CSR, Sustainability, Ethics & Governance

Series Editors: Samuel O. Idowu · René Schmidpeter

Samuel O. Idowu
Stephen Vertigans *Editors*

Stages of Corporate Social Responsibility

From Ideas to Impacts

Springer

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Foreword

Companies around the world can no longer ignore the importance of an integrated CSR and sustainability strategy. The topic is a key focus of the United Nations, which aims to foster the transition to a sustainable world by 2030. Seventeen ambitious Sustainable Development Goals were published, which should remain at the centre of the global political and economic agenda. While these targets point us in the right direction, proper implementation requires a thorough understanding of how ideas can be turned into reality to create real impacts. Therefore, this editorial piece comes at the perfect time to help organisations realise their goals and the potential of a sound CSR strategy. In this book, Samuel O. Idowu and Stephen Vertigans share with us a collection of international literature from academia and practice, demonstrating the various stages of CSR as well as examples of its integration in companies worldwide. The editors capture the interrelated essence of sustainability through an intellectual discussion on critical components at professional, conceptual and strategic levels. As revealed here and in the editors' numerous prior publications, successful business and a deeply rooted CSR strategy go hand in hand. Companies today must shift their focus to the long-term prosperity of the organisation as well as the complex and interrelated ecosystems (environmental, social, economic and political) within which it functions. Without this holistic management perspective, businesses run the risk of basing important decisions on mere narrow and short-term economic gains—which will only lead to the further collapse of the global economic system rather than the achievement of the above-mentioned United Nations Sustainable Development Goals. Still, after the decision is made to focus on CSR and sustainability at the core of business operations, managers must determine which steps will be most effective and efficient. It is not only about dreaming of a better world—but about making it happen by combining entrepreneurial drive, innovation and the vision of a sustainable future. The issue remains that CSR is a multifaceted discipline requiring managers to assimilate concepts, which may be completely different from the areas in which they are trained. This should, however, not be seen as a barrier to sustainable development but rather an opportunity to broaden the talents of the workforce by encouraging new ways of think out-of-the-box ideas. The articles in this book were selected from experts spanning a wide array of industries from different countries around the world. The authors offer unique perspectives on stimulating topics such as awareness amongst female entrepreneurs in Nigeria, perspectives of upper management in Polish firms, Japanese CSR strategies and the social relevance of corporate initiatives, pragmatic approaches of CSR design principles in Scandinavia and many more. Not only are different countries and global regions represented, but the examples also draw from a diverse range of globally relevant industries. This book offers a clear deliberation on the past, present and future of CSR and how companies should be thinking to strive towards the achievement of the United Nations' Sustainable Development Goals. No matter how big or small your entrepreneurial dreams are, this publication offers wisdom that can help turn them to into realities that have positive impacts on your bottom line and the world around you.

Cologne Business School René Schmidpeter
Koln, Germany
April 2016

Preface

Within governments, industries, organisations and communities around the world, CSR continues to grow in prominence. Large, medium and small businesses increasingly develop CSR policies, national governments now expect more than revenue from companies operating in their countries, different industries are keen to adopt CSR rhetoric and approaches and communities look to CSR initiatives as a way to overcome localised and widespread, historical and contemporary problems that may or may not be connected to particular business activities.

Although the intentions and impacts of CSR crosscut domains and multi- and interdisciplinary approaches are acknowledged, ideas surrounding CSR and organisational practices continue to be compartmentalised. These factors contribute to CSR policies and activities being developed in specialised blocks which often fail to connect business planning with financial controls, legal advice with shareholder demands, community expectations with government sovereignty, supply chains with social value, environmental targets with different stakeholder demands and CSR goals with longer term strategic goals. Within organisations, the separation of CSR as a distinct set of ideas often dominates, isolated within detached programmes and rigid departmental boundaries. Governments and companies develop unconnected CSR programmes which Non-Government Organisations (NGOs) often deliver without robust, consistent corporate guidance and support. Hence, despite the growth in the field of CSR and enhanced ways of understanding about the concept and practices, fundamental weaknesses in both knowledge and practice remain. Considerable human and financial investments are being underutilised and frequently wasted. Consequently, instead of focusing upon disparate and disconnected projects, CSR needs to be positioned as interconnected processes of development and delivery. In short, there is a lack of joined-up thinking across organisations, government departments, NGOs and academics about how CSR programmes should be developed, implemented and measured.

Within academic literature, similar approaches can be noticed. Texts will tend to focus on distinct components that isolate CSR within business spheres or develop strategic approaches that detach CSR from wider corporate objectives and collaborative partners; governance becomes the primary function of monitoring and reporting while conversely explorations of stakeholders over-concentrate upon either shareholders or community demands. Hence, attempts to view and outline CSR as processes which interlink the corporate and community with a beginning, middle and end are lacking. The intention of this book is to build upon some of the existing strengths within the literature and to propose multidisciplinary insights into how processes of CSR can be more extensive, coordinated and outcome focused. The insights provided in this collection are expected to enable the phases of CSR to be outlined from ideas to impacts. In this collection, papers in the eleven chapters that comprise the book can help identify and explain what needs to be happening at the different stages of CSR incorporating the development, implementation and monitoring of strategies, policies and ideas.

It is hoped that the attempts made by these authors help to crystallise many of the impactful ideas CSR has brought on to the twenty-first century corporate scene. Many of the chapters in the book have pointed out that CSR has now moved on from ideas to demonstrable impacts which will help not only this generation but also future generations; we all need to continue to innovate in the area to make this happen.

London, UK
Aberdeen, UK
April 2016

Samuel O. Idowu
Stephen Vertigans

Acknowledgements

We wish to take this opportunity to express our gratitude to a number of people who have contributed to another successful addition to the literature on corporate social responsibility. We are grateful to all our contributors, fifteen of them, who have provided us with first-class research papers on the theme of the book.

We are also grateful to a number of our friends and colleagues who have either directly or indirectly contributed to successfully completing this edition of the book on *Corporate Social Responsibility*: *From Ideas to Impacts*.

We are grateful to our respective families for their forbearance during the process of ensuring the smooth coordination of all the activities that culminated into getting the book to a finished product.

Finally, our colleagues at Springer are acknowledged with the warmest regards possible for ensuring a first-class finish to the end product.

We apologise for any error or omission that may appear anywhere in the book; no harm or disrespect was intended to anyone.

Contents

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Farm animal welfare, FAW, sustainability, sustainable development, BBFAW, business case, benchmark, triple bottom line, supermarket, corporate retailers, environment, corporate social responsibility and moral case.

Adebimpe Lincoln holds an LLB and an LLM in Commercial Law from Cardiff University and an MBA in International Business and PhD in Entrepreneurship and Business Development from the University of South Wales. She also holds various teaching qualifications in Higher Education. She is a Fellow of the Higher Education academy and an Associate Member of the Chartered Institute of Personnel Development. She has over 12 years' experience in Higher Education and is currently an Assistant Professor in Saudi Arabia. She has held positions in Cardiff University, University of South Wales, and was a Senior Lecturer in Law at Cardiff Metropolitan University. She is the External Examiner for Undergraduate and Postgraduate Law and Professional Practice Programmes at Manchester Metropolitan University. Dr Lincoln has vast experience supervising research students. She has supervised a wide range of master's level research including MBA and LLM dissertations. She has also supervised students at doctoral level in the area of Entrepreneurship and Corporate Governance. Her research interests lie in the area of Female Entrepreneurship, Small and Medium-Sized Enterprise (SME) sector, Leadership practices of Nigerian Entrepreneurs, Corporate Governance and Board Diversity and Corporate Social Responsibility amongst Nigerian SMEs. She has published and presented a number of articles on SMEs and female Entrepreneurs in Nigeria.

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His research interests are the relationship between business and society, corporate social responsibility, social business and social innovation. He has published numerous books and papers. Recent articles in English include “The Emergent Process of Social Innovation: Multi-Stakeholders Perspective”; *International Journal of Innovation and Regional Development*, special issue: Innovative Entrepreneurship, Vol.4, No.3/4, 2012; and “Does Foreign Investment Matter? The Effects of Foreign Investment on the Institutionalisation of Corporate Social Responsibility by Japanese Firms”, with K. Suzuki and A. Kok, *Asian Business & Management*, Vol.9, No.3, 2010. He had contributed to the Encyclopedia of Corporate Social Responsibility, Springer, 2012, and the Dictionary of Corporate Social Responsibility, Springer, 2015. He also authored or co-authored 13 books in Japanese on the subject of business and society.

