" is considered a concept that "unites" at least four others: sustainable development, corporate social responsibility, stakeholder theory and corporate accountability (Wilson 2003). As a result, AB's fundamental objective, and undoubtedly its greatest contribution, is precisely managing to integrate the three elements of sustainability, mission and social responsibility in a single "Integrated Water Resource Management" (Cardwell et al. 2006). In reality, "sustainable development is an 'evolution' of social responsibility policies" (E. Bergés) and should be seen as an "expansion" of responsibility, which involves concern for all stakeholder groups, rather than just a select few (Porter and Derry 2012; Bastons and Armengou 2017). The company takes responsibility for the effects of its actions in meeting the needs of "other" stakeholders (current and future) (Sekerka and Stimel 2012). In this way, while the mission states the stakeholders' needs that the company aims to meet, sustainability adds a "more responsible" way of fulfilling the mission: (1) Thinking of "all stakeholder groups, rather than just a select few" and (2) "trying not to compromise, but rather improve, the ability of stakeholders to fulfil their mission".

Corporate sustainability is thus a different method of practising CSR (Bansal and DesJardine 2014) which moreover should be distinguished from "solidarity" (Bastons and Armengou 2017). Sustainability connected to the mission is a method for exercising responsibility, not as a programme, but as a strategy. If CSR is developed on the basis of the programmes and actions of one department, this could be classified as "weak CSR" and so sustainability is different from CSR. In fact, there may be unsustainable CSR programmes (Bansal and DesJardine 2014). Yet if sustainability is a method for fulfilling the mission, this is "strong CSR", and so sustainability and corporate social responsibility can be considered to be the same thing (Norman and MacDonald 2004). Therefore, it makes sense for sustainability to be seen as an "evolution" of the exercise of responsibility and for CSR policies to be incorporated into the corporate sustainability strategy.

2.2 (3D) Sustainability Rollout: Statements, Motivation and Practices

One of the major problems affecting the rollout of a sustainability strategy is the gap between formulating the strategy and implementing it in companies in practice (Epstein and Roy 2001; Engert and Baumgartner 2016). There are various theoretical models about this process (Table 1).

Many of the theoretical models show that the aim is to establish a (direct) application of the strategies to the company's specific activities. Implementing a strategy is (directly) applying "ideas" to "action" (see model 1 in Fig. 1). However, other studies analysing the process of effectively implementing a corporate mission suggest that in order to connect mission and action an intermediary element is necessary: motivation. To be effective in practice, the mission must be "formulated" as a statement, but it is also necessary for it to be "desired" by the members of the organisation (Rey and Bastons 2017). A strategy is not carried out if it does not motivate and is not internalised as something of interest to people. Thus the effective rollout of a sustainability strategy (or the mission) is not direct; it does not go directly from formulation to practice, but rather via the motivation of the persons involved. The coherent order for implementing the sustainability strategy in practice therefore begins, in first place, by "formulating" the strategy. It is then essential to ensure that this strategy interests and motivates people, so that in the end it is implemented within the different activities. This means the sustainable development strategy must be rolled out in three dimensions: as statement, as motivation and as practice (Fig. 1):

AB linked sustainability to the mission, but wished to avoid it being limited to being a Mission Statement. It was therefore rolled out using a three-dimensional model. As a result, AB's sustainability strategy has been developed over three phases:

(a) **Sustainability as Statement. Definition of Sustainability Strategy**. This dimension makes reference to the formal definition of the strategy. It consists of adapting the company's Vision, Mission and Values to the sustainable development model.

(b) **Sustainability as Motivation. Motivation for the Sustainability Strategy**. This dimension makes reference to the process whereby the members of the organisation "internalise" the strategy. It consists of developing adequate motivation (prosocial motivation) for change through training, communication systems and leadership development.

(c) **Sustainability as Practice. Drawing up and Monitoring the Sustainability Strategy**. This dimension refers to the "implementation" of a strategy in the company's processes and operations, to the incorporation of monitoring methods and tools to certify and notify compliance with the commitments made in the strategy and to the monitoring of the results achieved at all times.

Table 1 Theoretical models and empirical studies

Amini and Bienstock (2014)	**Corporate Sustainability framework**
	(1) Business level application & communication
	(2) Scope of organizational focus
	(3) Sustainability oriented innovation
	(4) Economic/ecology-environmental/equity-social emphasis
	(5) Compliance stance
Baumgartner and Engert (2010)	**Sustainability strategy implementation**
	(1) Introverted (legal & standards)
	(2) Extroverted (external relationship)
	(3) Conservative (eco-efficiency, emissions & supply chain)
	(4) Visionary (vision and strategy)
Eccles et al. (2012)	**Cultural model for sustainable company**
	(1) Reframing company's identity through leadership commitment and external engagement
	(2) Involves codifying the new identity through employee engagement and mechanisms of execution
Engert and Baumgartner (2016)	**Success factors corporate sustainability strategy implementation**
	(1) Organizational structure
	(2) Management control
	(3) Organization culture
	(4) Leadership
	(5) Employee motivation and qualifications
	(6) Communication
Epstein and Roy (2001)	**Framework for translating a corporate sustainability strategy into action**
	(1) Formulating the corporate sustainability strategy
	(2) Developing plans and programs
	(3) Designing appropriate structures and systems
	(4) Measuring sustainability actions
Linnenluecke and Griffiths (2010)	**Competing sustainable values framework**
	(1) Human Relations Model (cohesion and morale)
	(2) Open Systems Model (growth, resource acquisition)
	(3) Internal Process Model (stability and control)
	(4) Rational Goal Model (efficiency and productivity)
Robèrt et al. (2002)	**Systems model of essential elements for sustainable development**
	(Level 1) System: Society and ecosystems
	(Level 2) Sustainability (Brundtland)
	(Level 3) Strategy (reinvestments—social—political)
	(Level 4) Actions—Impacts
	(Level 5) Tools (indicators—EMS)
Steger (2004)	**Framework for sustainability management**
	(1) Communication
	(2) Organization
	(3) Implementation and integration
	(4) Strategy building

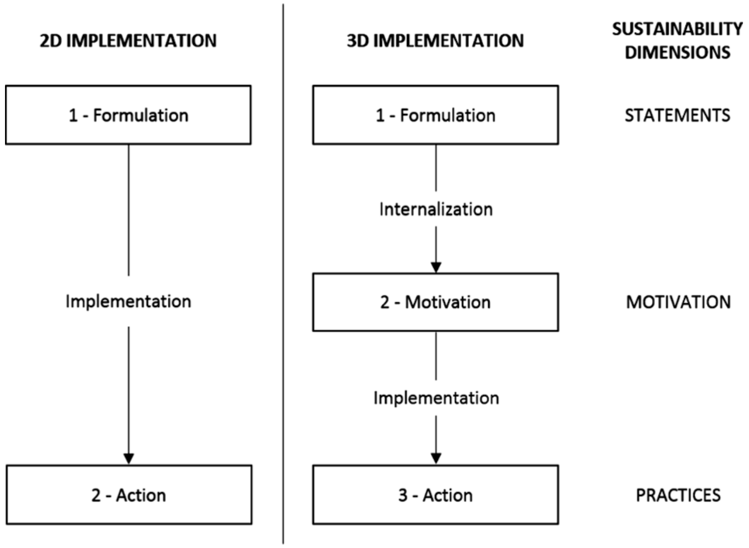

Fig. 1 3D sustainability rollout

Sustainability as 'Statement'

Companies define and declare the mission expressing the stakeholders' needs that the organisation intends to meet (Bastons et al. 2017). This is the aspect reflected in the majority of mission statements. Most research and developments in the literature on mission focus on the "formal definition" of mission (Bartkus and Glassman 2008; Williams 2008; David and David 2016; Desmidt et al. 2011). In this formal dimension the intention is that sustainable development be present in the company's institutional statements: the definition of the Mission, Vision and Values. In AB, this step of defining the strategy was carried out by means of a participatory process (108 professionals in the company). As I. Escudero stated, the objective was to "develop our own strategic model from the beginning. We are not a company that places a product. For several decades now we have not been a "water sales" company. We are an environmental management company". According to this view, the definition of the sustainable strategy was based on three concepts: "triple bottom line", "stakeholders" (interest groups) and "mission".

The Triple Bottom Line

In this 'statement' phase the starting point was taken to be the definition of vision: "To be a world leader in water cycle management, making a significant contribution to the sustainable development of our environment". Based on this vision three central concepts were defined around which the mission would be rolled out: People, Water, City, using the three central concepts of the Triple Bottom Line: social, environmental and economic. It is true that many objections to this approach have been raised; however, the Triple Bottom Line certainly helps to firm up lines of action in developing sustainability, and also in water management (Kumar et al.

2013). The AB mission was therefore defined as follows: Committed to people, we care for water and build up a city. This was the mission that was subsequently connected to the stakeholders of the company, to the values (responsibility, talent, dialogue, innovation and excellence, corresponding to the main demands detected among the stakeholders), and to the company's ten commitments or lines of action, which were laid down in the Water 2020 programme.

Stakeholder Needs

Incorporating stakeholders' needs and expectations is a central point in developing a sustainability strategy (Mirvis et al. 2010; Baral and Pokharel 2017; Doorn 2016). This is where AB applied an idea of "strong" responsibility (Bastons and Armengou 2017), avoiding a priori reducing the responsibility to a particular previously demarcated group of "stakeholders", and extended it to all the main parties involved in the company's activity. The main "Relationship Groups" were identified, in multidisciplinary workshops, using the employees'experience and knowledge. In this way a group of 15 relevant Relationship Groups was identified, and certain priorities detected: employees, clients, suppliers, shareholders, regulators, citizens and the media. Subsequently, the expectations with the greatest impact and influence on the activity were determined in order to identify the values and possible lines of action, in accordance with these expectations. The result was the company's five values: Responsibility, Excellence, Dialogue, Talent and Innovation and the ten commitments or "lines of action" (Table 2).

Water 2020

The whole process of developing a sustainability strategy on the basis of the definition of the mission, values and commitments was defined in a programme of action called Waters 2020. Water 2020 sets out a series of lines of work and channels for meeting the commitments, such as the "Assessment of the Social and Environmental Impact of All Actions", or the "Personal Development Project", which covers the first commitment to people. The objective of the Water 2020 programme was to define a "roadmap" with objectives, indicators and an initial approximation of the specific actions to achieve these objectives in the timescale from 2015 to 2020. To draw up the initial programme, 10 working teams were created, comprising a total of 106 people with different profiles and from different departments. Each team had a sponsor, a person from the AB management commitment with the function of leading and providing a general overview of the company, and a coordinator, with the function of encouraging a dynamic working team. As a result of this work, 293 opportunities for action were defined, which had to be redefined, added to and rolled out over the 5 years the plan was to last.

Sustainability as 'Motivation'

To ensure that the sustainability strategy is not reduced to a simple statement, and becomes effective in the company's day-to-day workings, it must be internalised by each member of the organisation as a "personal" mission (Rey and Bastons 2017). This leads to development of the motivational dimension of the mission. Motivation linked to mission is what makes matters that may be part of a mission, such as

Table 2 The 10 sustainable development commitments made by AB

Lines of action—commitments	Expectations
1. Personal development **Promoting the professional development of all employees**	Employees—Adequate resources Employees—Recognition Employees—Personal development Employees—Promotion system
2. Work environment **Establishing conditions that encourage a balanced and healthy work environment**	Employees—Acceptable workload Employees—Recognition Employees—Health and safety Employees—Good working atmosphere Employees—Work-life balance Employees—Stable employment
3. Relationship groups **Incorporating into the strategy plans and objectives to meet the expectations of the interest groups**	Clients—Information (service and incidences) Clients—Sensitivity Clients—Incident service Regulators—Proximity
4. Social and environmental impact **Assessing the social, economic and environmental impact in the company's relevant projects**	Regulators—Tariffs (justification, efficiency) Regulators—Positive impact Citizens—Ethics
5. Access to water **Raising awareness and acting to guarantee access to water for vulnerable communities in the greater Barcelona area**	Clients—Bill real consumption Clients—Flexible problem-solving Clients—Sensitivity Regulators—Social assistance Citizens—Fair price
6. Supply chain **Obtaining suppliers' commitment to AB's values by means of selection and dialogue with them**	Suppliers—Clear contracting rules
7. Internal Network **Encouraging exchanges of experiences and knowledge between employees to ensure better continuity of processes**	Employees—Communication
8. Risk management **Identifying and managing risks to guarantee sustainability in the water cycle activity**	Shareholders—Reputation Shareholders—Minimising and anticipating risks Shareholders—Economic profitability (in the long term) Regulators—Risk management Regulators—Compliance
9. Water resources and demand **Encouraging the management of water resources to meet demand and their use**	Clients—Continuity and quality Clients—Flexible problem-solving Clients—Guarantee Citizens—Quality
10. Circular economy **Innovating in criteria for designing and managing installations and processes to adapt them to the principles of the circular economy**	Shareholders—Anticipating risks Shareholders—Reputation Regulators—Positive impact

'customer satisfaction', 'contribution to society' or 'employee development', become something truly sought after by members of an organisation, instead of simply being formal statements. The 'why' of the work and efforts of members of an organisation, that is, their motivation to meet the needs of others, is what ultimately defines whether an organisation has a mission and what it actually is. Precisely because it is aimed at satisfying the needs of 'others', this motivation has been treated and referred to in the literature as prosocial motivation (Grant 2007, 2008), or as pro-stakeholder motivation (Bastons et al. 2017). Prosocial motivation is considered an important source of motivation that drives employees to expend effort to benefit others' needs (Cardona and Rey 2006, 2008; Wang 2011; Braun et al. 2012; Rey and Bastons 2017). The rollout of the motivational dimension of the mission aims to ensure that within their duties all employees in the company internalise the idea of sustainable development as an integral part of their personal mission, connecting the company's mission with the individual mission, from the top of the organisation right to the bottom. The development of prosocial motivation therefore has a decisive effect on the effective implementation of the mission (Paulraj et al. 2017; Rey and Bastons 2017).

Aligning the strategy with people entails aligning it with the expectations and interests of the different Relationship Groups to make the strategy "friendly". This was carried out by means of processes of communication and dialogue with each interest group. A climate survey was conducted among the company's 1000 employees (who were to make the mission reality) with 72% participation. A "Client Strategy Department" had already been created in 2013 to open dialogue channels with citizens. The most representative entities were subsequently identified, including residents' associations, NGOs and other social organisations, to raise the profile of the company and identify citizens' concerns. Working procedures were also adapted and officers appointed in every department of the company to guarantee consistent and effective communication and ensure that citizens' expectations were incorporated into decision-making. A "Proximity Plan" was launched in collaboration with the public authorities, to strengthen connections with contacts from the city councils, acting in coordination with the Communications, Client Strategy and Sustainable Development Departments. Finally, the processes for selecting and contracting suppliers were adapted. A code of conduct applicable to all suppliers was drawn up in order to ensure compatibility with the values and ways of action of the company.

Shared Mission

The key to aligning people and strategy was in the connection between the company's mission and the personal mission of each person. It was necessary to establish "the contribution" made by each and every employee, i.e. their personal mission, to the raison d'être, the AB corporate mission. This meant engendering identification and stimulating the "sense of contribution" each individual had when it came to achieving the company's mission, and developing a "shared mission". "Shared mission" expresses the process of precisely defining the mission (Water-People-City) in the different areas and departments, and focuses on developing the "sense of contribution" to the mission, expressing what each specific area and each person contributes to the mission. Each person had to visualise their specific contribution and how their achievement was measured. In total 14 "shared mission" workshops were held, in which each department manager, together with their team, answered the question: what is our department's contribution to the AB mission? After reviewing the shared mission statements with the managers of each department, 12 shared missions were drawn up concisely for each of the strategic concepts (Water-People-City).

Leadership and Communication

In order to implement the sustainability strategy based on the corporate mission and the shared mission, a far-reaching cultural change with a new style of leadership was required, in which communication plays a decisive role in aligning the strategy and the Relationship Groups. After "defining" the strategy, it was necessary to "influence" people and transform the company in accordance with said strategy. To achieve this, the company had to define the role of the leader in developing strategy in their area of influence, the competencies they required and how to acquire and develop them. The Human Resources Department drafted and piloted a leadership development plan, involving 95 people from different hierarchical levels. It was understood that leadership had to be exercised through the line management and through informal networks to complete the rollout and to monitor the strategic lines of action.

A solid reputation is also essential for making the strategy "friendly". The objective was to ensure that employees know, understand and live the strategy in order to achieve the desired result, i.e. the mission, and present it externally so that the company could be known as it really is. This included work to integrate some of the communicative actions and create a common thread of messages, actions and communication channels with the information receivers. Through this, the aim was also to minimise some problems that were detected in the employee climate survey: the distance between the messages and the information requirements of the recipients; the noise generated by the multiple formal and informal information inputs; the feeling of separation between the management team and the rest of the organisation; the disconnect between the messages and the company's sense of mission; and the lack of integration between internal and external communication. As a result, a "Strategic Communication Plan" was defined, with three objectives: boosting the "motivation for the mission", raising awareness of AB's most relevant achievements in a consistent manner, and facilitating dialogue with the main stakeholders. The Communications Department and the change management team were commissioned to draw up and monitor this plan.

Sustainability as 'Practice'

The dynamic dimension reflects the implementation of the mission: how it is carried out in practice. It is the mission of the company expressed in the company's operational processes and procedures (Rey and Bastons 2017). This dimension can be seen in many mission statements, which consider the mission as a set of 'practices' (Campbell and Yeung 1991; Ireland and Hitt 1992; Crotts et al. 2005;

Cardona and Rey 2006). Expressing the mission in concrete actions and results, that is, products and services, is also part of the mission itself. Within the dynamic dimension, the idea of sustainable development is intended to be used as a "central concept" to organise and assess the performance of the mission, that is, a reference point to assess the results of the whole company in terms of implementation of the strategy.

Control Panel

To measure the level of implementation of AB's sustainability strategy a "scorecard" was established including the indicators associated with fulfilment of the mission, in particular the indicators measuring the ten commitments to the Relationship Groups. The first step was to conduct an analysis of the existing indicators. During this analysis, those responsible for developing the sustainability strategy detected the connection problems that tend to occur between planning (Statements) and practices (Mirvis et al. 2010). The most significant problems detected in AB were as follows: lack of definition of the objectives, little relevance given to the process of rolling out the objectives, disconnect between the strategy and the specific operational plans, and tendency to focus on excessively operational objectives. It was considered that a scorecard was the essential tool for correcting these malfunctions and connecting the sustainability strategy with daily practice. The systems were gradually adapted so that each person understood that what they were doing was affecting a point of the mission as defined. Within the scorecard the annual objectives were set for the indicators considered "strategic", and other "tactical and operational" objectives were added so that they could all be achieved with the available resources. Finally, the plans and the actions required to implement these plans were defined; these were the annual operating plans included in "Water 2020". These plans, together with the communication plan, were to be the reference for all management systems, and would be accompanied by the implementation of SGE-21 ethical and socially responsible management certification. This tool means that any employee knows at any time what projects they are involved in and the specific objectives on which they should work.

To drive the implementation of sustainability criteria in all areas of the company, it was decided that in addition to the existing management systems a certification process complying with SGE-21 standard should be added. This standard provides criteria which can be used to set up and assess an ethical and socially responsible management. It entails voluntarily acquiring a commitment to sustainability which applies ethical, social and environmental values in the decision-making processes. The standard is based on the Deming (Plan-Do-Check-Act) cycle of ongoing improvement, so that it is compatible and can be integrated with other quality management, environmental and occupational risk prevention systems, and is easily used alongside other standards such as the Global Reporting Initiative (GRI) and the United Nations Global Compact, among others.

3 Conclusions, Challenges and Questions for Future Research

The Aigües de Barcelona sustainable development model is an example of development of corporate sustainability which is not a programme, but a corporate strategy; it should not be reduced to statements, but motivate all employees and be demonstrated in the company's operations. For the former, sustainability is linked to the company's mission and in connection with the second the company carries out a three-dimensional rollout of said mission.

As strategy, sustainability leads to the mission being redefined, expanding the company's responsibility. This means fulfilling the mission (meeting needs) "differently" (with "strong" responsibility). It was therefore discovered that corporate sustainability is the method for fulfilling one's own mission without prejudicing or improving the stakeholders' ability to fulfil their own mission (World Commission 1987). Understood in this way, sustainability, mission and CSR are unified and it makes sense for CSR policies to be integrated within the sustainability strategy.

In turn, to be truly effective and part of life in the company, sustainability is rolled out in three dimensions: as statement, motivation and practice. As statement, sustainability means redefining the mission, vision and values, identifying the stakeholders and their expectations, and setting explicit commitments to them. As motivation, the sustainability strategy requires that mechanisms be established to internalise the mission, that the leadership systems be reviewed and that new communication forms be reinforced. Lastly, as practice, sustainability strategy requires that the follow-up and monitoring mechanisms be reviewed and that appropriate performance indicators be established, underpinning the certifications and reports to the company.

In general terms, AB's sustainability strategy was rolled out and followed up positively; however, some problems were also identified. Firstly, asymmetry was observed in the formalisation, motivation and operational implementation processes. In formalisation of the strategy the steps to be taken are clearer, there are sufficient references and tools to carry it out, and it can be done with certain speed. Conversely, the path is not so clear for "internalisation" and "implementation" of the strategy; there are fewer references and they require more time. This means that people continue to see the new sustainability-focused mission with certain detachment. The mission workshops were received positively, but their motivating effect was diluted over time. It is difficult to connecting the idea of sustainability with the mission of each individual, starting with management. For example, many employees recognise that the Water 2020 plan has not managed to form part of the work of each of them.

Some believed that a weak point was the form in which the scorecards for each department of the company were prepared, since the connection between daily practice of the department and the mission was not always understood. Some managers were not convinced by bringing together the strategic and "department" indicators in a single scorecard, as they felt that this caused confusion. Moreover, it was seen that the set of indicators used by the company needed to be simpler and more intuitive. In short, a simpler and more realistic account of sustainable water management was required.

Additionally, it was observed that agents do not become committed to the project as a result of the most detailed scorecard, but by them internalising and participating in a common goal. The best project is not the one designed with greatest precision, but the one employees manage to internalise and put into practice. This represents a challenge for leadership, in which the degree of personal internalisation and conviction of the manager plays an important role. A systematic way of tackling this challenge is still a work in progress, in both theory and practice.

The institution also makes sustainable development its mission and there is some doubt as to whether this is not modifying the company's "business model" and making the strategy lose credibility. While the idea of sustainability may be a source for distinguishing business models (Laasch 2018), the question is whether "sustainability" has a "substantive" role in a strategy or is an "adjective" about the strategy; if sustainability can "be" the mission of a company or if it is a quality, a "method" of fulfilling the mission. What happens, or may happen, if a company (for example, a water management company) says that its mission is sustainability? From the outset, it appears that it transforms a quality of its business model into "the business model". However, can sustainability be the business model of a water cycle management company? If this is the case, doubts arise as to the authenticity of its mission, because it may appear to be a merely "tactical" approach to sustainability (Bastons and Armengou 2017).

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Exploring the Impact of Corporate Social Responsibility on Poverty Reduction

Anand Choudhary and Veena Singh

1 Introduction

The current article is a pilot study which has been conducted before undertaking a large-scale PhD research to explore the impact of the corporate social responsibility (CSR) policy and initiatives of the 'Tata Steel Group'[1] on poverty reduction and developing capability of the local poor and marginalised communities in the 'Joda' block of Keonjhar district in the state of Odisha in Eastern India, enabling them to gain sustainable income generating opportunities beyond employment with the company and hence alleviating poverty. Capability development (Dreze and Sen 2013; Sen 2000) initiatives include providing healthcare and education, vocational and skill development based training and infrastructure development facilities, amongst others. The theoretical underpinning guiding the research is the assumption that capability development creates greater opportunities for sustainable income generation for individuals and thereby eradicating poverty (Sen 2000). The Tata Steel Group has been selected for the study as it is a respected brand name internationally and claims to function as a responsible corporate citizen.[2] The pilot study has been conducted at the 'Lahanda'[3] village in the Joda Block of Keonjhar

[1] http://www.tatasteelindia.com/corporate/company-profile.asp

[2] http://www.tatasteelindia.com/corporate-citizen/the-tata-steel-approach.asp

[3] http://www.census2011.co.in/data/village/385319-lahanda-orissa.html

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district in the state of Odisha where the Tata Steel Rural Development Society (TSRDS) manages the company's CSR initiatives.[4]

1.1 Theoretical Background

CSR has a long and varied history and its traces can be found in the philanthropic works of various enlightened industrialists including Carnegie and Rockefeller in the United States (US), Cadbury and Marks in the United Kingdom (UK) and the Tatas in India since the late nineteenth century (Sood and Arora 2004), and even earlier dating back all the way to the industrial revolution. However, for all practical purposes it is largely a product of the last six decades, with formal writings on the subject beginning mostly in the US following Bowen's (1953) seminal book entitled "Social Responsibility of the Businessman", which is arguably considered as the beginning of the modern period of literature on CSR (Carroll 2015). Although several different definitions of CSR have been offered by scholars over the years (Carroll 1999), however, it largely remains an "essentially contested concept" (Matten and Moon 2004), with no consensus amongst scholars on defining CSR (Crane et al. 2013; Scherer and Palazzo 2011), as it may mean different things to different people (Jamali 2008), guided by their respective cultures, social, economic and political conditions of the country as well as by the needs and expectations of the stakeholders (Argandona and Hoivik 2009). According to Schmitz and Schrader (2015), CSR may be defined "...as a substitute for the investments of elected governments into public goods" (Schmitz and Schrader 2015, p. 27), whilst Carroll and Shabana (2010), refer to CSR as "the social responsibility of business consisting of the economic, legal, ethical, and discretionary (later referred to as philanthropic) expectations that society has of organisations at a given point in time" (Carroll 1979, p. 500, 1991, p. 283, as quoted in Carroll and Shabana 2010, p. 89). Dahlsrud (2008), who conducted a comparative analysis of 37 different definitions of CSR, refers to CSR as a "social construction" and "as such, its not possible to develop an unbiased definition" (Dahlsrud 2008, p. 2). For the purpose of the current study, CSR may be referred to as an "umbrella term" (Scherer and Palazzo 2011; Blowfield and Frynas 2005), for several overlapping as well as disparate theories on businesses' responsibility (Matten and Moon 2008), "for their impact on society and the natural environment..." (Blowfield and Frynas 2005, p. 5).

Today it is increasingly being expected by communities and policymakers that the huge profit making transnational corporations (TNCs) should contribute towards reducing poverty especially in developing countries (Amadi and Abdullah 2012; Ogula 2012; Scherer and Palazzo 2011; Idemudia 2008; Kercher 2007), with arguments for CSR to be rapidly expanded to meet the challenge of shaping an inclusive and sustainable global society (Williams 2014), as CSR is considered by

[4]http://jamshedpur.nic.in/tsrdc.htm

some as a vehicle through which the private sector can contribute to poverty reduction and other social objectives, which will not be achieved by governments acting alone (Fox 2004). It's also widely acknowledged by development agencies that often the governments in developing countries lack the expertise and resources to deal with the complex issues of poverty, illiteracy, healthcare among others whilst the multinational corporations (MNCs) can contribute towards achieving these development objectives as they have the technical and managerial expertise along with massive resources.[5] The United Nations Conference on Trade and Development (UNCTAD) World Investment Report (2014), postulates that private sector investment in tune of more than $1.3 trillion per year is required especially in sectors including education, healthcare, agriculture and rural development among others in developing countries to reduce global poverty whilst achieving other developmental aims under the United Nations' (UN's) 'sustainable development goals' (SDGs) program between the period of 2015 and 2030.[6] Although the UN's millennium development goal (MDG) of halving global poverty was achieved 5 years ahead of the deadline,[7] however, poverty continues to remain one of the biggest challenges in front of the modern world, with more than 1.2 billion people still living in extreme poverty and earning less than 1.25 dollars a day.[8] According to India Chronic Poverty Report (2014), although the overall poverty has declined in India from about 55% in 1973–1974 to around 27.5% in 2004–2005, however, the absolute number of the poor has remained more or less the same, declining from around 320 million in the year 1993–1994 to around 302 million in 2004–2005 due to a number of reasons including population growth, persistence of poverty and poverty dynamics (Planning Commission, 2008 as quoted in India Chronic Poverty Report, 2014).[9] The Government of India recently passed the "Companies Act" (2013), making it mandatory for firms making a profit of Rs 5 crores or more annually to spend at least 2% of their pre-tax profits for CSR activities.[10]

The change in looking at CSR as something which the companies did voluntarily as part of their social and ethical responsibility (Carroll 1991, 1979), towards their stakeholders to it's supposed transformation as one of the major tools to eradicate poverty and achieve other international development goals is a very significant development (Frynas 2008), as now businesses are not just expected to provide products and services at a profit but contribute towards sustainable development. There are various reasons for the shift in approach towards CSR. The global economic crisis which began in 2008, fuelled a wave of economic recession that

[5]UNCTAD World Investment Report, 2011: Non-Equity Modes of International Production and Development.

[6]UNCTAD World Investment Report (2014: Investing in the SDGs: An Action Plan).

[7]www.un.org/millenniumgoals/11_MDG%20Report_EN.pdf

[8]http://www.worldbank.org/en/topic/poverty/overview

[9]India Chronic Poverty Report (2014).