About the Editors

Stephen Vertigans is currently Head of School of Applied Social Studies at Robert Gordon University, Aberdeen, UK. His research interests include corporate social responsibility and political violence with particular interest at present in energy-related development in East and West Africa. In his publications, Stephen applies a sociological approach in order to try to enhance levels of understanding about the wider social, cultural and political processes which are instrumental in the success or failure of CSR policies.

Samuel O. Idowu is a Senior Lecturer in Accounting and Corporate Social Responsibility at London Guildhall Faculty of Business and Law, London Metropolitan University, UK. He researches in the fields of Corporate Social Responsibility (CSR), Corporate Governance, Business Ethics and Accounting and has published in both professional and academic journals since 1989. He is a freeman of the City of London and a Liveryman of the Worshipful Company of Chartered Secretaries and Administrators. Samuel is the Deputy CEO and First Vice President of the Global Corporate Governance Institute. He has led several edited books in CSR, is the Editor-in-Chief of two Springer's reference books—the Encyclopedia of Corporate Social Responsibility and the Dictionary of Corporate Social Responsibility— and is an Editor-in-Chief of the International Journal of Corporate Social Responsibility. He is also a Series Editor for Springer's books on CSR, Sustainability, Ethics and Governance. One of his edited books won the most Outstanding Business Reference book Award of the American Library Association (ALA) in 2016 and another was ranked 18th in the 2010 Top 40 Sustainability Books by, *Cambridge University*, *Sustainability Leadership Programme*. Samuel is a member of the Committee of the Corporate Governance Special Interest Group of the British Academy of Management (BAM). He is on the Editorial Boards of the International Journal of Business Administration, Canada, and Amfiteatru Economic Journal, Romania. Samuel has delivered a number of Keynote Speeches at national and international conferences and workshops on CSR and has on two occasions 2008 and 2014 won Emerald's Highly Commended Literati Network Awards for Excellence. To date, Samuel has edited several books in the field of CSR, Sustainability and Governance and has written four forewords to books. Samuel has served as an external examiner to the following UK Universities —Sunderland, Ulster, Anglia Ruskin and Plymouth. He is currently an external examiner at Robert Gordon University, Aberdeen, Teesside University, Middlesbrough and Sheffield Hallam University, UK.

Stages of Corporate Social Responsibility: An Introduction

The need for corporate entities to act and behave responsibly has been widely discussed in the literature for more than fifty years (see, for example, Bowen (1953), Heald (1957), Carroll (1979, 1991, 2003), etc.) A lot has been done with regard to mainstreaming CSR in what both corporate and individual citizens of the world do. Not only that, many of the operational practices of both corporate and individual citizens of our world have been positively transformed and reoriented as a result of those CSR actions we are all expected to take. Corporate leaders are at the hub of many of these actions, which means that for an entity to be CSR conscious and effective in its drive to be socially responsible it must have a good system of governance in place. Three key aspects of corporate social responsibility often discussed in the literature in terms of governance are abbreviated ESG—Environment, Social and Governance. Many corporate entities which operate in different industries place a lot of emphasis on these three key areas of responsibility (see, for example, the Equator Principle in the Banking and Financial Services sector which corporations that operate in this industry must take cognizance of if they are based in North America and Europe). There are several other examples. Good governance has now been recognised as an essential requirement for any organisation that aspires to survive and prosper in whatever industry they operate in. This has become the case since a lot of weak governance-related corporate collapses and failures due to bad governance and scandals which have occurred in recent years in many countries around the world. Not only that, the recent global financial meltdowns which occurred between 2008 and 2012 have equally made governance an important issue in CSR.

Halal (2000) in his contribution to the—*Evolution of corporate governance* posits that over a period which spans more than a century, three models of corporate governance have evolved between 1900 and present date. Halal (2000) argues that Corporate Governance originally evolved from the traditional "profit-centred model (PCM)" during a period which he called the "industrial age—1900–1950", it metamorphosed into another model he called the "social responsibility model

(SRM)" during the "Neo-industrial age—1950–1980" and now the model is moving towards what Halal (2000) refers to as collaborative working relations phase—the "corporate community model (CCM)"—the information age—1980—? Let us quickly explore Halal's (2000) three stages in the evolution of corporate governance as depicted in Idowu (2010).

The Profit-Centred Model (PCM)

Halal (2000) argues that the profit-centred model (PCM) was prevalent over a fifty-year period 1900–1950 when those at the helm of the governance of corporate entities, that is, managers, were expected only to focus on maximising the returns due to the providers of capital—shareholders with little or no regard for the adverse impact of their entities' actions on other stakeholders including the environment, ironically whilst working in collaboration with some of these stakeholders—Employees, Customers, Suppliers, the local Community, etc., in order to achieve this single objective of profit maximisation. The interests of these other stakeholders were subordinated to that of the shareholders; in fact, the law in some parts of the world assisted this to happen. Lee (2008) recounts how Henry Ford in 1917 stood in a Michigan courtroom (having been sued by the Dodge brothers who were shareholders in Ford Motor Company) defending his decision to reinvest Ford Motor company's accumulated profits on plant expansion whilst slashing the price of Model T vehicles in an attempt to demonstrate that corporations should encourage and build within their systems of governance some responsibility towards their other stakeholders. Lee (2008) argues that Ford's idea of business as a service to society was not only derided by the company's shareholders, but the court also granted the Dodge brothers' request for maximum dividends with no regard even to the strategy the company was intending to embark on for the benefits of the company's other stakeholders. The court's decision in this case supports Halal's (2000) conclusion of the profit-centred model which suggests that other stakeholders may probably benefit from the approach encouraged by the model, but their interests are considered as "a means to an end of profitability rather than goals in their own right". It is also interesting to note that the PCM appears to be in agreement with Friedman's (1962, 1970) argument that "business managers are only employed by shareholders to pursue only those strategies which maximise owners' profits anything other than that is pure socialism; after all businesses are not established for eleemosynary purposes".

The Social Responsibility Model (SRM)

The second period—the SRM period—falls within Bowen's (1953) *Social Responsibilities of the Businessman* book. It was during the time that Bowen (1953) attempted to theorise the relationship that should exist between business and society in terms of social responsibility. Halal (2000) suggests that the SRM was introduced in an attempt to correct some of the anomalies of the profit-centred model (PCM). Following Bowen's book, several corporations had opted to follow a different route from the PCM's period; they had identified the support and popularity the SRM was generating amongst some of the primary stakeholders, notably their customers and employees. The SRM according to Halal (2000) was basically about "doing good" if the entity aspires to simultaneously do well. Even though the SRM was an improvement on the ethos and doctrines propagated by the PCM, Halal (2000) argues that the two were mutually exclusive despite the interrelationship which should coexist between the two of them in order to bring about good governance. Each of them was focusing in opposite directions of the spectrum, thus preventing the enormous benefits which could ensue if they were linked in some way. This made their goals to conflict and being at odds with each other. Profit was important for the corporation to survive but doing good would inevitably reduce profit, as such the desire to want to pursue and see the model through was lacking. The model failed to pass the test of time. It was, therefore, inevitable and no surprise that a replacement to the model was sooner or later going to be necessary.

The Corporate Community Model (CCM)

By 1980, the missing link between corporation and society had become apparent. The role corporate governance was expected to play in linking corporations and society together had also become apparent to business and society. Halal (2000) calls the period beginning in 1980 the "Information Age" and describes the period as one which heralds a shift in focus from "capital" to "knowledge", since capital refers to tangible fixed assets which somehow wear out whether they are used or unused; knowledge, on the other hand, refers to intangible fixed asset which does not depreciate in value but appreciates in value over time when shared with others. It is this quality of "knowledge" that propels corporate managers to seek the sharing of information with their stakeholders since this course of action would contribute positively in meeting corporate strategies. The advent of the social media and information and communications technology (ICT) systems has made things better in this regard. Managers provide information to these stakeholders, and in return, they receive valuable information from them. The result of which would only bring about a better understanding, a decrease in the level of mistrust of management's actions by these stakeholders and a better opportunity to jointly collaborate in order to solve both our economic and societal problems. The CCM has continued to thrive since 1980 up until the present moment, and there appears to be an unwritten memorandum of understanding between the two sides—the community and corporations. The level of understanding has increased and a noticeable reduction in conflicts and frictions between the two sides now prevails. This perhaps explains why corporations are voluntarily following different strategies which are designed to help the environment and activate sustainable development actions. Taking similar actions to these some forty or fifty years ago would have been perceived as creating unnecessary increase in costs, thus reducing corporate profits and consequently shareholders' dividends.