[10]http://www.thehindu.com/business/Industry/government-clarifies-on-csr-spending/article5320157.ece

led to protest movements such as "Occupy Wall Street" in different parts of the world (Crane et al. 2013), along with several other similar public movements against big businesses. In addition since the last two decades, the view of development as being primarily about economic growth has been changing and there has been a much greater emphasis on the social dimensions of development led by the formation of UN's 'Human Development Index'[11] and later to the adoption of UN's 'Millennium Development Goals'[12] (Jenkins 2005), focusing on eradicating poverty and other developmental goals. The sentiment has been rightly put forth by Lodge (2006), who observes, "the involvement of MNCs is crucial to global poverty reduction, especially in the developing countries, because poverty reduction requires systemic change, and MNCs are the world's most efficient and sustainable engines of change. . .". This along with the above mentioned reasons has forced the MNCs to respond to the challenge by taking initiatives aimed towards the greater public good as part of their CSR initiatives, including providing healthcare and education facilities, infrastructure and community development amongst other initiatives to reaffirm their legitimacy, enhance their reputation and earn the goodwill of local communities (Muthuri et al. 2012).

The following research questions were investigated:

- *Does Tata Steel consider and include poverty alleviation as one of it's major social responsibilities and long term policy objectives in Joda?*
- *What initiatives Tata Steel Rural Development Society is taking towards developing capabilities of the local people aimed towards reducing poverty and facilitating income generating opportunities in Joda?*
- *To what extent do those initiatives enhance the capabilities of the local community to identify and exploit income generating opportunities beyond those directly connected to the company?*
- *Do local communities living in Joda believe that Tata Steel recognises them as stakeholders and partners when formulating the CSR policies?*

2 Method

2.1 Design of the Study

It is a case study using Survey (quantitative) method for data collection. Survey method has been used in the study as the data had to be collected from a large number of respondents. In addition, quantitative approach to data collection ensures rigorous quantitative analysis in a formal and rigid manner.[13] The sample has been

[11] http://hdr.undp.org/en/composite/HDI

[12] http://www.un.org/millenniumgoals/

[13] http://www.kluniversity.in/arp%5Cuploads%5C2095.pdf

collected using "random sampling" as under this sampling design every item in the universe has an equal chance of being included in the sample. It also fulfils the law of statistical regularity, which suggests that if on an average the sample which has been collected is random then it will have the same composition and characteristic of the universe and for this reason the random sampling method is considered the best technique for choosing a representative sample.[14] The data collected as part of the survey has been analysed using the Statistical Package for the Social Sciences (SPSS) whilst secondary source data has been used to corroborate the findings.

2.2 Setting

'Lahanda' village in the Joda block of Odisha has a population of around 865 people belonging mostly from the scheduled tribes and scheduled castes.[15] The Joda region is rich in mineral resources with vast deposits of iron-ore and hosts several companies including Tata Steel which has their mining operations based in Joda. Tata Steel has its 'Ferro Alloy Plant' along with several other mines producing iron and manganese in Joda.[16]

2.3 Sample

Out of 298 households in the village[17] around 50 households were randomly selected for the survey and from every household one respondent, generally the adult and earning member was selected.

2.4 Tools for Data Collection

1. Survey: Questions asked in the survey were based on a three-point scale (Likert-type scale). The survey module has two different sets of questionnaires. The first set focused on "Respondents' Personal Profile", with questions on the respondents' 'occupation', 'monthly income' and 'number of people in the family', whilst the following set included questions on "Tata Steel's and TSRDS' contribution in reducing poverty and developing sustainable income generating opportunities for the local people as well as about their contribution towards the overall

[14] http://www.kluniversity.in/arp%5Cuploads%5C2095.pdf

[15] http://www.census2011.co.in/data/village/385319-lahanda-orissa.html

[16] http://www.tatasteelindia.com/famd/global-dominance.asp

[17] http://www.census2011.co.in/data/village/385319-lahanda-orissa.html

development of infrastructure, health and other facilities in the village and nearby areas as part of their CSR initiatives". The survey questionnaires were developed in Hindi which is the local language and translated in English during analysis.

2. Secondary Source Data: Secondary source data included Tata Steel's recent CSR Policy Statements, Annual Report (2014–2015), Tata Steel Sustainability Report (2013–2014) as well as information provided on its website (www.tatasteel.com) about its CSR initiatives in Joda to corroborate the findings of the survey.

2.5 Data Analysis

The data collected as part of the study was recorded on a three-point scale (Likert-type scale) with a total of 18 items in two different sets of questionnaires. Whilst the first set has "*three items*" related to respondents' 'occupation', 'income' and 'number of members in the family', the next set has "*fifteen items*" pertaining to the 'CSR initiatives of Tata Group in Joda'. Data was analysed using the SPSS package and presented in form of percentage tables.

2.6 Ethical Consideration

(a) The study was conducted ensuring integrity, quality and transparency.
(b) The respondents were fully explained about the purpose of the research and what it entailed.
(c) The confidentiality of the respondents was ensured at all times.
(d) Research participants took part in the study voluntarily, free from any coercion.

3 Findings and Discussion

The findings indicate that the Tata Group in Joda including the TSRDS and Tata Steel has contributed towards the development of social opportunities for local communities belonging from all walks of life by taking several initiatives such as building the hospital in Joda which is managed by Tata Steel and which provides free treatment to the employees of the company whilst also catering to other people at a nominal charge.[18] The company also organises regular health camps for women and children where free vaccination is done and people are provided with free medication and healthcare information by doctors at the health camp. This is also

[18]http://www.tatasteelindia.com/corporate-citizen/health/hospitals-and-health-facilities.asp

supported by the information provided by Tata Steel on it's website.[19] In addition the survey findings also revealed that the company provides skill development or job-oriented training to the youth in Joda in different sectors such as driving, plumbing, carpentry among others for capacity building among the local youth and to equip them with necessary skills to secure sustainable income generating opportunities in form of regular work whilst also providing seed capital to many self-help groups (SHGs) as was reported by many respondents during the survey. This is also supported by secondary source data including the information provided on www.tatasteel.com and Tata Steel CSR Policy Report (2014).[20] The survey also brought to light that the company provides training to local farmers for improving crop yields besides giving other information on modern farming techniques. This is also supported by other sources including Tata Steel Sustainability Report (2014) which states that Tata Steel provides farming and skill development training in Joda[21] among other things. In addition the findings also revealed that the company conducts regular meetings with local people to discuss development issues in Joda. Whilst in the area of infrastructure development, the company has constructed town hall/community centre in Joda town, installed solar powered street lamps, constructed motorable roads, community bathrooms, installed hand pumps among many other initiatives across the Joda region. These are also supported by the survey findings as well as by secondary source data including the information by the company on its website (www.tatasteel.com). Even on other questions such as development of income opportunities, organising health camps, providing training to local people, the majority of respondents replied in affirmative. Whilst some of the responses given by a few respondents also indicated that there were some who have not availed or participated in many programs run by the Tata Group such as the skill development training program or the training program for farmers, however, it seems more as a matter of choice and individual freedom regarding what one may want to do. In addition some respondents did not seem to have information on issues such as the hospital or the community centre were constructed by Tata Steel. Thus on the basis of the findings of the survey and after corroborating the findings with secondary source data i.e. information provided in www.tatasteel.com, Tata Steel Sustainability Report (2014), Tata Steel CSR Policy Report (2014) and Annual Report (2014–2015) among other sources, it can be said that the CSR initiatives taken by the Tata Group has contributed towards reducing poverty by developing social opportunities such as healthcare by building hospital and organising regular health camps, infrastructure development with construction of roads, installation of street-lights, hand-pumps, building of community centre and community toilets and skill development by providing vocational training in different fields and contributing towards development of sustainable income generating opportunities for local communities in Joda to help them lead a life they have reason to value.

[19] http://www.tatasteelindia.com/sustainability/2014/society08.asp

[20] http://www.tatasteel.com/corporate/pdf/CSR-Policy.pdf

[21] http://www.tatasteelindia.com/sustainability/2014/society05.asp

4 Conclusion

On the basis of the research findings it can be said that the model of CSR as adopted by the Tata Group works as a vehicle for achieving developmental goals such as poverty reduction and developing capability of local communities, however, this model can be applied in other places only if other businesses incorporate CSR and the spirit of giving back to society as part of the company ethos whilst engaging with local communities to make it happen. In addition being an exploratory case study, it also adds to the existing literature on the 'impact of the CSR initiatives by global MNCs on poverty reduction and achieving other international development goals in developing and underdeveloped economies' whilst also having significant implications for development agencies, businesses, researchers and all those involved with the subject of CSR and development.

5 Limitations of the Study and Recommendation for Future Research

As it is a pilot study, the survey was conducted only at one village which had been randomly selected from the Joda block as part of the study. In addition the sample size could also have been larger. For all future research studies it is advised that the data should be collected from more than one place where a company's business operations is based in order to get a wider and more clearer picture about the impact of CSR initiatives of the company on poverty reduction and development of local poor and marginalised communities.

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An Exploration of Current Managers' Attitudes in Gulf Co-Operation Council Countries Regarding the Adoption of Green IT

Abdulaziz Albahlal, Tomayess Issa, Theodora Issa, and Vanessa Chang

1 Introduction

The Gulf Cooperation Council (GCC), established in 1981, comprises a group of six countries that have access to the Arab Gulf. GCC countries share several economic policies; for instance, recently they imposed a 5% taxation on all goods to reduce the unstable prices of oil in the market. Moreover, "GCC countries embarked on massive diversification and investment programs in order to reduce their dependence on those resources for their income" (Sultan 2012, p. 4).

Mezher and Park (2012, p. 70) stated that "Building knowledge in the GCC region and the wider Arab world is essential to economic growth, prosperity, and sustainable development." They added, "There is a lack of digital knowledge about sustainable development in the region."

Currently, GCC countries do not apply sustainability concepts. For example, most governments in GCC countries do not have an efficient waste management program whereby all waste is collected at the same time. Additionally, because people in these countries are unaware of sustainability programs, they are continuing to damage the environment. They are living in a region where they should be paying far more attention to this issue (Hashmi and Al-Habib 2013; Khan et al. 2014). Therefore, the primary research will help GCC countries to establish and sustain efficient, 'Green' information technology systems.

However, the new vision of GCC countries includes the adoption and application of new ideas regarding sustainability. This is seen in GCC governments' plans to shift their businesses from relying on oil to create business diversity and sustainable

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programs. "Transformative programs include the government restructuring program, which is aimed at aligning systems with national priorities. The fiscal balance program is aimed at enhancing the efficiency and sustainability of the fiscal budget" (Alturki and Alsheikh 2016). Therefore, this research interviewed high positioned managers to analyse what the current attitude is toward sustainability in GCC countries. Also, this research aims to discuss the current attitude of how managers' in GCC countries practice Green IT in the organization strategy. Based on the interview outcomes, a new online survey will be developed to capture further information relevant to this research and to address the research gap.

GCC countries have spent hundreds of billions of petrodollars to build massive projects such as economical cities (Sultan 2012). Many sustainable projects have already been established in different fields of renewable energy such as solar and nuclear, and the GCC region could spend more than US$200 billion for these projects (Kawach 2009).

2 The Interview Process

This research is part of a PhD thesis research intended to develop a Green IT model for the IT departments of organisations in GCC countries. The main model has four themes: Governance, Social and Cultural, IT, and Green Management (Albahlal 2016). However, this chapter will focus on social and cultural themes, and other themes will be published in different papers. Therefore, this chapter is limited to discussing and assessing the prevalent attitudes to Green IT attitudes in GCC countries.

The researcher has followed sequence tasks for the qualitative data collection phase.

3 Interview Participants

In order to find participants willing to be interviewed (Table 1), firstly, the researcher sought potential participants in Saudi Arabia, which is the largest country in the GCC; secondly, the researcher sought potential interviewees in other GCC countries. Each participant held a managerial or executive position, either long work experience or high qualifications. For example, one of the participants from Kuwait has a Bachelor degree in Human Resources and has 25+ years' experience in HR, and a participant from the UAE has a Master degree in Public Relationship from Sweden and has 6+ years in business and operating as shown in Table 2. In all, 17 participants were obtained, which is above the validation number required for this research.

Before conducting each interview, the researcher arranged and confirmed the location and date, and gave the interviewee necessary information about the interview. Also, the interviewee had to read and sign a consent form, and give permission

Table 1 Sequence of tasks for collecting the qualitative data

	Task	Description
1.	Establish the interview's objectives	The main objective of the interviews is to assist the enhanced model factors and discover new factors.
2.	Formulate the interview questions	Each question was questioned in various academic's papers. As part of the conceptual analysis that has been chosen for this research, Interviewees were asked questions that included factors about which their opinions were sought.
3.	Decide on the target sample	The researcher sought interviewees who were in management or executive positions, with sound experience, particularly in IT departments.
4.	Conduct the interviews	It took the researcher about two months to conduct all the interviews; the researcher needed to travel to some of the GCC countries to conduct face-to-face interviews.
5.	Documentations	All interviews were reordered and transcribed, and the conducted data is accessible to selected people.
6.	Analysis	The researcher used NVivo software version 11.0 for coding and all the NVivo's files were stored in a safe location and accessible to a limited number of people.

for voice recording. Thus, all the interviews were voice recorded, and accessible to the research team.

Also, according to ethics requirements, all the interviewees were told that they had the right to withdraw from the interview at any time with no consequence. Some of the interviewees made very interesting and relevant comments, and asked the researcher to provide the results of this research, to enable them to start applying the Green IT concepts in their organisations. Some organisations had already hired foreign expertise to apply some of the green concepts in their organisation, as Green IT is very limited in GCC regions.