Corporate Social Responsibility originally started as an idea with a seminal paper by Bowen (1948); it developed to a series of ideas through research and a series of debates and conferences. It has now transformed into a series of measurable impacts globally through concerted actions by all. Since 2000, the United Nations has put forward two sets of 15-year development goals—Millennium Development Goals 2015 and Sustainable Development Goals 2030. They are both designed to reshape our world in terms of social responsibility. The chapters in this book have successfully explored CSR from professional, conceptual and strategic dimensions and we hope you will increase your understanding of the field of CSR through your interaction with the volume.

A number of innovative impactful ideas have stemmed from CSR in different economies around the world. The literature is full of discussions about social entrepreneurship, social innovation, social intrapreneurship, microfinance, sustainable development and several other terms which have been coined in order to make our world socially responsible and at the same time sustainable for all inhabitants of this planet either now or in the future.

The eleven chapters which make up this book have successfully explored many of these issues. There are three Parts to the book. Part I on *Professional Corporate Social Responsibility* is made up of three chapters. Part II on *Conceptual Corporate Social Responsibility* is made up of four chapters. The final part on *Strategic Corporate Social Responsibility* is also made up of four chapters. Each chapter has addressed different issues that relate to the theme of the book. It is hoped that they meet your requirements with regard to how corporate social responsibility has transformed from what initially started as a series of *ideas* into a number of noticeable *impacts* globally.

London, UK Samuel O. Idowu
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Part I
Professional Corporate Social Responsibility

Lawyers, Accountants and Financial Analysts
Female Entrepreneurs
Senior Polish Managers

Chapter 1
The Rationales of Lawyers, Accountants and Financial Analysts in Shaping the EU Agenda on CSR

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1.1 Introduction: European CSR Policies and the Role of Transnational Professional Communities

Entering the field of CSR reporting, anyone could feel understandably lost in a 'forest' of alternative formulas, which are often used as synonymous: sustainability reporting; social and environmental accounting; ESG (Environmental Social and Governance) data; non-financial information; etc. Going deeper into this issue, differences arise between those who talk about transparency, disclosure or corporate accountability. For each of these 'entry points' into CSR reporting, multiple choices are available to law- and policy-makers, which would radically change the mode and content of CSR reporting regulation (cf. Bebbington & Gray, 2001; Buhr, 2007; Crouch, 2010; Everett, 2004; Mason, 2005; Morgera, 2009). Disclosure should be left to companies' discretion or mandated by law? What should a company report on? Which companies should be required to provide information? To whom managers should be held accountable for their decisions? How non-financial information can be verified? Adopting a depoliticised and under-socialised approach to this problem, until recently, most of the literature and the policy debate was taking for granted that we already know what this reporting entails. It was conventionally treated as a technical issue. However, more recently, the debate has become more explicitly 'political', particularly as law- and policy-makers have become increasingly active on this issue. There is a growing literature that goes beyond managerial and normative approaches and has revealed the co-existence of different, often competing, instances and interests (De Schutter, 2008; Dingwerth & Eichinger, 2010; Fairbrass, 2011; Kinderman, 2013). The study aims to contribute to this strand of studies on changes in CSR policies and politics,

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offering an original contribution, which focuses on the role of transnational professional communities in shaping the emerging field of CSR reporting regulation at the EU level.

The article is based on a series of interviews with key stakeholders and EU policy-makers made between 2011 and 2013 as part of the International PhD 'Renato Treves' in Law and Society. One of the key findings that emerged from the fieldwork was the crucial role played by three professional groups, particularly active in the EU debate on regulating CSR reporting: financial analysts; international professional accountants; and environmental and human rights lawyers. In particular, as for accountants, it highlighted the role of the Federation of European Accountants (FEE), in connection with the International Accounting Standard Board (IASB) and the 'Big Four' (KPMG, Deloitte, Accenture, and E&Y). As for activist-lawyers, it emerged the role of the European Coalition for Corporate Justice (ECCJ), a network of European NGOs, assisted in the elaboration of legal proposals by national organisations such as the Environmental Law Service, ELS (now Frank Bold), or SHERPA, a Paris-based association focused on economic crimes. Lastly, considering financial analysts, it emerged, in particular, the role played by the German DVBA and the European Federation of Financial Analysts (EFFAS). Building on these insights, the author has also systematically analysed the available secondary sources concerning the activities of these actors, related to the EU-level policy debate on CSR reporting regulation, during the period 2006–2013.

The analysis appears to support the research hypothesis. Following the outbreak of the global financial crisis, EU public authorities shown a willingness to talk about CSR regulation and, in particular, transparency and disclosure. This regulatory 'window of opportunity' triggered the interest of human rights and environmental activist-lawyers, normally unconcerned about changes in accounting rules, as well as financial analysts, usually rather 'detached' from social and environmental matters. This situation provoked the reaction of international professional accountants, who had progressively gained control over accounting rule-making from EU and national politics (Botzem, 2012; Dewin & Russell, 2007) and suddenly had to defend their autonomy and legitimate authority.

1.2 Theoretical Approach and Research Methodology

The theoretical approach deployed by this study is drawing from different contributions from accounting, sociology and political economy (e.g., Crouch, 2010; Dezalay & Madsen, 2012; Graz & Nolke, 2007). In particular, it builds on the work of Djelic and Quack (2010) on professions and transnational social networks. Namely, the study analyses professional accountants; activist-lawyers and financial analysts as Transnational Communities (TCs) of professionals. Adopting this theoretical framework, the article attempts to go beyond most of the literature, which has been overwhelmingly focused on different national 'models' (Gjolberg, 2010; Matten & Moon, 2008) or on certain stakeholders, e.g., employers; NGOs;

investors; etc. (Kinderman, 2013; Ungericht & Hirt, 2010), relegating professional communities to the role of individual experts. Djelic and Quack define TCs as social groups that emerge from mutual interaction across national boundaries, oriented around a common project or 'imagined' identity. This common project or identity is constructed and sustained through the active engagement and involvement of at least some of its members. Such communities can overlap in different ways with formal organizations. However, in principle, they do not need formal organization to be sustained.

This actor-centred approach perfectly fits the objectives of the study. The aim is to generate a number of insights on structural changes, while acknowledging the role of agency and reflexivity. In fact, it stresses that the opening up of new regulatory spaces (CSR reporting regulation) is likely to generate conflicts over the material and symbolic occupation of this space (see Djelic & Sahlin-Andersson, 2006). Furthermore, adopting this historical perspective (Djelic & Etchanchu, 2014; Djelic & Quack, 2007), it also shed light on cumulative progress of gradual changes, which took place between 2006 and 2013, at different levels of regulation and through varying modes of governance.

To investigate empirically the role of these TCs in the emerging EU regulation of CSR, the research applied a "process theory" perspective (cf. Langley, 1999; Pierson, 2004). This research methodology gives particular attention to time ordering of the contributory events as a way of capturing the key factors that explain the role of different actors in shaping policy and regulatory changes. Similarly to other recent studies aimed at empirically exploring changes in the transnational regulation of accounting (cf. Botzem, 2012), the research strategy consists in a "causal reconstruction", which links initial conditions to observable outcomes (cf. Mahoney, 2001; Mayntz, 2004). Rather than being an aprioristic decision, the selection of the key actors that have been empirically investigated has gradually emerged from the interviews (see Annex). Then, in order to strengthen the interviews' findings, the study has systematically assessed changes in the position of these key actors towards the EU proposed directive on CSR reporting. This further step has been accomplished through a content analysis of the main public documents and press releases the actors have issued between 2009 and 2014 on this issues. The document analysis has provided a dense understanding of cumulative institutional changes and the interplay between different agents in shaping the emerging regulatory field of EU CSR reporting. In particular, it has offered insights about the different language, arguments and ideas adopted by the three TCs of professionals. To this, it is worth to stress that the three competing rationales identified by this study—coming from Law, Accountancy and Finance—should be seen as kind of ideal types, representing historically and socially constructed institutional paths and competing 'traditions'.