4 The Research Question and Interview Results

The main research question that this study sought to answer is "What are the current managers' attitudes to the adoption of Green IT in GCC Countries?". To answer this question, the researcher established several main theme factors (Fig. 1). The percentages of interviewees based on each country in the GCC are: Bahrain 12%, Kuwait 12%, UAE 17%, Saudi Arabia 35%, Qatar 12% and Oman 12%. The researcher asked a general question to determine the participants' first impression of sustainability and its practice concerning the environment. The researcher intended to obtain an overall idea regarding the interviewees' practical application of sustainability principles. Surprisingly, most of the interviewees are keen and ready to apply green concepts in their personal lives. The question that was asked was "Sustainability is a term that is widely used in different nations to maintain their

Table 2 The interviewees experience and background

Participants	Country	Participant's information
Participant A	Bahrain	Holding a master's in information security from the USA; Has 9+ experienced in the business analysis. Head of the research and development department. Leader of human development informatics system. Bahrain e-content award for health and environment.
Participant B	Bahrain	Holding a master's in marketing from Bahrain. Has 5+ experienced in Marketing. Head of Marketing Department. Named as best employee in his organisations in 2015. Awarded from Nasser bin Hamad Youth Creativity for science invention.
Participant C	Kuwait	Holding a bachelor's in human resource. Has 25+ years experienced in HR. Head of HR & Recruitment Management department.
Participant D	Kuwait	Holding a master's in computer science 16+ years experienced in OIL and GAS sector. Director of IT Project Management Department.
Participant E	Oman	Holding an MBA degree from the UK. Has 8+ experienced in Information Technology sector experience. Position is the CIO for its organisation.
Participant F	Oman	Holding a Bachelor of Information Technology from Oman. Has 10+ experienced experience in Computer Science and business analysis. Director of the technical from his organisation.
Participant G	Qatar	Holding a Master of Business from the UK. Coordinate ICT risk management activities in line with Enterprise Risk Management Framework. Coordinate external/internal ICT audit exercises. IT analyst and team leader from analytic team. Has 15+ experienced in IT.
Participant H	Qatar	Holding a Master of Electrical Engineering from Qatar. Project Management and Contracting Strategies. Engineering Effort Estimation/Cost Estimation. Technologies Evaluation, Technology Development. Has 20+ experienced in Engineering and Oil.
Participant I	Saudi Arabia	Holding a Master of Information Technology from the UK. Director General IT Department. He has 21 years of extensive experience in all aspects of IT development and Management. Has good experience in Green IT and sustainability, and already start to apply some of Green IT concepts in its originations, this experience was brought it from the Maser study in the UK.
Participant J	Saudi Arabia	Holding a Master of international business from France. Key Account Manager. Providing business recommendations based on Big Data analytics. Has 6+ year experienced in business analysis.
Participant K	Saudi Arabia	Holding a Bachelor of Information system engineering from Malaysia. Leading team of business developers and business analyst. Business Analyst in MOI Portal. Has 8+ experienced in the technology field.
Participant L	Saudi Arabia	Holding a Master of Computer Science and Software Engineering. IT project manager. Manager and E-Government System Operator. Has 10+ experienced in IT and business analysis

(continued)

Table 2 (continued)

Participants	Country	Participant's information
Participant M	Saudi Arabia	Holding a Master of computer software engineering from Australia. Technical Development Manager. Mandated to implement and operate SAFEER program. He has 9+ experienced in IT development and operations.
Participant N	Saudi Arabia	Holding a Master of Business Administration from USA Director of IT department. Experienced in IT and innovation. Has 12+ years experienced in IT technical and business analysis.
Participant P	UAE	Holding a Master of public relationship from Sweden. Director of developing new business department. Holding 6+ years in business and operating. Has experience in business start-ups, and gaudier for start new business in Dubai.
Participant Q	UAE	Holding a Master of Science from the UK. Director of business analysis office. Has 16+ experienced in business.
Participant R	UAE	Holding a Master of Design from Dubai. Director of design and innovation department. He has 8+ years experienced in design and user experience applications.

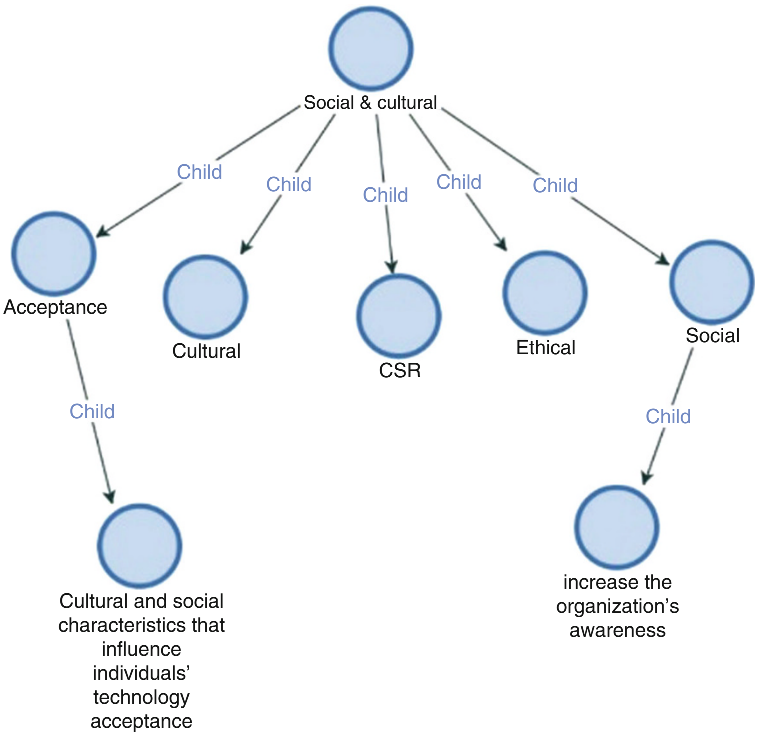

Fig. 1 Node coded for the characteristics and their relationships

practices and save the environment; Do you have a sustainable plan in your personal life such as waste recycling or using recycled materials, using renewable energy and purchasing only environment-friendly products? If so, why; if not, why not?"

The data shows that managers are not practising sustainability in their personal lives, and have never considered it as part of their daily routine. In addition, the answers show there is a lack of knowledge in GCC regions regarding sustainability and the way to apply it. As one of the interviewees pointed out, one reason for this lack of knowledge is that sustainability is not taught early in school.

Also, one of the Saudis participants stated that s/he does not have a plan because s/he receives no motivation from individuals or organisations. However, one participant from Kuwait stated, "*I think we are influenced about these concepts and that lead other companies to give us and explain about Green solution in their products for me I return all old devices to company a Telecom company has a recycle program, so they accept all mobile devices which is good*". Moreover, a Qatari stated, "*I do not have any sustainable plan for me or my family I do not know why might the knowledge here in Qatar about sustainability is not clear and people not take responsibility for it*".

The theme from this research (Fig. 1), and other themes will be available in different papers under the main author's name. All the current theme elements were included in the questions posed to targeted participants.

4.1 Social

The social factor aims to find the skills and knowledge in the GCC region that will increase people's awareness of Green IT concepts. Thus, participants have been asked a specific question regarding skills and knowledge, and then they were asked a sub-question about awareness. The first question is: "*Sustainability usually improves social and economical conditions for current and future generations, and also improves the quality of life and helps people to live in a healthy environment. What skills and knowledge are most critical to social changes regarding Green IT adoption in your organization?*"

Mostly, participants agreed that an awareness program is an effective way of delivering Green IT information to employees. One participant stated that "*awareness gives people the knowledge to help them in the decision support*" Also, other participants mentioned that one of the objective in Saudi Arabia's new Vision 2030 is to save the planet and go green. "Vision 2030 seeks to transform Saudi Arabia's oil-dependent economy to one which is diverse and sustainable" (Jurgenson et al. 2016, p. 182). This finding shows how Saudi's marketing team for Vision 2030 successfully uses the knowledge about level of awareness to attract key people to contribute ideas regarding the country's direction.

Participants suggested changing people culturally by adopting an awareness program, which suggests that awareness might change people's lifestyles. This notion of a cultural program was suggested by Baker et al. (2010, p. 50) "*IT adoption* *and acceptance can be cultivated culturally with a higher probability of success using elites with an internal 'progress' perspective within a developing country's beliefs and traditions than using external entities to force IT adoption*." One of the participants is using traditional ways to change the people's mentality: an internal program such as training or practical support. To change people's behaviour and to give them an understanding of sustainability skills, training program must be conducted which may lead to different methods of raising and educating children and training people (Bonevac 2010).

The next questions were intended to investigate the level of Green IT awareness, as this is critical to the success of implementation. Therefore, the participants were asked their thoughts about whether people would be aware of Green IT during the implementation process. The sub-question for the social element is "*Do you think that adopting a Green IT model will increase the organization's awareness of the policy's importance in terms of sustainable business practices?*"

Most of the participants agreed that the adoption of a Green IT model would increase the organisation's awareness. People anticipate that there will be difficulties at the beginning of the implementation due to social resistance (Alqahtani and Issa 2018; Wagner et al. 2014). However, people will subsequently have a better understanding and they will have confidence in the concept of Green IT. Also, one participant started to give a hint about the acceptance of these new models for his organisation. He said there is not going to be a direct impact, although the implementer should have a clear idea of the organization's policies that might delay the implementation process for a certain time, especially in very large companies.

4.2 Cultural

The cultural factor is related to whether the adoption of a Green IT model will influence an individual's attitude to sustainability in GCC countries. Researchers from different fields found that cultural factors have a significant impact on successful implementation, especially regarding the acceptance of new technology. "*IT adoption in Saudi Arabia is influenced by explicit government policy in the attempt to enhance national and organizational productivity*" (Al-Gahtani and Shih 2009, p. 23). The question posed to interviewees is: "*Values and beliefs of an organisation's culture can impact the behaviour of individuals. How can an effective Green IT model adoption influence individuals' attitudes?*"

Participants gave various answers to the cultural question, interestingly; some participants were taught about sustainability as a subject during their studies in overseas. Therefore, the teaching of environment-related subjects at university has a positive impact on the students, especially international students. One participant stated that it was "*very effective. I think young people are keen to change to better they doing a very good job to use latest technologies we try to not stop them*." This statement indicates the importance of delivering the sustainability message to young people through technologies such as social media.

Another participant stated that "*it will influence people and they will try to apply it in somewhere else*" and he added "*so they would try to save the planet and go to green*". Hence, people will be aware of sustainability and take positive action by engaging in sustainable practices (Deniz 2016; Surf and Mostafa 2017).

4.3 Ethical

The ethical factor was intended to find how organisations in GCC countries are ethically motivating their employees to accept a new model. Organisations need to have a motivation plan before the implementation process to ensure that the new implementation is not at odds with ethical values (Barreto et al. 2014; Brockhaus et al. 2017; Kuppig et al. 2016). "*Organizations can implement Green IT based on overall perception and beliefs of the organization and to do a common good*" (Thomson et al. 2015, p. 175).

Thus, the findings from the cultural factor will help the researcher to find the appropriate ethical approach to increase the acceptance. The question for the ethical factor is "*The drivers of Green IT: economic, regulatory and ethical; also, Self-Motivation represented as the ethical driver during the Green IT implementation. How will your organisation assist individuals to ethically motivate, such as providing Green IT awareness during Green IT implementations?*"

This question drew a variety of responses; some participants said they use different methods to assist employees in their organisations, such as conducting training sessions for all employees. One participant stated "*… give them a survey about their understanding about Green IT before and after the implementation*". This gives the organisation a clear idea on how to proceed when introducing a new idea and inspiring employees to accept it.

Another participant stated that "*most the big companies they will use the cultural program the cultural program means that you build a cultural inside the company in a certain things and that culture will be implemented by people*." Therefore, cultural programs have a positive effect on people in GCC countries. A cultural program encourages creativity and provides new opportunities to people (Briguglio and Debattista 2017; Cherry et al. 2017). Lastly, one participant stated that "*we should have a success story to follow so when people start implementing the green environment for IT specifically they will see how important that is during other project working on the same area so when they see the advantages of that definitely motivated by their self*." A success story for Green IT implementation is to motivate employees and have a positive impact on individuals.

4.4 Acceptance

Acceptance is related to determining whether a Green IT model will influence individuals to accept Green concepts. Participants expressed various opinions on this issue. Hence, the researcher asked a sub-question to elicit more detailed responses.

Acceptance of the concept is the first step to successful implementation of Green IT, since one of the main reasons for project failures is that people do not accept the new system during the implementation process. "*User participation is essential in the sustainable design, as well as to improve device acceptance amongst the users, and satisfy their needs*" (Issa and Isaias 2015). The question is "*Do you think that Green IT model adoption will give the company more social acceptance in your country? If yes, why: if no, why not?*"

Based on the participant's answers, it seems that social media is the most effective means of connecting to people in GCC countries. Organisations in GCC countries are using social media as the main vehicle for advertising their products. One participant stated, "*We are using media to make people accept our product, mostly the social media*." Some products are socially accepted because they are promoted as being environmentally friendly. Another participant stated "... *because when we know that the company which is investing in this country cares about the environment then definitely we will have more acceptances socially*."

Then the researcher asked a sub-question, "*What are the cultural and social characteristics that influence individuals regarding technology acceptance?*" The question produced various answers.

The answers to this question confirm the main question; social media is an important means of influencing individuals in GCC countries. One participant stated that, "*I think that social media is the most power things to implement such a character especially here in Saudi*". Another participants stated that "*They get the information from different sources but mostly from friends is number one so pure effect*". This indicates that people can be influenced by others to change their minds about an issue, especially by experts in that area. An awareness program is essential for experts as they are influencing people (Rubens et al. 2018; Sandhåland et al. 2017).

4.5 Corporate Social Responsibility (CSR)

Corporate social responsibility is a term used to indicate the extent to which organisations are responsible to society. People, especially in developed countries, are aware of CSR and they support organisations that are more responsive to society (Halkos and Skouloudis 2016; Jamali et al. 2017; Kudłak et al. 2018). Thus, one of the factors of the Green IT model is CSR. Participants were asked whether their organisation had adopted any of social responsibility concepts and the reason for this adoption. The question for the CSR factor is "*Organizations that want to appear as socially responsible need to consider four types of responsibilities: economic, legal, ethical, and philanthropic. Does your organisation adopt any of these responsibilities in any strategy? If so, why and if not, why not?*"

Participants' answer have different opinion, especially in the way they responded to the community. One of the participants stated, "*We have a deal with Emirates Wildlife society. We support this society by giving them funds places and other things*" this type of responsibility is sustainable and will help non-profit sustainability organisations to raise funds.

A participant stated that, "*in the ministry of Education we have a lot of responsibility that must contain all element that you just said so like having scholarship for more than 150000 student all over the world and having more love than 30000 school*", and he added "*definitely all the services are free*", this is considered as good environmental responsibility example as well as serves the education sectors. Therefore, corporate social responsibility is applied in some area, and supported by the GCC governments, however, there are no regulations to force organisations to apply CSR in their organisations, and people are not fully aware to the concept.

5 Limitation and Recommendations

The interview phase results assisted in enhancing the current initial model for Green IT and sustainability for GCC countries, and generated some essential questions to the second phase which is the online survey. The interview outcomes contribution to the research question for this study is promoted, change and transform GCC countries mindset regarding Green IT and sustainability via social media. The GCC people are influenced by social media, as it becomes a favourite tool in GCC for communication, collaboration, and connection. Furthermore, people in GCC countries are changing their culture due to social media usage, sustainability is a new cultural element introduced by the new visions in GCC countries. This change leads to more chances of social acceptance of Green IT concepts among the people in GCC countries. However, GCC organisations do not have a plan for social responsibility due to the absence of awareness; therefore, GCC government should take action to implement CSR programs among organisations and communities in GCC countries.

This research has been conducted by people who hold a high position in GCC countries. A person in this position is hard for the researcher to have access to for interviews that will take roughly 30 min. However, the researcher has travelled to Dubai to attend the Gulf Information Technology Exhibition (GITEX), usually manages are attendees to this exhibition, especially in IT sectors.

Therefore, the researcher has conducted most of the data at this event. However, attending the exhibition only to find managers was a difficult mission, also once the researcher found the right targeted person; it is difficult to convince him/her to do an interview as they are busy. Thus, most of the interviews were conducted after the exhibitions hours. This limitation has a recommendation that it is better to find the target person by contacting them using social media and have their approval before to meet him/her in the exhibition. Also, some participants are reserved to answer some questions due to either their cultural or business reasons, as some answers are very straightforward.