1.3 The End of Voluntary CSR Reporting and the Role of Professional Communities

The years between 2006 and 2011 witnessed a U-turn in the EU regulatory approach towards CSR and, in particular, the central issue of transparency and reporting. In 2005, the Prodi Commission had prepared a draft CSR Communication, based on the work of the EU Multi-Stakeholder Forum on CSR (2002–2004), containing a number of policy measures. The newly assigned Barroso Commission rejected the draft and decided to move the mandate for elaborating a new text from DG Employment (EMPL) to DG Enterprise (ENTR), traditionally more 'business-oriented'. (Interviews # 9 and 12) In 2006, a weak CSR Communication was published, which was "agreed by the Cabinet directly with CSR Europe" (interviews # 2 confirmed by # 9). In response, the EU Parliament passed, by a large majority in plenary, a resolution urging the EU Commission to extend legal obligations to some key aspects of corporate accountability (European Parliament, 2007). The EU executive's reaction was to reaffirm that CSR is voluntary and should not be regulated at the EU level . As a result, all the NGOs decided to boycott and, eventually, abandon the EU Forum for CSR. As De Schutter sourly noted, "It is a sad but widely accepted truth that, today, the voices of business dominate the European concert." (2008: 236)

A game-changing moment in this policy debate took place in 2008, after the onset of the global financial crisis, when the public pressure on EU policy-makers to act against corporate irresponsibility triggered a shift from *whether* CSR reporting should be mandatory to *how* that could be achieved. The impact of the crisis emerges clearly from all the interviews carried out within the Commission and with various stakeholders, although opinions about the nature of the change it provoked might vary. **As pointed out by an experienced EU official: "in ways that we** cannot really appreciate or calculate", the financial crisis began to "re-open the question of the role of regulation generally", it began to make regulation "*a less dirty word*". (Interview # 12) From being a peripheral issue, suddenly CSR was "back on the EU agenda" (EurActive, 2010), yet in a different form. It became broader, dealing with new issues than just social and environmental protection, such as corruption, risk management and corporate taxation (interview # 8). It also became 'deeper', reviving fundamental questions about the ultimate purpose of business in society (interview# 10)**.** **I**n 2011, the EU Commission changed its position and announced that "will present a legislative proposal on the transparency of the social and environmental information provided by companies in all sector." (Commission, 2011: 15) The section will follow the intertwined "moves" of professional accountants; activist-lawyers and financial analysts acting and reacting to shape the emerging EU regulatory field of CSR reporting.

1.3.1 2008–2010: The Crisis and the Momentum for Mandatory CSR Reporting

For the scope of this paper, the period that immediately follows the outset of the crisis is characterised by four interrelated 'moves'.

First, organised civil society seized the momentum for a review of the inadequate EU strategy on corporate accountability. Their ongoing absence from the EU initiatives on CSR (MSF CSR and the 'Alliance for CSR') was delegitimising this process. Therefore, on April 17th 2008, DG ENTR Head of Cabinet and DG EMPL Deputy Head of Cabinet met a delegation from ECCJ. An agreement was reached, supported by MEP Richard Howitt. The Commission obtained a reconsideration of ECCJ participation in the MSF CSR, in return for a review of the EU approach on CSR. In February 2009, the agreement was fulfilled. The NGOs went back to the MSF CSR while the Commissioner conceded that "regulation and CSR, while being mutually exclusive, are dynamic and evolving", stressing, in particular, the need for talks amongst all stakeholders **about** transparency and non-financials (Verheugen, 2009). Meanwhile, ECCJ had prepared three legislative proposals, which were sent to the Commission and carefully examined, including one on transparency. As it emerged from an interview with ECCJ, this moment represented a remarkable shift in the attitude of the EU Commission, "because before they were not even thinking about any legislative proposal." (interview #12 with Delaygues, ECCJ)

From interviews and documents' analysis emerges the key role of activist-lawyers within the NGOs group of actors. They are the often 'invisible hands' that allowed a small organisation like ECCJ (two full-time staff) to match, in terms of quality, the activism of CSR Europe and Business Europe, enabling it to be engaged on different fronts. Quoting Delaygues, "We are a coalition using the strengths of our members. For instance, our Czech member [ELS now Frank Bold] is an environmental law service. It is an organisation composed of 30 lawyers. So, basically, the legal proposals have been developed by them." Furthermore, "we have as a member FIDH, the International Federation of Human Rights. Other proposals have been developed by the French platform called SHERPA, which is a lawyers' organisation." (interview # 12) Carefully reconstructing the key role of ECCJ in the post-crisis debate becomes apparent that they were trying to re-radicalising CSR, framing it as a matter of human rights protection and directors' liabilities. However, doing so, NGOs were entering into a field that is not merely legal and has been traditionally controlled by the accounting profession, with which ECCJ did not have any relations (interview # 12).

Activist-lawyers were not the only professional community that seized the momentum. The second move in this 'game' was by financial analysts. In effect, political reactions to the financial crisis and fear of tough regulation win over an increasing section of large institutional investors and asset managers to 'socially responsible investment'. In few months, the SRI community increased dramatically and seemed to reach the 'tipping point' (Eurosif, 2010; UN PRI, 2011). However, the lack of reliable KPIs was hampering ESG incorporation into mainstream investment analyses and decision-making. Here comes the opportunity for financial analysts to take the lead in shaping such framework.

On March 2008, the DVFA (the German Society of Investment Professionals) had launched a set of KPIs for ESG information. This was a peripheral initiative that, rather surprisingly, "gained significant attention in the capital market—both in Germany and internationally." (DVFA/EFFAS, 2009: 3) Only two months after its launch, it received an unqualified endorsement by EFFAS, the European Federation of Financial Analysts, and thus gained the status of an official EFFAS Standard. The framework was reviewed (April 2009; Sept 2010) and repeatedly proposed to EU policy-makers as the first major framework tailored for the needs of investors. This potentially set EFFAS in competition with accountants and the big players in the sustainability reporting arena (e.g., UNGC, GRI, CDP, ISO 26000) but also attracted the attention of the EU Laboratory on 'valuing non-financials', which gave cross-reference to EFFAS KPIs. EFFAS and the Laboratory started to collaborate, conducting focus groups with investment professionals and companies to test the framework, which was then subjected to public consultation. The final document of the Laboratory (CSR Europe 2010) provides striking evidence of the economic significance of ESG information and the limits of traditional financial accounting. It maintained that over 80 % of the market value the S&P 500 Index could not be measured in conventional accounting terms. Considering the value of the global stock market in 2009, the report concluded, this corresponds to an astonishing accounting gap of $40 trillion. Commissioner Verheughen was particularly impressed by this activism, affirming that the *Laboratory could contribute to "a quiet revolution in the way that enterprises can measure and communicate their non-financial performance." (EFFAS, 2009) This change in investors' perception and the rising interest of investors for mandatory ESG was confirmed also by the stronger position taken by EUROSIF (European Socially Responsible Investors). As ECCJ before, in February 2009, it officially sent three legislative proposals to the Commission, including mandatory CSR reporting for large listed companies* (*Eurosif, 2009).*

The third crucial move was taken by the EU Commission, which gradually shifted its position on regulating CSR reporting. Following Mr Verheughen's speech, between September 2009 and February 2010 DG ENTR organised a series of workshops open to *all stakeholders* on ESG reporting (adopting financial analysts' jargon). A key role in this process of internal adjustment of the Commission's positions on CSR was played by part of the financial sector, which added its weight to NGOs asking for detailed mandatory ESG information. (Interviews # 7; 10 and 15) As explained by another EU official (interview # 12), if you take the investment community out, you have NGOs versus business. "Very black and white". But "when you got some mainstream financial analysts saying, 'there is something in here that we need to know more about' or 'the information we get is not good enough.' *Then, the debate is, at least, triangular* [. . .] *Then it is not simply the NGOs' agenda. It becomes, if I am honest, an easier agenda to sell*." As confirmed by another EU officer: "we have considered the fact that investors are discussing this one of the key evidence that markets were demanding for increase transparency. (Interview # 11)

Significantly, in the conclusions of the EU Workshops is possible to read: "a decision not to change EU policy would send a strong political message to enterprises and other stakeholders that the European Union believes business-as-usual is desirable and feasible, whereas the multiple sustainability challenges we face demand fundamental change. [...] ESG disclosure is a political issue not just a technical issue. Tinkering is not a political message". (Commission 2009c: 3) However, while "the number of supporters of mandatory CSR had increased significantly and were close to reach a critical mass" (interview # 10), any formal initiative was prevented by the "need for a coherent approach" with the position taken by the same Commission only two years before. (Interview # 8) During this time, DG Internal Market (MARKT), responsible for EU accounting law, started "listening carefully and taking note of the rising importance of CSR" but opposed any legislative action. (Interview # 10) Things changed when the new Barroso Commission was appointed, on February 2010, and Michel Barnier, a French politician widely seen as having *dirigiste* economic view, was appointed as DG MARKT Commissioner. The issue of CSR/ESG reporting moved to his hands and he asked the Accounting and Financial Reporting Unit to work on the review of Article 46(1) (b) of the Fourth Company Law directive, which already contained a reference to voluntary disclosure of non-financial KPIs.