The best way to promote and change people's mindset in GCC countries regarding Green IT and sustainability by using social media, as the social media is influencing most people in the region. Lately, people in GCC countries are changing their culture quicker due to social media; therefore, is an opportunity to involve sustainability as one of the new cultural elements, especially in education.

Organisations do not have an obvious plan for social responsibility due to the absence of government controls, as they need to take action to force organisations to start their CSR program. Therefore, future research in this field is valuable as the regions are keen to change; however, there is a lack of social research in this area.

6 Conclusion

In conclusion, GCC countries have different aspects that need to consider before implementing any new model, to raise the success of implementation. One of the main elements is to study the current attitude to conduct a comprehensive idea toward the project. Green IT and sustainability is essential for these countries as they produce an unsustainable resource for their business. The research uses a qualitative research method to conduct the data. This was done, by interviewing high positioned people in GCC countries.

The response has a different opinion of each factor which shows various elements for each question; however, the answers reveal very similar aspects in the mentality across the regions. One of the main findings is an awareness program will give GCC countries more opportunities a greater chance to have a successful implementation. Also, social media is the primary influencing channel for GCC countries to promote a new product or idea.

Managers they do not mind to entering new concepts to their organisations as not affecting the current business process. However, they believe that the Green IT model will change how they do the business, thus the business process might be delayed. Lastly, some of the GCC countries are applying for CSR program, however, they need to improve and create regulations by the government.

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Avoiding Corporate Armageddon: The Need for a Comprehensive Ethical Framework for AI and Automation in Business

Andrej Dameski

1 Introduction

The subject of this article will be the argumentation in support of the *moral need* for the establishment of a comprehensive ethical framework for artificial intelligence and automation (AI&A) in the business world.

The participation of AI in society is expected to increase significantly (Yudkowski 2008; Kurzweil 2000, 2006; Cath et al. 2018; Stankovic et al. 2017). In essence, this means that the effects AI is causing on its environment (this including other AIs, humans and their societies, animals, and the world in general) will increase in scope, intensity and significance; including behaviour that is unpredictable and non-predictable (see Veruggio 2007). Simultaneously, the scope, intensity and significance of morally-burdened effects (that is, effects/changes imposed on the world that contain moral content; see Reader 2007) produced by AI is also expected to massively increase in the near future (Smith and Anderson 2014; Anderson and Anderson 2007). That means that AI will increasingly enter in interactions which can be judged as morally (not-) good and/or right (and the natural expansion into (not-) justifiable, acceptable, just etc.; Floridi and Sanders 2004).

Arguably, the main contributors to the widespread introduction of AI&A in society are business(es), the government, and academia. Thus, business entities and their representatives will carry at least partial responsibility and accountability for the positive, and especially, negative effects caused by the above-mentioned process. To be able to manage this process and the effects it produces, business

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(es) should have at their disposal developed tools and methodologies to understand, predict, and manage morally-burdened effects caused by the introduction of AI&A.

However, such concrete tools and methodologies are largely non-existent, and business(es) seem ill equipped to manage disruptive changes of this nature. Although the discussion regarding this process is increasing in vigour as time passes, there are only occasional concrete efforts to conceptualise changes and possible solutions to problematic developments in regards of AI&A (even though the situation seems to be improving with certain activities in the USA, the EU, UK and others in this direction; see Cath et al. 2018). This could leave human societies vulnerable to fundamental disruption that such changes can bring, especially taking into consideration the rapidity of their development. Since business entities are one of the main introducers of this technology, its unaccounted and irresponsible use may get out of hand and cause symbolic or even literal corporate Armageddon.

One such useful tool would be the conceptualisation of a comprehensive ethical framework for AI&A in the business world, by its participants and all causally and effectively involved parties—stakeholders. These include corporate entities, academia, policy-makers, government(s), and the public. If such a framework is agreed upon and implemented by the aforementioned, it will help ensure that their personal interests are maintained, while negative effects are avoided and even positive developments are introduced in regards of the widespread introduction of AI&A in society. In short, it can help bring upon a morally better world on aggregate.

The argumentation in favour follows in the further text.

2 Corporate Social (Moral) Responsibility, and AI&A

2.1 What Is Corporate Social Responsibility?

CSR (CMR) is in essence, or primarily, a moral concept (Baden 2016). It is a conglomeration of organised theoretical and practical activity to help manage rising issues that appear in the business world and that carry morally-burdened effects.

Although the development of Corporate Social Responsibility (CSR) is not new, and takes place during the last 5–7 decades, there is still no settled definition of what exactly is CSR and what exact features characterise it. However, to put things into the right perspective, it bears to remind the reader of some of the more widely accepted ones that has surfaced throughout its development as a concept.

One of the oft quoted ones is that of Carroll: “Corporate social responsibility encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations a society has of organizations at a given point in time” (in Carroll 2016). Carroll is also the introducer of one of the big contributions in the academic literature regarding CSR, and that is his *Pyramid of corporate social responsibility* which orders the four ‘expectations’ mentioned above by the level of importance.

Several authors have expressed criticisms and revisions on this definition. Perhaps one of the more notable ones appearing recently is that of Najeb Masoud, who states that CSR, or, being socially responsible "... embodies a continuing commitment by business to behave legally, ethically and philanthropically, while contributing to economic development globally. This implies attending to the environmental conditions of society as a whole, considering socio-cultural matters, users of technology, and the prevailing political rights enjoyed by individuals" (Masoud 2017). In the same text Masoud suggests a revised version of the aforementioned pyramid, now labelled *The International Pyramid Model of CSR*, and encompassing economic, 'glocal' (defined by Masoud (2017) as responsibilities concerning "... environmental conditions, socio-cultural matters, users of technology, and political rights"), legal and ethical, and philanthropic responsibilities.

It can be seen that CSR is considered to encompass responsibilities of business (es) towards society. Business entities are not separated, independent entities/systems (entities and systems are taken as synonymous for the purpose of the text), but inseparable and substantial parts of other entities/systems, such as the state, the public/consumers, their collectives and organisations, the ecosystems, the environment, human civilisation, other species and their systems, and finally (and for now) the Earth. As such, business entities have, as any other participating entity, moral responsibility to satisfy moral concerns and needs, only some of which are profit, development, and technological advancement. This moral responsibility is known as CSR, or, more generally as Corporate Moral Responsibility (CMR).

With CSR (CMR) being a moral concept, it is obvious that a moral dimension is permeating through all activity of business entities, including economic and legal. For example, profit for shareholders is also a moral responsibility for business entities, besides the legal obligations in this sense; since the purpose of existence of such entities are to make profit and subsequently improve the quality of life of their shareholders. In short, the quest for profit is seen as a legitimate, just expectation in capitalistic-oriented societies (Carroll 2016). On the other hand, legal obligations can be considered as those moral obligations that become encoded into law, since most legal obligations begin as moral issues (Carroll 2016).

Business(es) exist for the satisfaction of the needs of humans. These needs are the focus of moral systems that function by balancing the various types of moral concerns and needs i.e. profit, better living conditions, happiness, contentment, less suffering, the intrinsic value of entities, taking care of the environment, avoiding disrupting and destroying species and established (eco)systems (Karim 2016)—in essence, better Quality of Life (QoL; here defined as the potential to achieve, or the actual achievement, of moral/systemic imperative(s) of entities—see below in Sect. 3 for more details). Therefore, businesses ought to take into consideration the balanced satisfaction of *all* the moral concerns and needs within their power and reach to the best of their capabilities, and thus help develop a morally better world on aggregate. This in turn implies a better environment for doing business (Masoud 2017).

In this sense, profit is only one part of the 'equation' of CSR (CMR), as attested by other authors (i.e. Baden 2016; Ojasoo 2016). Profit is the reward businesses receive for the successful performance of the aforementioned activities (i.e. the satisfaction of the responsibilities and needs of the market and of stakeholders). and becomes morally problematic when it turns into their sole focus (Baden 2016).

2.2 How Is CSR (CMR) Connected to the Widespread Introduction of AI&A in the Business World?

As we have seen above, CSR (CMR) deals with the moral concerns regarding the effects business activities have on QoL of humans and their systems (e.g. profit, poverty, increasing living standards, etc.), the environment, the ecosystems, sustainability, and any other states and types of existence and their QoL.

AI&A, which are introduced by humans, and especially by business, academic and governmental activity (i.e. R&D; Cath et al. 2018), is about to potentially bring disruptive changes in the functioning of human civilisation, societies and nations (Stankovic et al. 2017). It may also bring disruptive changes towards the environment and sustainability. Cath et al. (2018) mention that "... from an ethical perspective, AI's potential contribution to social good should probably include an in-depth plan for linking in a comprehensive socio-political design questions of responsibility of the different stakeholders, of cooperation between them, and of shareable values that underpin our understanding of a 'good AI society'". Furthermore, AI&A's contribution to society ought to be guided by ethical principles such as: beneficence, non-maleficience, honesty and trustworthiness, fairness and non-discriminatory, honouring property and intellectual property rights, respect for privacy and confidentiality (Stankovic et al. 2017), autonomy, justice, equality, and a plethora of others (Ramaswamy and Joshi 2009; EPCLA 2016).

Some of the predicted changes are technological marginalisation of human workers (Hawksworth et al. 2018); disruption of ecosystems; potential loss of human autonomy, dignity, societal participation, and control (Danaher 2016); issues with the respect for human rights; issues with fair distribution of wealth and profit; and other (see Tables 2 and 3).

In short, it is forecasted that it will bring civilisation-wide changes (Yudkowski 2008). Therefore, there is a clear connection between CSR (CMR) and the aforementioned changes introduced in societies at large. More detailed overview of the relevant moral concerns will follow in Sect. 5. These changes ought to be predicted, conceptualised, and understood. They also ought to be managed by enterprises in the best morally possible way, in a multi-stakeholder configuration (Cath et al. 2018), regarding their morally-burdened effects.

2.3 How Can CSR (CMR) Be Improved in This Respect?

There should be a twofold approach:

1. **Establishment of a comprehensive ethical framework AI&A in the business world**
    - The detailed argumentation for the moral need for this follows below, in Sect. 3.

2. **Developing mechanisms for the successful and sustainable application of this framework among business entities** e.g. methodology, enforcement, ethical officers, collective body of ethical officers, and similar.
   - The methodology and process of development of such mechanisms is not the subject of this article.

3 The (Moral) Need for the Establishment of a Comprehensive Ethical Framework for AI&A in the Business World

As stated before, CSR (CMR) is, in essence, a moral concept. Hence, the need for developing CSR (CMR) in regards of the widespread introduction of AI&A is arising out of a moral need to understand, predict, and manage potentially disruptive changes in this respect.

The main thesis of this text is that **there exists a moral necessity for the establishment of a comprehensive ethical framework for artificial intelligence and automation in the business world**.

The argumentation follows. The main reason why such a moral necessity exists, is that, arguably, a world where such a framework is established would be morally better (morally good and right) on aggregate, than one without it. This is because such a, for now hypothetical, world will be better for the improvement of the QoL of systems involved in moral scenarios, in regards of CSR (CMR) and AI&A.

Examples of such systems are:

- humans;
- human collectives;
- the environment;
- other living species;
- AI&A systems/entities;
- all other relevant systems.

The improvement, or at least the conservation, of QoL of the aforementioned systems (through improved satisfaction of their systemic imperatives, as mentioned in Dameski 2018) will be (able to be) better performed in the hypothetical world where such a comprehensive framework is established and agreed upon. And since according to the author morality deals with QoL of systems/entities (Dameski 2018), such a world will be potentially morally better. Additionally, such a hypothetical world has greater potential to be morally better in the future, on aggregate, by having better foundation for continuous improvement in this manner. Thus, a world that will be better from a CSR (CMR) perspective.

Knowing that such a world can become reality with necessary (in-)action creates the moral need for the provision of effort to establish the above-mentioned framework. Other authors (Cath et al. 2018; Stankovic et al. 2017), the EPCLA (2016), the White House Office of Science and Technology Policy (OSTP 2016), and the House of Commons' Science and Technology Committee in the UK (HCSTC 2016) support creating such framework(s), sometimes titled 'Charters'.

4 Attributes of a Comprehensive Ethical Framework for AI&A in the Business World

The following collection of attributes is suggested by the author as the defining ones that a comprehensive ethical framework for AI&A in the business world should contain and be built upon (Table 1).

Additionally, the framework should also embody the elements of:

- **A model**: that can help understand, predict, and manage moral scenarios in which AI&A and business(es) are involved; and also facilitate the creation of compatible ethical codices and practices applicable on the level of individual market participants (i.e. corporations, SMEs, etc.), conglomerates, industry branches, labour unions, and the very national and international markets themselves.
- **An agreement**: between market players, government(s), policy makers, academia, and the public, that will purport in what manner should businesses perform their activities to ensure morally sound outcomes, while ensuring that the interest of all involved parties is maintained.

5 Ethical Concerns Regarding the Widespread Introduction of AI&A in the Business World, and in Societies at Large

The ethical concerns regarding the widespread introduction of AI&A in the business world and in society at large can be split into two categories: **general concerns** (see Table 2), and **concerns that are to be specifically recognised and managed by businesses and industries** (Table 3). These concerns are exactly what a comprehensive ethical framework should aim to manage.

It is obvious that a holistic and comprehensive approach (e.g. Cath et al. 2018) is to be undertaken in recognising, understanding, predicting, and managing the aforementioned ethical problems (Ramaswamy and Joshi 2009; Stankovic et al. 2017).

In general, these concerns are focused on how to ensure we build a 'good AI society' (Cath et al. 2018). It should be "based on the holistic respect (i.e., a respect that considers the whole context of human flourishing) and nurturing of human dignity as the grounding foundation of a better world. The best future of a "good AI society" is one in which it helps the infosphere and the biosphere to prosper together" (Cath et al. 2018). Similarly, the European Parliament Committee on

Table 1 List of attributes of a comprehensive ethical framework for AI&A in the business world

Attribute	Explanation
Foundational	The framework should be axiomatic (that is, it is set up as a system of axioms that can be informationally, logically and computationally represented) and hence necessarily basic.
Coherent	The axiomatic system is able to be informationally, logically and computationally expanded to provide solutions to arising ethical problems in context, without issues of incoherence taking place.
Hybrid, multidisciplinary and holistic	The axiomatic base of the framework will be conceived with a holistic approach in mind. It will draw on existing advances in ethics in general. It will also draw on other, 'non-ethical' disciplines that can help provide more holistic approach, and thus more comprehensive one. Of course, it will be informed by findings and academic work in CSR (CMR).
Unified/unifying	The framework should have universalist pretension i.e. it should attempt to unify all the major ethical theories into a single axiomatic system. This also relates to human rights, which are in their conception 'universal' i.e. attributed to everyone. Universal human rights, alongside major ethical theories, and new advancements in the field of ethics and CSR (CMR) should form the integrated basis of the framework.
Contextual	The framework should be able to 'live in context', acquire new and modify existing moral knowledge, and adjust to new environment and circumstances. In this sense, it should be able to satisfy the interests of all involved parties, such as business (es), academia, government(s), policy-makers, and the public. It should provide a straightforward methodology for ensuring moral responsibility and accountability on the part of the aforementioned parties. Context is also important regarding differing business environments, governmental types, and general sociocultural factors. Businesses operating in state capitalist, free market, monarchist, and other different market environments will have differing moral (hence, CSR (CMR)) priorities, and can and will contribute differently (Carol 2016).
Applicable to business entities and AI&A, and their interaction with the environment	I.e. other AI&A systems and other systems in general, the world, humans and their systems, animals, the legal, financial and social systems, enterprises/business entities, government, etc.

(continued)

Table 1 (continued)

Attribute	Explanation
Translatable and implementable through engineering, internal policy, and legal tools	The framework should be implementable in engineering, programming, and project-building practices and activities. Additionally, it should also be implementable in internal ethical codices, management styles and HR practices and activities, and similar. Finally, the framework or suitable parts of it should be easily codifiable into law by policy-makers. Therefore, codified CSR (CMR) rights and responsibilities regarding AI&A, and in consultation with all involved participants can ensure sustainable and stable legal solutions without unnecessarily or irresponsibly distorting the marketplace.

Legal Affairs (EPCLA) has published in 2016 a draft report on Civil Law Rules on Robotics with recommendations for the European Commission. The aim of the Committee is to ensure bringing a good AI society by establishing ethical framework(s) in regards of AI, automation and robotics, which will be based on the principles of "beneficence, non-maleficence and autonomy, as well as on the principles enshrined in the EU Charter of Fundamental Rights, such as human dignity and human rights, equality, justice and equity, non-discrimination and non-stigmatisation, autonomy and individual responsibility, informed consent, privacy and social responsibility, and on existing ethical practices and code" (EPCLA 2016).

6 Forecasted Contribution

6.1 *The General Contribution: A Morally Better World*

As mentioned before in Sect. 3, the establishment of a comprehensive ethical framework for AI&A in the business world is predicted to bring about certain developments that, on aggregate, can be considered as morally positive. If one assumes everything else remaining the same, it can be taken that the framework will lead to a morally better world (even if slightly).

If business(es), government(s), policy-makers, the public, and all other relevant parties succeed in agreeing on the foundational principles of such a framework, whose purpose would be to guide their future (in-)action in a morally sound manner while preserving their interests, that will most probably lead to positive developments in AI&A. It will also increase the chances that any such developments are

Table 2 General ethical concerns

Ethical concern	Explanation
Human rights, freedoms and dignity	The respect for human rights, freedoms and dignity may suffer significant negative developments (Cath et al. 2018). Regarding rights prescribed in the **Universal Declaration of Human rights** (Assembly, U. G. 1948), especially rights regarding social security (Article 22), everyone's right to work and protection against unemployment (Article 23), everyone's right to a standard of living (Article 25), and everyone's right to share in scientific advancement (Article 27)—they may not be respected, or at least adequately respected, in the future (an obligation taken by all signatories of the document). Similarly regarding the rights prescribed in the **International Covenant on Economic, Social and Cultural Rights** (OHCHR 1966) i.e. articles regarding obligation of states to promote general welfare (Article 4), right of everyone to work (Article 6), right of everyone to enjoy just and favourable conditions of work (Article 7), right of everyone to social security (Article 9), right of everyone to adequate standard of living for himself and his family, and continuous improvement of living conditions (Article 11), the right of everyone to the enjoyment of the highest attainable standard of physical and mental health (Article 12), and the right of everyone to enjoy the benefits of scientific progress and its applications (Article 15 (b)). This is especially important in regards of the expected technological marginalisation, and replacement of humans in managerial, decision, and command roles by AI&A (see below). Privacy is also one of the fundamental human rights that is consistently being encroached upon and violated by introducing automated data gathering and processing (Ramaswamy and Joshi 2009).
Loss of autonomy	Arguably, possible marginalisation through the introduction of AI&A might bring substantial loss of autonomy of humans, since they cannot choose to freely participate on the consumer or any other market or domain without means of subsistence (see below), profit and wealth.
Loss of control	The replacement of human workers with their AI&A counterparts threatens to bring about loss of human control over business and societal processes (Ramaswamy and Joshi 2009). This is the so called threat of algocracy as mentioned by Danaher (2016). A 2012 case demonstrates how the delegation of decision-making to opaque and obscure algorithms can result in immense losses within 45 min—$460 million in this case (Murphy 2013).
Fair(er) distribution of wealth and profit	The fair distribution of wealth and profit may become unreachable (see Stankovic et al. 2017). Even today there are significant market distortions where technological and IT companies gain disproportionate share of profit and wealth, and with it, power to influence markets, policy-making, and society in general. The accumulation of capital and quality employees in these corporations will arguably cause negative effects on the whole labour, financial and consumer markets, by developing monopolistic tendencies.

(continued)

Table 2 (continued)

Ethical concern	Explanation
Subsistence	Subsistence is guaranteed as a right by the signatories of the above-mentioned two documents. However, there remains heated debate regarding how exactly should subsistence be 'guaranteed' (i.e. universal income), in what exact situations this right applies, and if it should be guaranteed by the state at all. Some states have certain rules that determine unemployed workers, and consider as such only those that actively seek jobs—which may unfairly discriminate against workers that simply lost most or all possible job places in a certain domain (the result of the widespread introduction of AI&A; as is expected in the case of professional drivers with the introduction of autonomous vehicles; Hawksworth et al. 2018; Stankovic et al. 2017). That means that those workers will not be able to receive means for subsistence, with all the dire moral consequences following.
Environmental effects	There may also be dire environmental effects that stem from the widespread introduction of AI&A, or from technological development in general. The utilisation of raw materials beyond sustainability, or the outright destruction of natural resources and ecosystems through extraction and pollution are only some examples where such activities can bring upon highly negative morally-burdened effects on the environment.

performed in sustainable fashion and within the scope of CSR (CMR). This will arguably also improve the marketplace for all market players, especially since many distortions, pitfalls and crises may be avoided or suitably managed (Ramaswamy and Joshi 2009).

6.2 *Better Satisfaction of Corporate Moral Responsibilities of Business(es)*

If we take the basic CSR (CMR) responsibilities that are typically mentioned in the literature, the economic, the legal and ethical, the 'glocal', and the philanthropic, we can see that the establishment of such a framework will positively contribute in all these domains. It can also contribute to coherence between mission, governance and accountability, as well as to establishing and pursuing sustainable business models (Baldo and Baldarelli 2017).

Economic Responsibilities By implementing the framework, business(es) will contribute towards the development of multifaceted and stable markets, with fairer distribution of wealth and profit, and hence the ability of consumers to purchase their products and services. Additionally, the underlying systemic changes caused by such morally-sound attitude from business entities will arguably act in an optimising

Table 3 Ethical concerns specific to business

Ethical concern	Explanation
Conceptual misunderstandings	There seem to appear some conceptual misunderstandings among enterprises and their role in society. Some managers and share-holders seem to believe that the goal of making profit is at odds with other CSR (CMR) responsibilities. This attitude arguably leads to ignoring, or at least, doing what is deemed absolute minimum to satisfy such responsibilities, since they are taken to be burdensome on profit. This is further complicated by the inability to precisely quantify ethical obligations, something which clearly can be done with income, expenses, and profit (Ojasoo 2016). However, the purpose of businesses is not to make profit per se, but to make profit that will enable them to "... do something more or better. That 'something' becomes the real justification for the existence of the business" (Baden 2016). As Baden mentions in his text, "... economic concerns should not be prioritised over social concerns as this entails treating people as a means to an end (i.e. profit) rather than ends in themselves", further mentioning Kant's moral maxim to never treat rational beings as means, but only as ends (Baden 2016). Similarly, Masoud points out that "... company decisions should not only be made with reference to financial factors such as profits or dividends, but also by consid-ering social and environmental consequences, and the potential for long-term support technology transfer to help in building physical and institutional infrastructure" (Masoud 2017). As mentioned before, profit is the reward businesses receive for the successful performance of the aforementioned activities (i.e. satisfaction of the responsibilities and needs of the market), and becomes morally problematic when it turns into their sole focus. Not all of those needs and responsibilities are simply consumer products or services, but many of those are moral or social ones. Profit is simply one part of CSR (CMR), but equally important with all other. Interestingly enough, CSR (CMR) emerges as a concept during the previous several decades arguably because of a trend among businesses to put profit as the primary objective, in the place of the satisfaction of market and society's needs (of which only part are consumer oriented). Putting profit as a primary objective opens the door to morally irresponsible behaviour on the part of business(es) towards the environment, social stratification, sustainability, equal develop-ment and opportunity, fair distribution of wealth, and generally all that is not profit-optimising in the short to medium term (see Baden 2016, pp. 2–3).
Moral biases	Moral biases can create or further worsen market distortions and produce immoral actions, by preferring certain individuals and/or collectives, or certain types of CSR (CMR) activities over other. These biases generally arise out of biases of the designer, engi-neers and programmers of the AI entity, or from the data it is fed with (Stankovic et al. 2017). Some of these moral biases that ought be avoided follow: • Bias towards market orientation and profit (see above);

(continued)

Table 3 (continued)

Ethical concern	Explanation
	• Bias towards 'diversity' over merit; • Bias towards philanthropy over across-the-board CSR (CMR); • Bias towards 'equality' and 'equity' over merit; • Bias towards 'positive discrimination' over merit; • Bias towards form (i.e. ethical PR stunts) over substance (actual morally-responsible behaviour); • Bias towards 'tolerance' and 'acceptance' over authenticity, freedom and initiative; • Bias towards 'non-moral' R&D (when business entities act as if research & development activities never hold any moral dimension, and thus should be excluded from ethical consideration)
Technological marginalisation of workers	The technological marginalisation of human workers will be in large part caused by enterprises opting to introduce AI&A as their replacement. AI&A entities, becoming cheaper and more efficient than their human counterparts, threaten to overtake up to 30% of all jobs by mid-2030s, of which up to 44% replacement of low education workers (Hawksworth et al. 2018; and also Cath et al. 2018, p. 5). It is obvious that businesses will have increasing direct moral responsibility to help laid off workers find means of subsistence. A global dialogue between all involved parties should aim to find morally sound solutions that will avoid leaving huge parts of the working population without the means to earn their subsistence, and subsequently avoid the intense social tensions that will probably lead after such developments. Additionally, if consumers are unable to participate in the labour market and earn fair remuneration, they will not be able to purchase products and services provided by enterprises. This will have an additional negative impact on earnings and profits for those entities.

manner for the whole marketplace, which would decrease external costs, improve earnings and profit, and avoid unmanageable disruptions.

Legal and Ethical Responsibilities As mentioned before, a moral dimension permeates the whole structure of CSR (CMR). Through the implementation of such a framework, the whole aggregation of morally-burdened effects caused by the widespread introduction of AI&A in society through business activity will turn to more positive developments. Additionally, market participants will be able to more easily agree on codifying policy that will ensure their interests while ensuring morally-sound solutions for these developments.

'Glocal' Responsibilities The so-called 'glocal' responsibilities clearly include a moral dimension. It is therefore important to notice that the establishment of such a framework will most probably bring positive developments in the above, as discussed in the previous text.

Philanthropic Responsibilities Finally, philanthropic responsibilities are not expected to be significantly affected with the establishment of the framework. However, the general improvement of morally relevant behaviour on the part of business(es) may bring greater philanthropic commitments as a side effect, even though they are considered discreet, and thus not required responsibilities.

In general, the predicted contributions of the establishment of a comprehensive ethical framework for AI&A in the business world are by and large positive.

7 Conclusion and Way Forward

The author posits that the necessity for the establishment of a comprehensive ethical framework for AI&A in the business world is successfully argued in the text. The predicted developments in the domain of AI&A alongside the role business(es) will play in this process is likely to bring morally problematic developments in the following decades. These developments, if not managed in a morally sound manner, may cause significant disruptions and societal crises that will negatively affect all market participants, including business(es), academia, government(s), policy-makers, and consumers. This is exactly what CSR (CMR) aims to avoid and improve.

Therefore, in the near future there should be significant effort on all involved parties (stakeholders) to design and agree upon a conceptual and comprehensive ethical framework, which will help avoid negative developments, and even produce positive ones that are sustainable and stable over time. They should also develop the precise methodology of its conception and application in the world, by taking into mind the attributes of the framework specified in Sect. 4.

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The Small and Medium Enterprises' Perception of the Concept of Corporate Social Responsibility

Oleh Hlushko

1 Introduction

The CSR concept is becoming a widespread trend. We are talking about not only scientific interest but also more about the curiosity of business to the CSR. In addition, companies (transnational corporations, the same as SMB's and microbusiness) are showing unprecedented incentive to be perceived as socially and environmentally friendly entity. At the same time, increasing rate of interest to numerous competitions and rankings of socially responsible companies is improving the above hypothesis. In the list of social rankings, we are able to see not only big companies but also SMB's. As an example of social-oriented competition can be "European CSR Award Scheme for Partnerships, Innovation and Impact" organized by the European Commission (Leoński 2015, pp. 98–99). The purpose of this event is to emphasize the achievements of companies in the field of CSR and the dissemination of this concept all over the world.

Large companies undertake social commitments because of a strong onslaught from the external factors like public opinion, consumer and environmental organizations, and the media. Small companies are not exposed to such pressure. Moreover, they are focused on ensuring the wellbeing of the owners and must care for their survival and maintaining financial liquidity. Although the CSR strategy does not directly serve these purposes, competition and the desire to ensure repeatability of transactions enforce compliance with certain ethical standards. Large companies employ specialists involved in the development of CSR strategies and allocate specific, sometimes significant funds for its systematic implementation, while small businesses take up the spontaneous, often heart-reflexive activity of the society

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in response to the needs emerging at a given moment or situation (Lewicka-Strzałecka 2008, p. 164). Significant distinguishing feature between large business and SMB in perception CSR is the absence of strategic approach in case of small entities.

In big companies, CSR standards are established and implemented in a formalized way, ethical codes are created, ethical trainings are conducted, also operates a telephone hotline. Attempts are made to operationalize CSR, appropriate procedures and indicators are developed. In small as well as medium-sized enterprises, the owner value system becomes a company value system. Ethical rules are generally informal and even non-verbal (Lewicka-Strzałecka 2008, p. 164). More specifically the SMB needs to understand the CSR concept, the benefits and good practices to be aware of how to utilize engagement in social and environmental issues. One of these challenges, in this context, is the motivation of SMB towards CSR performances. All that pieces of CSR concept should be acknowledged as a system and must be preceded on the daily base to achieve long-term benefits. Based on the above the purpose of the paper is to understand the perception of CSR concept by SMB's and their motives as well as to build awareness regarding costs and benefits throughout the implementation of CSR principles. In addition, the paper puts an accent on the good practices of CSR performances utilizes by small and medium sized companies all over Europe.