This gradual shift of EU policy-makers away from voluntary CSR reporting, and the activism of financial analysts and lawyers could threaten professional accountants' power. This had already been weakened by the financial crisis (off-balance sheet accounting and fair value accounting were identified as important causes) and the G20 (15 November 2008) had openly questioned the governance structure of accounting standard-setters, calling for immediate actions (G20, 2008: 6). Therefore, while the rise of mandatory CSR reporting could have represented a good business opportunity for accountants (e.g., Deloitte & the Economist Unit, 2004; KPMG, 2008; KPMG et al., 2010, 2013), the question was whether they were in a position to take it. In fact, moving too far away from financial accounting (e.g., human rights due diligence, carbon disclosure, water consumption) could cast doubt on their professional authority and expertise.

The most explicit response to this challenge came already in December 2008. The FEE (Federation of European Accountants) published a discussion paper which was aimed at sending out three messages (FEE, 2008). First, sustainability reporting is a matter of *accounting standards* and EU Accounting Law. The document mentions the existence of International Accounting Standards (IAS) that are already able to address the problem and stresses that a requirement had been already introduced in 2003 by the Modernisation Directive and the focus should be on strengthening it. Secondly, on the contrary of ECCJ or EFFAS, accountants' demanded for 'guidance' from public authorities, *not yet regulation*. Thirdly, as regards the content, references to the environment or human rights that could be seen in both ECCJ and EFFAS' documents are almost accidental. The key problem is identified in the lack of 'materiality' and 'relevance' of existing sustainability reporting. On January 2009, FEE published a policy statement on the contribution of the profession to sustainability. The document invites “accountants within and outside organizations [. . .] to help operationalising this general concept at the level of strategy formulation, process improvement and performance measurement” building “on the broad and important role it [the profession] already plays regarding the relevance and reliability of financial and other information.” (FEE, 2009) On 29 April 2009, FEE and EUROSIF organised a roundtable, hosted by the European Parliament, which was later used by DG ENTR as a model for the EU Workshops on ESG reporting. Significantly, the speakers featured DVFA Managing Director, Ralf Frank; the CEO of the GRI; Pedro Ortùn, Director of DG ENTR; and other representatives from companies and institutional investors. It stands out the absence of any voice from civil society. The ‘call for action’ issued at the end of the conference by the two organisations is motivated by “the current climate of financial and economic crisis” but does not contain any precise reference to social and environmental matters. It translates the problem into a question of “helping to restore trust in business.” (FEE/EUROSIF, 2009)

FEE/Eurosif roundtable set the tone for a much more ambitious project aimed to establish a closer dialogue on this issue between accountants, financial analysts and large institutional investors. Following a meeting in London (December 2009) hosted by The Prince of Wales’—to which intervened some of the key private standard-setting bodies both in financial and non-financial reporting—a new regulatory initiative was launched: the International Connected Reporting Committee, soon renamed International Integrated Reporting Council (IIRC). Its far-reaching objective was to create an “internationally accepted” framework able to integrate financial and non-financial information in one concise and material communication. The reins of the IIRC were taken by Paul Druckman, Chairman of FEE Sustainability Policy Group and former President of the ICAEW (Institute of Chartered Accountants in England & Wales).

1.3.2 2011–2013: Regulating Non-financial Disclosure

The year 2011 marked a new phase in the EU debate on CSR reporting regulation. Following a public consultation (November 2010 and February 2011), which attracted over 300 responses (Commission, 2010), in April 2011, the EU Commission officially announced that “will present a legislative proposal on the transparency of the social and environmental information provided by companies in all sectors.” (Commission, 2011: 15) The document stresses investors’ power and business’ freedom. The measure is meant to use “the *tremendous financial lever* of the European asset-management industry (EUR 7000 billion in 2009) [. . .] to promote the development of *businesses which have chosen* [. . .] to pursue objectives of general interest or relating to social, ethical or environmental development.” (Commission, 2011: 15 emphases added) Notably, this is part of a broader transnational phenomenon that had seen, in the lapse of few years, the emergence of "an increasingly dense regulatory network of international and national standards, codes and guidelines as well as legislation for sustainability reporting." (KPMG et al., 2010: 4) As mentioned above, at the EU-level, a key role should be attributed to the political leadership and ambition of the new DG MARKT Commissioner, Michel Barnier. According to a senior EU official, the inclusion of non-financial reporting in the Single Market Act (SMA) "was a political priority for the Commissioner." (Interview # 10) Another EU official confirmed that the shift in the EU policy debate on CSR reporting "can be reduced to two words: Barnier plus the financial crisis." (Interview #12) An expert group was set up, to which participated some key figures from activist-lawyers (Filip Gregor, ELS/ECCJ); analysts and the financial community (Claudia Kruse, APG/EFFAS/ICGN) as well as various international accountants (representatives from PwC, IIRC and FEE) (July 2011). On October 2011, the announcement was reiterated in the CSR Communication, which also outlined a new definition of CSR, coherent with the intent to overcome the old voluntary approach. However, while the SMA had pledged a proposal "by the end of the year" (SMA), this only arrived in April 2013 and, as compared to the anticipation that existed in the previous phase, was rather modest (Monciardini, 2014).

Instead of integrating non-financial KPIs in the existing financial strategy and operations of large companies, the EC proposal required companies to write just a statement on their policies, results and risk-related aspects as regards four broad areas of CSR: social and environmental matters, human protection and anti-corruption. This approach re-enforced the distinction between financial and non-financial disclosure, setting CSR aside from corporate governance and business strategy. Companies were suggested an open list of existing international and national frameworks, without imposing them any specific set of detailed KPIs—as both investors and NGOs had been demanding. In so doing, the EU lost a precious opportunity to shape the global regulatory debate and made comparability impervious. Furthermore, companies could decide not to disclose information in one or more of these areas, explaining why that was the case (report-or-explain). No mechanisms to verify such information were introduced, undermining the reliability of the statement. Overall, while the scope of the proposal was ambitious—the Commission estimated that about 18,000 large companies would have been affected, across all sectors—the EC proposal fall short of its objective to enhance information's quality.

Why has the Commission presented such a weak legal draft? What prevented the EU from reaching, after so many years of debates, a forward-looking, sound and strong outcome? According to my analysis there are three main reasons. Certainly, as pointed out by Kinderman (2013), we should consider the firm opposition of European enterprises, in particular SMEs, led by the German employers' associations (BDA/BDI) (interviews # 10, 11 and 12). As confirmed by various sources (interviews # 11 and 12; Howitt, 2014; Kinderman, 2013), this position was supported by the German Cabinet of Angela Merkel, making the adoption of a far-reaching reform by the EU Council extremely complicated. Secondly, the financial crisis had turned into a sovereign debt crisis. Therefore the regulatory priorities and power-struggles had shifted. If by 2010 mandatory CSR reporting could be seen as mirroring a stronger position of the state in its regulatory role, by 2013 governments were seen again as ‘the problem’. Imposing rules on business was politically difficult. As synthesized by a top EU officer, at the beginning they “wanted to go far, to do something that really make a difference”, then “overtime and working with other DGs”, they “realized that you cannot go too far. Otherwise you would have a backlash with the industry, with the associations, with some Member States.” (Interview # 10) However, there is also a third element, perhaps less apparent, related to what Dezalay (1991) called ‘territorial battles and tribal disputes’ that are the subject of this article. The accounting profession was able to ‘neutralise’ this potentially threatening development and effectively push back activist-layers and financial analysts, exploiting its strategic positions within the accounting regulatory field.

During this phase, the accountants’ community was able to ‘play’ multiple identities: independent external experts (FEE, PwC, IIRC), private and public standard setters (IASB, EFRAG) and, in particular, EU policy-makers (Unit F3, DG MARKT). On the other hand, according to the interviewees, activist-lawyers’ and financial analysts had only external and limited access to the work of DG MARKT (interviews # 6; 7; 15). The fact that the file was assigned to the ‘Accounting and financial reporting’ Unit (instead of, for instance, the Corporate Governance and CSR Unit) was extremely consequential for the future legislative proposal unveiled in April 2013. As it emerged from the fieldwork, this created a paradoxical situation. Most of the Unit had a professional and educational background in financial accounting. Therefore, they lacked a good understanding of social and environmental matters and their relevance. As one officer admitted “we are not CSR experts.” (Interview # 10) The issue was new to this Unit, which only in 2010 started to “build up some knowledge” on it (interview # 10). Drawing on the accounting mindset, the word CSR or even ESG was shelved. The proposal refers to ‘non-financial’ disclosure, a non-definition that reveals the discomfort of financial accountants in dealing with something *else* than financial information, something broad and hard to define (Monciardini, 2013).

Since the beginning, the Unit decided to rely on existing reporting frameworks, rather than developing an EU set of KPIs, because “there is no need to re-invent the wheel” (interviews 10; 11; 12). However, DG Environment (ENV) assessment for a parallel, similar initiative had reached exactly the opposite conclusion (interview # 14). Because of the lack of standardized a reliable methodologies for reporting, the EU should proceed to a harmonization of the fragmented regulatory landscape. Otherwise, “claims and reports would continue to vary in ambition (i.e., quality of information and scope) and would not allow any sort of comparison or benchmarking.” (Commission, 2012) In effect, according to the interviews, DG ENV would have preferred “a detailed and rather prescriptive regulatory approach to ESG disclosure”, closer to a mandatory version of the EMAS scheme. In the Impact Assessment of the Communication ‘Building the Single Market for Green Product’ (Commission, 2012), DG ENV services also stated that DG MARKT’s initiative “will not propose a detailed methodology for reporting this information, nor specify what elements of environmental performance need to be reported on. Without further intervention on these aspects, the reliability, comparability, relevance, and completeness of the environmental information would fall short of stakeholders' needs, particularly investors [...]" Simultaneously, outside the walls of the EU Commission, the accounting profession became very active in creating this reporting framework that would fit the void described by DG ENV. During this phase, the IIRC was able to gain the support of all the main private standard-setters in the field of financial and non-financial accounting (interview #19). However, in FEE position papers the word 'sustainability' or 'social and environmental reporting' was substituted by their 'own' concept of < IR > Integrated Reporting, as developed by the International Integrated Reporting Council (IIRC). Significantly, EFFAS soon decided not to continue developing its own ESG standards, joining the efforts of the IIRC. In effect, the final version of the International < IR > Framework, issued in 2013, confirms also the influence of financial analysts and the financial community. While initially the Framework was designed to vehicle the "information needed by investors *and other stakeholders*" (IIRC, 2011: 8), the final version refers only to the needs of capital providers (IIRC, 2013).

Overall, as compared to the documents prepared by the Commission between 2008 and 2010, these prepared by DG MARKT (expert group, impact assessment, legislative proposal) tend to reduce CSR reporting to a technical issue, not a political one. The arguments for introducing this reform are based on "suboptimal allocation of capital" and improving "company performance", "while limiting any undue administrative burden" for business (IA, EU proposal). This rationale could be applied to financial accounting reforms. Human rights protection and the reduction of carbon emissions are treated as 'market failures' and a matter of 'market efficiency' while transparency becomes an end in itself, rather than a means to an end.

After the Commission unveiled its proposal (Commission, 2013), leaving almost everyone disappointed (EurActive, 2013), the battlefield moved to the Trilogue negotiation with the EU Parliament and the Council. The Parliament had been traditionally supportive of strong mandatory CSR reporting and had recently adopted two resolutions acknowledging the importance of CSR and transparency (European Parliament, 2013). At the Parliament, activist-lawyers could count again on strong relations to influence the legislative process. On the other hand, at the EU Council some Member States, in particular Germany, were determined to further weaken the reform or block any attempt to strengthen it. Finally, an agreement was reached on March 2014, which led to entry into force of the directive on the 6 December 2014. The Council obtained a considerable limitation of the directive's scope: the number of business entities affected by the directive dropped from 18,000 to 6000. On the other hand, the Parliament obtained the inclusion of information about supply chains' due diligence processes. Furthermore, it managed to limit the application of the so-called "safe harbour clause", which allows companies to avoid disclosure if the information would be seriously prejudicial to the entity's commercial interests. Two issues that had been raised by ECCJ activist-lawyers (ECCJ, 2014). Notably, it was also introduced a review mechanism, which will oblige the Commission to produce, by the end of 2016, non-binding guidelines for reporting (including relevant KPIs). By 2018, the Commission will also have to publish a detailed report on the directive implementation accompanied, if appropriate, by legislative proposals.

1.4 What Counts? Accountancy, Finance and Law's Competing Regulatory Rationales

In order to understand the different definitions of CSR disclosure projected by financial analysts, activist-lawyers and international accountants, one should consider the underlying rationales that underpin them, relying on Finance, Law and Accountancy knowledge and values. In effect, according to Djelic and Quack (2010), the way TCs affect governance is by creating transnational 'problem spaces', where individuals and organizations can meet and collaborate. Through discussion and, sometimes, conflict, preference transformations are framed and compromise solutions are found, leading to a continuous (re)elaboration of 'shared ideas'. Each TC has therefore elaborated a different view of CSR reporting's content, purpose and regulation. Their distinct views even led to the adoption of different terms to define it: non-financials; ESG; social and environmental reporting.

Traditionally, international accountants had a defensive position towards CSR reporting. Although part of the profession has been working on this issue for decades, this elaboration has been isolated from the principles and practices of mainstream business reporting. Unlike financial information, 'non-financials' are often made of qualitative and narrative information. Therefore, accountants face the difficulty—if not impossibility—of communicating it in a concise, reliable and comparable manner. This standing could be synthesized by the idea that 'this is not accounting'. Historically, professional accountants had a key role in keeping 'non-financial' elements out of the multi-level regulatory framework for business reporting (IAS, EU and national requirements). In the 1970s, across Europe, there was a vibrant legislative debate about social reporting, which was sidelined starting from the 1980s as the focus shifted to financial accounting standards only and their harmonization, seen as a pre-condition for global markets' integration (Monciardini, 2013). As financial accounting rule-making became increasingly privatized, transnational and complex, for international accountants became particularly important "the establishment of clearly limited jurisdictions in which professional dominance is exercised." (Botzem, 2012: 47) Social and environmental *exclusion* from accounting was functional to the establishment of this power strategy, aimed at the monopolization of responsibilities and competencies. Social closure then was achieved via education, internal control and professional norms and values strictly focused on financial information. This is reflected in the language used by the profession in describing social and environmental reporting as 'what-it-is-not': non-financial information. This socially and historically constructed distinction financial/non-financial played a key role as a structuring principle for the emergence of an autonomous professional field translated into rules and practices. It became 'natural', up to the point that accountants tend to take it for granted.

This position on CSR reporting regulation has been very consequential: CSR information was left out of financial disclosure standards and principles. Companies can communicate it on a voluntary basis, choosing amongst various existing reporting frameworks. The letter prepared by the FEE for the 2011 EU public consultation advices against establishing requirements at a national or European level on social and environmental reporting. "Instead, the European Union should contribute to the development of global standards [...]." The letter also calls the attention to the problem of avoiding "any risk of 'boilerplate' text in reports to investors, we should ensure that financial statements reflect the most relevant information." (FEE, 2011: 3) Similarly, after the publication of the EU Commission legislative proposal, the President of ICAEW, Sleigh-Johnson, warned: "If the information is not bespoke and of relevance to investors, it will just lead to clutter and 'boilerplate'." (EurActive, 2013) According to this rather narrow view, non-financial information should be considered only if they fit into the characterization used for financial disclosure.

Activist-lawyers offer a completely different rationale for mandatory CSR reporting, which is related to transparency and the 'right to know' about the impact of corporations on society and the environment. They relate social and environmental accounting *raison d'être* to corporate accountability and the concern over the power and influence of corporations on "every aspect of our lives: water, gas, news, environment, schools and even unborn babies." (*Mitchell and Sikka, 2005*) As Gray pointed out, "accountability is based on the principal of *rights to information*—rights which derive from a number of sources: legal, quasi-legal, moral and so on." (2005: 3) According to this view, the state has the duty to protect and provide access to remedies, while corporations have the responsibility to respect, in particular, the environment and human rights (cf. Mares, 2011). Stressing transparency as a tool for corporate justice means bringing accounting standard-setting bodies back into the domain of law. In other words, CSR reporting becomes part of the construction of a broader legal framework, which subordinates relevance to investors and markets' efficiency to the need of addressing urgent human and environmental challenges. In particular, carbon disclosure and transparency on working conditions in MNEs' supply chains stand out (Augestein, 2010; ECCJ, 2008; SOMO, 2013).