2 The Small and Medium-Sized Business Perception of Corporate Social Responsibility

It is common for consumers as well as for business to think that social responsibility principles could be applicable only to large corporations. Such hypothesis has no sense because principles, which CSR concept is promoting

- have a wide scope (starting with human as well as employee rights an up to caring for the environment),
- are not strict (business entity is able to pick on their own what kind of CSR performances are they implementing),
- are understandable for everybody (like using more recycling materials in a production process or do not pay salary less than the minimum range),
- etc.

When you are leading small business, you are more into local needs than the transnational corporation, which has the distribution center in your area. Because you are not only doing business there, you are living there, and your children are going to live there. That means you are aware what is significant for your local community. At the same time, you are able to assign some amount of income from your business to deal with social and environmental issues of your community. This thesis is not new. Lots of SMB's are doing it. As an approval you should go through report "Social and Environmental Responsibility and the Small Business Owner" (Federation of Small Businesses 2007, p. 3). This report demonstrates that small businesses are actively engaged in social and environmental issues and they are doing a significant impact on their communities.

Unfortunately, there are numbers that show the low level of awareness of the social responsibly and the benefits concept is providing to the business. W. Leoński (2015, p. 95) argue that research carried out by many institutions, including PARP, indicates that knowledge of the concept of corporate social responsibility is largely dependent on the size of the business entity. The data shows that the vast majority of large companies (70%) knows the concept of CSR, while about 2/3 of the SMB's were not acquainted with this concept. Most of the SMB's presenters do not know anything about this management model, and thus the benefits that the implementation of the CSR concept can provide to their businesses.

Among companies that know the CSR concept, approximately 80% of SMB's are using principles of CSR in the management of an entity. On the other hand, only 56% of micro entrepreneurs who understand the frameworks of CSR implement its elements into own business. According to this data, some of the entrepreneurs could implement principles of CSR, and act socially and environmentally friendly without knowing the essence of reconsidered concept (Leoński 2015, p. 96). W. Leoński identified one more problem in his research. For SMB's the CSR performance usually is a onetime activity. According to above mentioned gap business is not able to benefit from the CSR and at the same time, it is impossible to integrate CSR principles into the business strategy of the entity.

Small entrepreneurs are aware of their role in the development of local communities, but they are not fully aware of the potential of CSR. As a result, they do not fully use it. The activities they undertake are often immediate and informal. Such activities are determined as so-called unconscious CSR (Smolarek and Sipa 2015, p. 60). Due to the conducted previously researches; there is a need to highlight some facts regarding social responsibility perception by SMB's. Social responsibility from the point of SMB is:

- mostly associated with large business,
- business practice,
- an activity dedicated to local community's needs,
- marketing/PR tool as well as the way to promote the company,
- a part of competition process that could increase income,
- a tool to create good relations with customers, clients and employees,
- an approach that helps care of the environment and being ecologically friendly,
- also, other performances dedicated to human rights, organizational culture, etc.

Nevertheless, the most crucial for SMB in case of social responsibility is the dedication to the local communities and their needs. Due to that fact and other features of CSR in SMB's world, we need to improve the concept in the way it would be more useful and applicable for small as well as medium-sized companies. "There is thus a need to adapt the principles and instruments of corporate social responsibility to the specificity of the functioning of small businesses, as CSR strategy is their real chance for sustainable development" (Smolarek and Sipa 2015, p. 50).

In case of small and medium-sized enterprises, searching for opportunities that are applicable to integrate the CSR idea within the mission and strategy as well as creates greater opportunities and outcomes. The principles of social responsibility are starting to become the basis of the business model (Nikodemskiej-Wołowik 2011, p. 34). For those SMB's who picked the way of social responsibility and environment care is clear that the CSR in not about costs but mostly about boosting company's income, credibility, social acceptation as well as creating long-term partnership with clients, suppliers, distributers and shaping good relations with customers, government, investors and global society.

3 Motivation of SMB

It is widely acknowledged by numerous researches that SMB's have a long list of insights for being socially responsible and environmentally friendly within local communities at least. "The survey findings amply demonstrate that small businesses are highly motivated to provide a good working environment and work hard at ensuring that staff morale is a key consideration in their business practices" (Federation of Small Businesses 2007, p. 10). We decided to embed the motives of SMB with the tools that will help entities to build awareness of their social performances. This is why the Table 1 may be relevant for understanding why the entity should care about society and environment. In addition, the table shows a list of tools useful for SMBs to promote their CSR performances and build awareness of social as well as environmental activities conducted by an entity.

Due to the table above SMB is really care not only about local communities needs but also about own employees. It seems, however, that improved company's image as well as positive reputation gained by CSR performances could help not only to maintain the employees but also to find a new one. "Good CSR performances appear to positively affect job seekers' intentions to apply and may be a key factor influencing a company's recruitment, especially when a company is not on a list of good manufacturers" (Kim and Park 2011, p. 648).

Study of S-Y. Kim and H. Park find that "The effect of CSR may become more powerful for a company having a poor business situation than for a company having a good business situation" (Kim and Park 2011, p. 650). The most important finding from this study is the significant impact that CSR can have on prospective employees when they are seeking for the job. There is more than one reason for that because the business reputation that is based on CSR performances is a strong asset for a job seeker with integrity. Likewise, the prospect with high ethical and moral principles will likely to be persuaded to work for the company, which performs in a social and environmentally friendly way.

Table 1 Pivot motives for SMB to perform responsibly and tools that will increase awareness of CSR performances

Motives for SMB to perform socially responsible	Tools, methods and practices applicable for SMB to boost stakeholder's awareness of CSR performances
Improving and promoting company image as well as reputation (78% of positive answers provided by respondents within European Commission initiative in 2001)	1. Company's website 2. Online panels 3. News conferences as well as scientific conferences 4. Roundtables with scientists and business as well as with business and stakeholders 5. Press releases 6. Print and broadcast editorials 7. Radio and TV talk shows (mostly local) 8. Advertising CSR performances through media (local channels, local radio, local newspapers, etc.) internet (social media, website, forums, etc.) 9. Training handouts (training manuals, books, booklets, instructions or guidelines) 10. Fact sheets 11. Social network (groups, posts) 12. Spread the information on the internet (websites actively used by local communities) 13. Sharing videos and articles concerning CSR performances on YouTube, Twitter, Instagram, LinkedIn, etc. 14. Being an active user of different forums and online platforms related to CSR field 15. Strategic planning for public relations 16. Two-way symmetrical communication 17. Content analysis 18. Interview 19. Questionnaire and survey 20. Organizing charity events for local communities 21. Communication-management approach 22. Corporate sustainability index, CR index and other 23. Other tools or approaches relevant for definite local community
Increasing clients loyalty (73%)	
Improving of organizational culture (57%)	
Attracting and maintaining the best candidates (40%)	
Managers and employees increased motivation as well as work efficiency (36%)	
Boosting employee's confidence due to the company	
Good place to work	
Personal views/beliefs	
Good business practice	
Committed to reducing negative environmental impact	
Altruism/putting something back	
Financial health of business/affordability	
PR benefits/good for the business image	
Increasing customer loyalty	
Improving relations with government and local government authorities	
Improving relations with investors	
Increasing employee satisfaction	
A wide scope of potential opportunities for cooperation between the commercial sector from one side and public as well as social sectors from another	
Opportunities to acquire and maintain the best employees on the market	
Improving management processes	
Facilitates the problem-solving process with stakeholders	
More opportunities for getting investments as well as access to the capital	
Superior conditions for doing business	

Source: Federation of Small Businesses (2007, p. 6), Collective paper of the University of Gdańsk edited by A.M. Nikodemskiej-Wołowik (2011, p. 37)

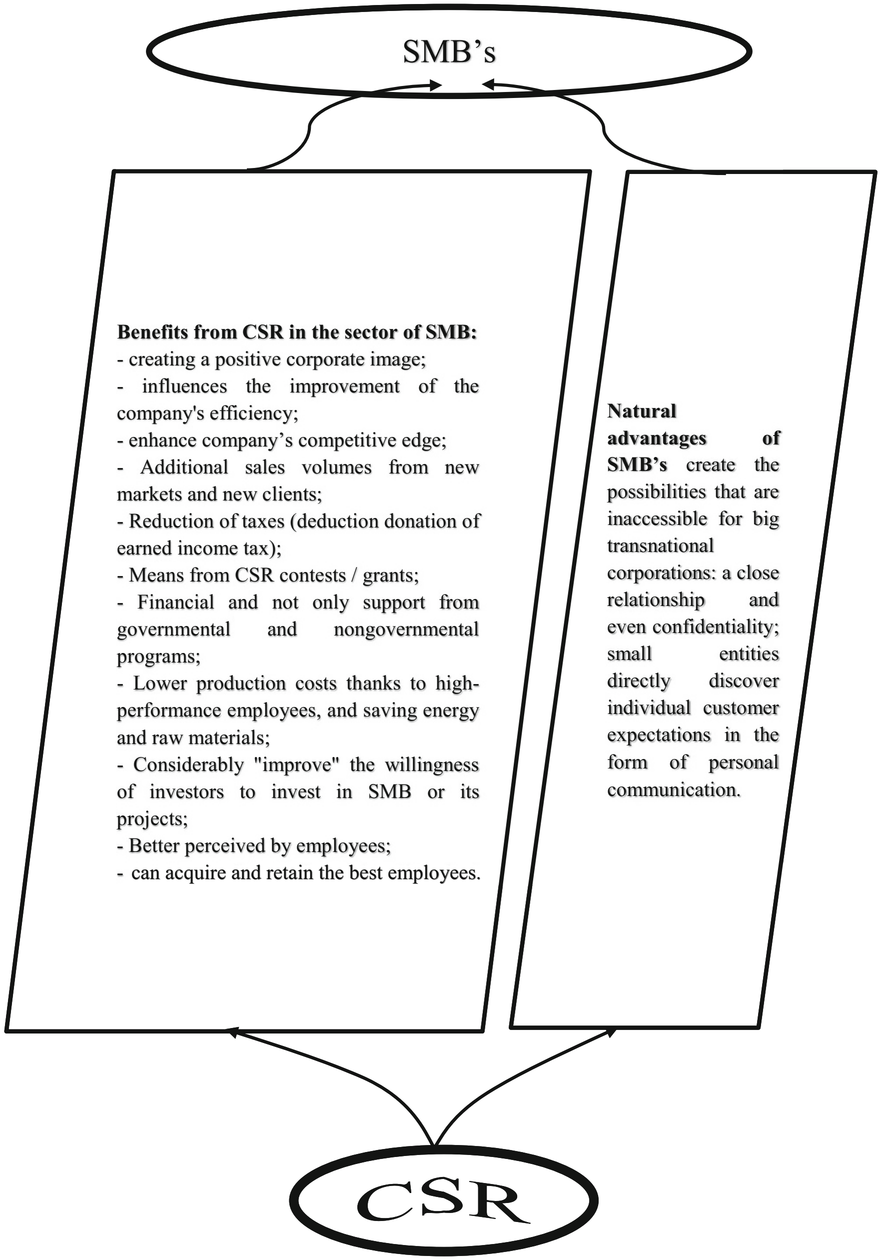

Fig. 1 The CSR's positive impact on the SMB's (Sources: W. Leoński (2015, pp. 98–100) and L. Skrobich (2016, p. 111))

Obviously, the motives towards CSR performances are very important, and they have a strong influence on the decision-making process. On Fig. 1 you can find the list of benefits as well as advantages of using CSR on the daily base. Those lists will give the clue about what could be a motive for your small or medium-sized entity. It helps to find your personal social goal and go for it.

Less highlighted, however, is the issue of tools that can increase awareness of CSR performances. Because undertaking social and environmentally friendly activities frequently is not enough to get benefits from CSR performances. The entity needs to promote such kind of activities and listed in the Table 1 tools could be useful to achieve this goal. In order to disseminate good practices, the European Union promotes public recognition for enterprises achievements in in the field social responsibility and for their CSR performances (Smolarek and Sipa 2015, p. 54). However, what are the activities that could be perceived as CSR performances? Need to admit that the best way to understand the essence of CSR is to show good practices of social and environmental performances conducted by SMB's.

4 CSR Performances Applicable for SMB

Small and medium-sized enterprises are likely helping local communities. However, the potential of cooperation with customers as well as with clients in case of CSR performances is not fully used. For instance, SMB may organize as well as support various cultural events, trips, thematic conferences, roundtables and trainings for pupils, students, clients, employees, customers, etc. on the topic of CSR performances and practices sharing. These events could be perceived not only as a promotion activity but also as a CSR performance aimed to boost the understanding of CSR among local communities.

There are numerous examples of such social as well as environmental care activities performed by SMB's in the scientific literature and reports. For instance, M. Smolarek and M. Sipa in research highlighted some areas of activities under corporate social responsibility applicable for small enterprises (Smolarek and Sipa 2015, p. 58):

- Supporting local communities (28.8%),
- Environmental care (25%),
- Relations with consumers (21.2%),
- Good business practices (21.2%),
- Relations with employees (17.3%),
- Organization structure (15.4%),
- Human rights (7.7%).

Within this and other areas, SMB's are conducting CSR performances. The results mentioned above showed that the most popular area for CSR performances is supporting local community. Such result is obvious and seems that do not need any clarifications. I would like to pay attention to the environmental one as another important area that needed to be supported by SMB's. Due to a report of Federation of Small Businesses (2007, p. 10) I could be more specific in terms of ecological care and SMBs:

- utilized low energy light bulbs,
- invested in low energy lighting,
- turned off PCs/lights etc.
- changed heating systems,
- minimized electrical usage,
- reduced temperatures in offices.

This list of recommendations makes sense for any small as well as medium sized business interested in environmental issues. Less highlighted, however, is the issue of implementation the CSR initiatives. "The process of implementing CSR solutions is not an easy task, especially if there are no people strictly dedicated to such tasks, as well as tools appropriate for SMB's feature in implementing the CSR strategy" (Skrobich 2016, p. 113). Rather than relying on that statement, I will provide you with the CSR practices and you will see that there is no need for extra employee to deal with CSR performances. Based on the research made at the University of Gdańsk I would like to highlight various CSR performances utilized by SMBs from different industries (Table 2).

Mentioned above CSR performances are integrated into enterprise business strategy. Is important to know that the SMB strategy, to which the CSR concept was implemented, cannot be based mainly on separate, not permanent activities. Most frequently mistakes, in this case, is an uncritical copy of competitor's ideas and avoiding interesting and innovative, although more difficult deeds to implement, as well as contemporary marketing techniques. It is also extremely important to reach as many stakeholders as possible. Worth mentioning are activities directed to the interior of the organization, i.e. to employees. In the SMB sector, proper relations with employees are extremely important due to the local commitment and close relations with clients as well as customers (Skrobich 2016, p. 111).