The use of legal arguments by activist-lawyers can be retrieved in several documents (e.g., CORE, 2011; ECCJ, 2010; FIDH, 2010). For instance, "Information is essential to uphold human rights because it helps to prevent abuses, hold companies to account and seek remedies. 'Abuses always happen in the dark'. Disclosure can also prevent abuses by enhancing the participation of people whose rights might be affected. *The right to know is also a human right*. Courts need information in order to function, and in this way ESG disclosure is linked to provision of remedies." (Commission, 2009b) In its reply to the EU Public Consultation, ECCJ argued: "It is frequently reported that core international labour rights are being abused in these factories. However, companies rarely disclose who are their suppliers which makes it difficult if not impossible to track the goods and for consumers to learn in what conditions the products have been manufactured. Likewise, claims of such companies to protect workers' rights are rendered meaningless when the workers themselves are unable to access such protection." (2011: 3) In these documents, accountability becomes a means to redefine *corporate responsibilities*, often translating them into *managers' liabilities*. For instance, one of ECCJ publication highlights that, according to the Seventh Company Directive, Member States are required "to hold the management of companies liable for the fulfillment of reporting duties and to establish effective and dissuasive penalties." (ECCJ, 2010)

As maintained above, activist-lawyers were not the only ones to contend to professional accountants the control over the emerging field of what they would call 'ESG information'. Their rationale for mandatory ESG reporting represents a 'blow' to professional accountants' argument against regulating this matter. They highlight that, currently, financial statements only capture a small and declining fraction of the market value of large listed companies. It has been estimated that, until the 1980s, financial reports used to account for 80 % of the market value of the S&P 500 Index. In the 1990s, this percentage had already decreased to 55 % and currently it represents less than 20 %. In other words, non-financial information would account for over 80 % of the value of listed companies (cf. Ocean Tomo, 2010). While only part of this value can be captured looking at ESG data, there is a growing consensus and some convincing empirical evidence that more 'sustainable companies' tend to be better managed (see Bauer & Hann, 2010; Deutsche Bank, 2012; Kruse & Lundbergh, 2010). As a consequence, they also attract a better class of employees, are better able to manage risks, can count on stronger visibility and better reputation and, in the long-term, perform better. Therefore, financial analysts are increasingly interested in ESG information that could help to address this huge gap between book and market value.

The final document produced by the EU laboratory "Valuing non-financial performance" organized by EFFAS offers striking evidence of the strategic economic relevance of non-financial and ESG data. In particular, it maintains that "the real story is the growth of future earnings as the primary determinant of company market value. This is the projection of current or immediate past performances into the future." However, it adds, future earning streams are "by their nature, difficult to quantify and control. This also affects the ability to recruit and retain people with skills and knowledge to maintain and develop products and services and drive innovation. It similarly impacts the loyalty of customers to brand and their willingness to forsake new or more innovative competitors. It impact on the continued supply of resources of the right quality and at the right price. The management and mitigation of risk will be affected. Reputation management and avoidance of regulation impingement on license to operate will be impacted." (CSR Europe,

2010) Most of these information concern ‘immaterial’ and ‘non-financial’ assets that are largely absent from the narrow approach taken by the IAS. EFFAS 2009 Conference on ESG, significantly titled *ESG Mainstreaming: Looking for something that has already found us?* testified this change of perspective. “Demanding proof for the effects of good ESG performance on the bottom line of corporates has been a volkssport in capital markets for many years.” Now “*we simply assume (or for agnostics: pretend) that a corporate managing, measuring and disclosing ESG is the default*. “As materiality is not objectively but subjectively determined, this emerging belief and assumption appear as the normative foundation for a new approach to measure value creation that could supersede the financial/non-financial divide (see Porter & Kramer, 2011).

The response to the threat posed by activist-lawyers and financial analysts to the control of professional accountants over their ‘territory’ was twofold. On the one side, as we have argued, they were able to channel the EU directive within the existing financial accounting legislative framework. Mandatory CSR reporting was limited to a ‘statement’ that listed companies have to prepare on a report-or-explain basis, without any verification mechanism. On the other hand, the profession had a crucial role in setting up an ambitious internationally accepted framework for integrating financial and non-financial information: the 2013 International < IR > Framework. Accountants hoped that the launch of this private and transnational global regulatory initiative would allow them to lead and control this transformation.

The launch of the < IR > Framework marks a dramatic change in the position of mainstream professional accountants. They acknowledge that the existing reporting model is too long, backward-looking, disconnected and unable “to keep pace” with changes in value creation and with societal and environmental concerns. (IIRC, 2011) Therefore, they would accept the prospective of going beyond financial information, integrating different strands of reporting. This shift is presented as “an idea whose time has come.” (King, 2012) The aim of the IIRC is to “forge a global consensus on the direction in which reporting needs to evolve” providing “a clear, concise picture of performance, impacts and interdependencies.” (IIRC, 2011: 7 and 5) However, rather than integrating, the final < IR > Framework (IIRC, 2013) expands the current rationale for financial accounting to new terrains, including social and environmental information. Crucially, it subordinates social and environmental issues to a materiality test, sacrificing stakeholders’ instances to these of capital providers only. So doing, international professional accountants ‘conquer’ new space in the emerging areas of ESG reporting. They alienated NGOs and civil society but gained the crucial support of financial analysts and the financial community.

1.5 Conclusions: Towards a Reflexive Sociological Approach

The article has provided an exploratory analysis of the competing professional claims and underlying rationales of international professional accountants, financial analysts and activist-lawyers as regards the content and mode of the EU emerging regulation of CSR reporting. Drawing on Djelic and Quack (2010), it has deployed a reflexive sociological approach to this subject matter, considering these three professional elites as 'transnational communities' (TCs). The findings of the fieldwork and the documents' analysis suggest that the 2008 financial crisis overturned the original EU Commission standing for voluntary CSR, in particular, in the key area of transparency and disclosure. This regulatory window of opportunity attracted the interest of human rights and environmental lawyers as well as financial analysts, normally unconcerned about the definition of accounting standards. On the other hand, it provoked the reaction of professional accountants that managed to maintain, for the moment, their control over the field of business reporting regulation.

Adopting this reflexive sociological approach to CSR regulation, the researcher has been able to trespass some of the lines that characterise the current literature. In fact, one of the consequences of the growing complexity and expansion of CSR reporting is that the literature struggles to deal with such an interdisciplinary and multi-layered subject, situated at the crossroads of various disciplines. Furthermore, there is the complexity of studying a transnational regulation, which is transforming *ad infinitum* making the boundaries of such subject institutionally, territorially and content-wise dynamic (Madsen, 2006; Zumbansen, 2011). Therefore, any comprehensive exploration of CSR has to be adjusted to the indeterminacy of the research object, producing cross-pollination between its many components, without being hampered by pre-defined distinctions between 'social' and 'economic'; 'financial' and 'non-financial'; 'mandatory' and 'voluntary'; etc. A reflexive sociological 'polycentric approach' contains untapped intellectual resources to explore undergoing transformations, not excluding any of the co-producers of these changes. This approach could be particularly relevant as it reveals that different rationales for CSR reporting would have major social, economic and environmental implications.

As for future researches the study suggests that the 'intrusion' of activist-lawyers and financial analysts is turning the field of CSR reporting between two 'opposite poles': transparency and materiality. As stated in one of the documents of the EU Workshops on ESG disclosure (Commission, 2009a: 4), "Although they are not mutually exclusive, transparency and materiality correspond to different stakeholders with different constituencies and agendas, each legitimate in its own right, and they can sometimes be conflicting. Transparency values the disclosure of data for its own sake, sometimes as a question of principle. Materiality seeks to define which data is actually important in terms of influencing the decisions of the intended recipients of the information." It is the role of politics and public authorities to find a middle ground between the two positions in the regulation of CSR reporting. It is clear that any equilibrium between the two principles will be the outcome of struggles about the autonomy of business from external—social and political control. However, this tension could be potentially creative of a new regime of "economic governance—not just corporate governance, though it has implications for that, but also governance of the economy and even of society at large." (Maclean & Crouch, 2012: 1)

Annex

See Table 1.1.