There are numerous examples of such achievements in the SMB's practice. Frequently, the issue is to share the information and to make stakeholders aware of companies' social and environmental outcomes. There are various ways to promote that among entrepreneurs and stakeholders, scientific and practical contests as well as awards dedicated to CSR achievements (Leoński 2015, p. 97). It seems to be efficient in case of promoting social responsibility and environmental care of the entities. In the meantime, we should be proactive in integrating digital technologies into business. This is the way of reaching out to a broad amount of people and to decry costs. Nevertheless, SMB's have financial issues not only with promoting CSR performances but also with providing social events. One of the success stories in this context is the case of the e-volunteering (Gołaszewska-Kaczan 2017).

Today's social trend coherent with the development of digital communication technics created the indirect voluntary, also known as e-volunteering, online volunteering or virtual volunteering. By encouraging such kind of activity, the company creates positive corporate image among external recipients and among

Table 2 Good practices in social responsibility from SMB

SMB name / CSR performances	Polix, produces flexible cables	Viking Toys, produces and sales toys for children	Mercatus, recycling liquids for industry
Caring about ecology and being environmentally friendly	• The company applied Quality management system (PN—EN ISO 9001:2001), Environmental Management System (PN—EN 14001:2005) and Occupational Health and Safety Management System (PN—N 18001:2004); • Products are made from 100% recycling materials; • Uses silos and containers for recycling components made only of stainless steel.	• Products are made from 100% recycling materials; • All toys are produced according to international standards, in particular, EN71, ASTM and ISO 8124; CPSIA (Consumer Product Safety Improvement Act); REACH (Registration Evaluation and Restriction); The Toy Safety Directive.	• A company is using the latest technology to build facilities and equipment for recycling and purifying used liquids for small and large manufacturing companies; • Applied Environmental Management System (ISO 14001).
Consumer and clients insight	• Fair trade practices, full access to information and providing individual solutions for consumers; • Provide the customer with transparent information about the products offered, such as price, technical characteristics, exploitation of the product; • All useful information consumer is able to find on the company's website, in particular, product description and price, also is an available option to price order, pick the transportation features and pay for the order; • Every time a customer reports defect of a product it is immediately exchanged for a new one.	• The plastic, which is the pivot component of toys, has a quality certificate, may be in contact with food, does not contain toxins or phthalates; • Small parts of a toy never fall off; • Meet all international safety standards for toys; • Toys are covered by a guarantee of full satisfaction or can be returned without a reason.	No date.
Employees engagement	• Receiving feedbacks from employees and enabling them to	No date.	• The staff is trained in team problem solving, and is also given

(continued)

Table 2 (continued)

SMB name / CSR performances	Polix, produces flexible cables	Viking Toys, produces and sales toys for children	Mercatus, recycling liquids for industry
	influence changes in the company; • Employees are regularly informed about the way company is developing and about the results as well as outcomes/outputs; • Every employee is able to suggest valuable changes regarding the company; • Flexible working hours.		the knowledge of the group development theory, other words the company is using FIRO—Fundamental Interpersonal Relationship Orientation; • Discussions about organization culture that enables people to take responsibility; • Regular meetings for discussing goals, visions and strategies; • Competence development and a well-developed intranet.
Partnership with suppliers and distributors	No date.	• A supplier is not hiring kids; • A supplier has several certificates regarding toy safety and a responsible attitude towards children's advertising and marketing, in particular, ICIT (International Council of Toy Industries) and CARE (Caring, Awareness, Responsible, Ethical), ISO 9001; • Distributors are always treated as friends.	No date.

Source: Collective paper of the University of Gdańsk edited by A.M. Nikodemskiej-Wołowik (2011, pp. 76–83)

own employees (Nerka 2017, p. 102). Taking into consideration such option you are not obliged to extra costs and the company is able to receive appropriate digital support. At the same time, SMB's that are good in some digital issues could offer help. This tool could be useful in case of cost limits and the real potential of knowledge sharing.

5 Costs Versus Outcomes in CSR

The obvious fact is that for performing CSR activities you need resources. CSR performance for the enterprise is associated with involvement of human and financial resources. Financial costs may be related to sponsorship of local social and environmental programs, fees related to placing on the company's products appropriate ecological labels, investments into a more efficient production system, etc. Costs related to human resources may include employee volunteering as well as trainings for the local community organized by firm's employees. Employee volunteering could be characterized as employee's engagement in various NGO's projects. In such case, the main idea for the company is to support the employee (Leoński 2015, p. 101).

In case of CSR, there is always a hard job to manage costs and benefits of social and environmental performances. "Small business owners saw trade-offs between economic and noneconomic dimensions and between legal responsibilities and discretionary opportunities (which they associated with responding to ethical norms)" (Burton and Goldsby 2009, p. 96). Much attention is paid to that field and it still worth mentioning. The point is that the trade-offs between social and financial goals are permanent. This is a part of business strategy and if the owners are aware of consequences not finding equilibrium between profit and social needs the issue is becoming crucial in the decision-making process.

It seems, however, that in the case of SMB owners attitude to CSR is mostly behaviorally based. Those who emphasize economic domain concentrate on economic stakeholders and profit related goals. In the meanwhile, who are more into noneconomic domains concentrates mostly on noneconomic stakeholders and community-related goals (Burton and Goldsby 2009, p. 99). Despite the general stereotyping, SMB's should be paying attention to the practical issues concerning CSR performing. This means SMB owners aware of some costs, barriers of being socially responsible and environmentally friendly as well as getting benefits from such kind of activities. Another important aspect of the issue is that SMB has only pieces of information concerning costs and revenues available for CSR performers. Both general and specific knowledge, hints and tips regarding the issue may be useful for SMB to make justified decision (Fig. 2).

Considering the issue of prizes that companies can receive from CSR competitions, it should be noted that usually, financial rewards are not the purpose. Being on the top of ranking or competition enhancing the recognition of such company. At the same time, it helps to improve an environmentally friendly brand, creating a positive corporate image, etc. The results of these competitions are often presented in various Medias (on television, internet and printed press). As a result, information concerning the CSR performance of the entity reaches a wide range of potential clients or contractors (Leoński 2015, p. 100). According to a figure above we could notice lots of barriers, but the outcomes SMB's will receive worth the attempts.

Currently, there is a need to establish a concept of social responsibility that would not contradict the achievement of profit and the provision of social benefits

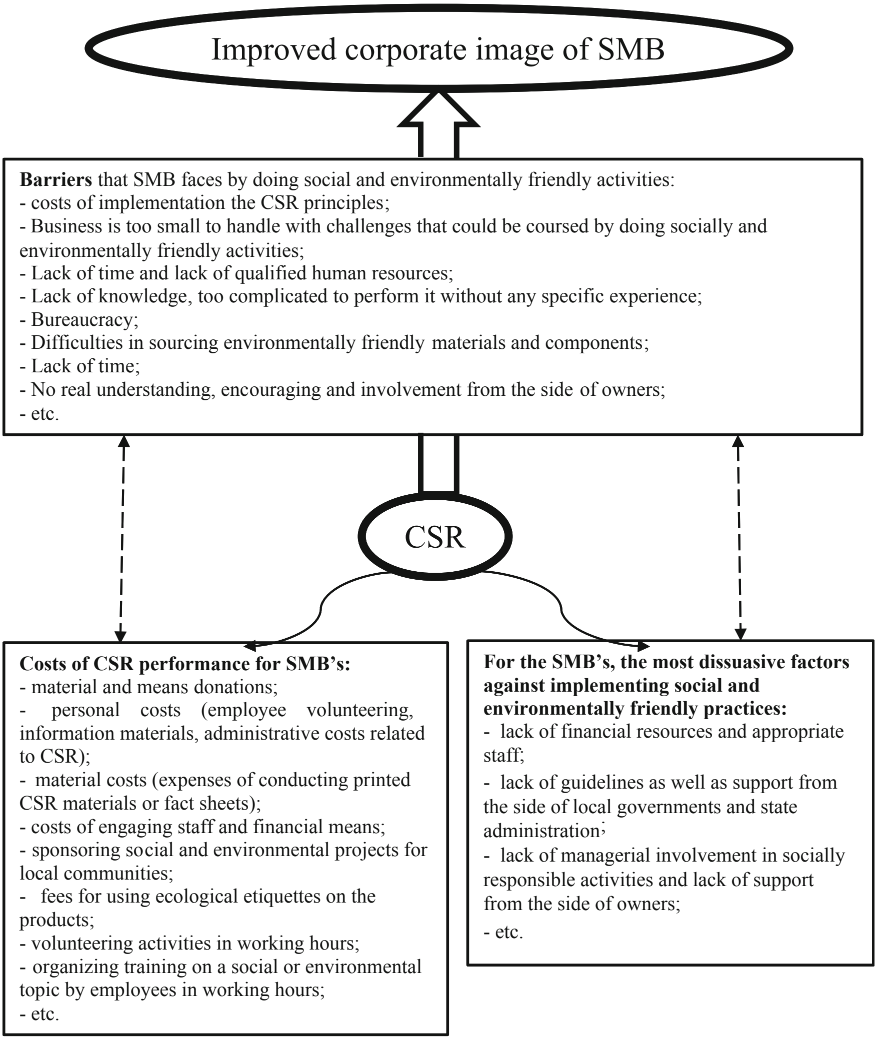

Fig. 2 Barriers and problems that faces SMB's at implementing CSR principles. (Sources: Federation of Small Businesses (2007, p. 8), W. Leoński (2015, pp. 99–101), L. Skrobich (2016, p. 109), M. Smolarek and M. Sipa (2015, p. 59))

(Collective paper of the University of Gdańsk edited by A.M. Nikodemskiej-Wołowik 2011, p. 36). Such concept is going to be a background for a contemporary approach of CSR. The assumption behind is keeping in mind that CSR should not be treated as a cost but as an investment (Skrobich 2016, p. 109). This needs to change for the owners of small and medium-sized enterprises and they need to integrate the CSR principles into business strategy. That will give the understanding of CSR outcomes in long-term prospective. Nevertheless, SMB's have some expectations towards CSR concept. They would like to have some support from the side of government, some detailed guidelines from scientists and some applicable good practices from the small as well as medium-sized companies.

6 What SMB Want Due to CSR

"Small businesses tell us they would benefit from Government incentives and practical examples from other businesses about enhancing and increasing their involvement in the social and environmental sphere. What they do not want is any type of mandatory reporting of CSR activities or specific CSR legislation" (Federation of Small Businesses 2007, p. 2). It seems, however, that the SMB would like to know more good practice as well as guidelines concerning CSR performing but at the same time they would like to feel free to conduct social and environment actions according to them believes. Any kind of mandatory regulations would be perceived as an invasion to SMB's privity. The legislation issue seems to be complicated regarding SMB's position.

Due to the Federation of Small Businesses "most businesses want to be socially and environmentally responsible and guidance would make a greater impact than implementing more legislation" (Federation of Small Businesses 2007, p. 8). Another factor that should be taken into consideration is that small and medium-sized enterprises are interested in some form of incentive, suggestions and examples of best practice, etc. (Federation of Small Businesses 2007, p. 17). The position of SMB is straight and understandable. Small and medium-sized businessmen are likely to be guided in the process of being socially responsible and environmentally friendly, but they don't want to make new reports. SMB is not into dealing with extra administrative commitments because it will reduce their efficiency and coerce new bureaucracy issues.

In this case Bartlett et al. (2007, p. 288) highlighted that focus on social responsibility has occurred at global, national and industry levels and its practices seen in the development of reporting guidelines and frameworks, assessment devices and international standards, industry codes and legislation. A very similar outcome to the report conducted by Federation of Small Businesses. That means we could rely on such kind of facts and take them into consideration while building a relationship with SMB.

7 Conclusions

Numerous researchers prove that SMB is engaged into social and environmental activities, but they need more information as guidelines and good practices to understand in which way they are able to utilize CSR concept. Obviously, large business is more educated and has more capabilities to perform according to CSR principles, but SMB is aware of local communities' social and environmental issues and can help o figure them out. It has been evidenced that 80% of SMBs are using principles of CSR, but only 56% are aware of the CSR frameworks. That is why we could claim that SMB is interested in applying the CSR principles but in the most cases they have no idea how to do it as well as what is the CSR performance. SMBs are more likely to perceive CSR as satisfaction of local community's social needs as well as dealing with environmental issues. At the same time, CSR performances are frequently not perceived by SMBs as a part of business strategy.

Motivation of SMB will have a significant impact on proceeding CSR activities. It manifests itself, in good practices utilized by several of small and medium-sized companies. Based on the above it can be concluded that the CSR performances undertaken by SMB aimed on environmental issues, customers, clients and employees. The most crucial prospective of CSR performances is probably the environmental issue. Small and medium-sized companies care about environment by implementing various international management systems and standards regarding quality of the products, environmental management, health safety, product safety, using in production process recycling materials and components, etc.

Despite the general stereotyping, that CSR performances course more costs than the benefits and the barriers are the additional expenditures that are not worth to overtaking the SMB are still engaging into it. The problem is not in costs or barriers because actually it is not crucial point for this concept, but lack of the knowledge concerning CSR performances. The findings of the study are based on increasing the awareness of CSR concept by SMB, good practices of social and environmental actions as well as understanding of real motives and mater of absolute values/ benefits comparing costs/barriers.

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After completing his PhD, Oleh won Scholarship Program of the Government of the Republic of Poland for Young Academicians in 2016 and Visegrad V4EaP Scholarship Program in 2017. Both research scholarships were undertaken at Warsaw School of Economics, Poland. During first scholarship program, he collected information regarding evolution of social responsibility and analyzed variety approaches to understand the essence of the concept. Significant part of the research in 2016 was dedicated to identify reasonable trends of reporting socially responsible performance. He analyzed variety guidelines to systemize core values of corporate social responsibility in context of reporting needs.

Research program in 2017–2018 was mostly aligned with two concepts: CSR & PR. He analyzed tools aimed to boost awareness and understanding of social responsibility among different groups of shareholders. In his research, Oleh focused in particular on accumulating knowledge regarding the concepts and ways to disseminate information of social outcomes. During his recent scientific program, he is focused on the role of CSR within SME.

In 2016, Oleh was a part of project "Research Connect" where he amplified skills in written as well as verbal academic communication. At the same time, in 2017 he participated in Summer School for Young Researchers on Horizon 2020 and German-Ukrainian Forum of Young Researchers where he gained knowledge of Responsible Research and Innovation.

Worth mentioning that he found inspiration to conduct research on CSR in volunteering. Starting 2002, he was volunteering for more than five national and international NGO's and took part in variety projects related to human rights, gender equality, environmental issues, leadership, healthy lifestyle and sports. He was a part of big social projects sponsored by USAID, AED, British Counsel, AIESEC, UEFA and Lviv City Council so he understands the operational side of social performance.

Oleh has over 20 scientific publications and presented academic materials at around 30 national and international conferences (Lublin, Warsaw, and Santander).

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