Table 1.1 Annex list of interviews

#	Name	Organisation	Date
1	EU official[a]	EU Commission	22/04/2010
2	EU official[b]	EU Commission	30/04/2010
3	Bertazzi Pietro	Global Reporting Initiative	08/04/2011
4	Iansen-Rogers Jennifer	KPMG Sustainability, The Netherlands	28/04/2011
5	Walkate Harald	Aegon Asset Management (VP)	02/06/2011
6	Claudia Kruse (phone)	APG /financial analysts/ICGN	06/06/2011
7	Delaygues Yolaine	ECCJ (NGO)	17/06/2011
8	EU official	EU Commission	26/06/2012
9	EU official[a]	EU Commission	23/07/2012
10	EU official	EU Commission	25/07/2012
11	EU official	EU Commission	30/07/2012
12	EU official[b]	EU Commission	08/08/2012
13	Mortier Gaetan	SRI expert (former MSCI)	07/09/2012
14	EU official	EU Commission	03/11/2012
15	Passant François	EUROSIF	22/01/2013
16	Dolan Carl (phone)	Transparency International (NGO)	24/01/2013
17	Norberg Claes (phone)	BusinessEurope/Accountant	30/01/2013
18	Capron Michel (email)	Paris University/ECCJ/Lawyer	01/03/2013
19	Mio Chiara (phone)	Venice University/FEE/Accountant	05/04/2013

[a,b]Out of 19 in-depth, semi-structured, élite interviews, two EC officers (# 1; # 2) have been interviewed twice (also # 9; # 12), because of the relevance of their information. This allowed the researcher to better assess changes over time in the perception of CSR reporting regulation within the EC. It also allowed the verification of information that had emerged progressively from the fieldwork. In four cases it has been impossible to arrange a meeting for an interview in person. Therefore the interviewee has been reached by phone. In only one case (Prof. Capron), the questions/answers have been exchanged by email

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Chapter 2
Corporate Social Responsibility in Nigeria: Drivers and Barriers Experienced by Female Entrepreneurs When Undertaking CSR

Adebimpe Lincoln

2.1 Introduction

There is now growing recognition of the importance of socially and environmentally responsible enterprises. Businesses are increasingly seen to address and inculcate CSR initiatives into their strategies. Much of the scholarly discussions on CSR have focused exclusively on Multinational Corporations (MNC's) and other large corporations (Coppa & Siramesh, 2013) *relatively little is known about CSR practices among Small and Medium Sized Enterprises in general and female entrepreneurs in particular (Friedman & Miles,* 2001*; Jenkins,* 2004*; Lincoln, Adedoyin, & Croad,* 2015*)*. Furthermore, while there is a developed body of literature on CSR in Western countries, the concept remains elusive within the African continent (Muthuri, 2012). Unanswered questions remain with regards CSR within the African milieu. Consequently there is a need for more research in order to better understand CSR in African countries. It is argued that the conclusions drawn from studies which have their focus primarily in Western countries do not necessarily apply to the situation in Nigeria which has peculiarities that distinguish it from the outside world generally and from Western countries where many MNC's and large corporations originate (Lincoln, Fields, & Adedoyin, 2013). This research contributes to the growing body of literature on CSR in Africa by examining the drivers and barriers experienced by female entrepreneurs when undertaking CSR. In particular the study seeks to provide answers to the following questions:

1. What CSR activities do Nigerian female entrepreneurs adopt?
2. What are the primary drivers of CSR among Nigerian Female Entrepreneurs.

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3. What are the primary Barriers affecting Nigerian Female Entrepreneurs adoption of CSR activities.

2.2 Literature Review

Corporate Social Responsibility is often considered as a firm's obligation for its economic, legal, ethical and philanthropic activities (Carroll, 1991). This view was echoed by McGuire (1963) when he asserts "corporations have economic, legal obligation and responsibilities to society at large which extends beyond these obligations" (p. 144). Various authors state that CSR incorporates compliance with the law, philanthropy, and responsibility in the marketplace to various stakeholder groups who can affect or are affected by the achievement of the organisations objectives (Freeman, 1984, p. 46). Stakeholders are broadly defined to include investors, consumers, suppliers, employees, the local community and the environment. The theory posits that mechanisms should be adopted to ensure that management safeguards the rights and interests of stakeholders and that management are accountable for the generation and distribution of wealth in firms (Aguilera, Filatotchev, & Gregory Jackson, 2008). While stakeholder theory conceptualises ways that managers might balance their responsibilities to shareholders and legitimate stakeholders, the reconciliation of such competing 'stakes' can be difficult (Carney, Gedajlovic, & Sujit, 2011). Various academics and researchers have put forward divergent classifications in a bid to gain deeper insight into stakeholder identification and management. For example, Freeman (1994) posits three main stakeholder taxonomies. The first is the stakeholder enabling principle, which is that firms are managed in the interests of stakeholders, such as employees, financiers, customers, employees and communities. The second is the principle of director responsibility. This means that firms have the legal authority and moral responsibility to use reasonable judgment to identify and distribute rights and obligations among stakeholder groups. The third is the principle of stakeholder recourse, which means that stakeholders are provided with a platform to bring actions against directors who fail to discharge the duty of care owed to the firm and stakeholders (Freeman, 1994). Stakeholder theory seeks to strike a balance between maintaining the economic and social goals of the firm and its stakeholders, while also encouraging the efficient use of resources, accountability in the use of power and stewardship by those in control of the firm (Lincoln et al., 2015; Okeahalam & Akinboade, 2003). Therefore, maintaining harmonious relationships with stakeholders should be of high strategic importance to the firm as this determines its success (Donaldson & Preston, 1995).

CSR is important to all firms large and small and businesses have the responsibility of aligning diverging interests of stakeholders by effectively adopting appropriate strategies. The CSR literature has traditionally focused on large firms and MNC's; consequently, very little empirical research is available on CSR in small firms. SME approach to CSR differs significantly from the approach adopted by larger firms. This is due in part to the nature of the SME firm and associated characteristics such as size, sector and the SME owner/managers orientation towards profit (Braun, 2010). For example Sweeney (2007) notes that in small firms' ownership and management are not separated as such control remains in the hands of the owner. It stands to reasoning thus that SME's acceptance of CSR is largely a factor of the personal attitudes of the owner/manager. Furthermore, SME owner/managers due to the informal hierarchical structure of the firm are more suited to fostering effective networking, interpersonal relationships and cooperation based on trust of stakeholders and legitimacy (Fassin, 2008; Lepoutre & Heene, 2006; Murillo & Lozano, 2006; Russo & Perrini, 2010). Furthermore Quinn (1997) asserts that the SME owner/managers personal values, ethical as well as moral convictions to an extent impact CSR strategies adopted in light of the lack of separation between ownership and control of the business. Murillo and Lozano (2006) and Fassin (2008) also suggest that CSR advancement among SME's is linked to the owner/manager and their value system. Accordingly, Spence (2004) posit that SME entrenchment within their communities and their close nexus to their customers and local community creates a situation whereby the SME owner/manager feels morally obligated to engage in a socially responsible manner. Accordingly Murillo and Lozano (2006) and Russo and Perrini (2010) suggest that the social capital theoretical perspective closely aligns with SME's approach to CSR. SME entrenchment in the local socio-economic environment, their interaction with clients and employees in the local communities make them key contenders where CSR is concerned since a good reputation is essential to achieving competitive advantage (Murillo & Lozano, 2006; Lee, 2008; Perrini, Russo, Tencati, & Vurro, 2009). SME's are also more aware of local practices, associated risks and emerging social issues within their local communities than large corporations. Consequently SME's are more likely to conduct their business in a socially responsible manner, respond to social and community needs and engage in activities, which take into consideration key stakeholder interests (Giovanna, De Massis, & Lucio, 2012).

In-spite of the associated benefits, which can be reaped from SME engagement in CSR, related activities evidence shows that many SME's are unaware of CSR initiatives (Jenkins, 2006). A review of the literature highlights that CSR and social community activities undertaken by SME's tend to be fragmented and informal in nature (Jamali, Safieddine, & Rabbath, 2009; Maitland, 2002; Perrini et al., 2009). Lepoutre and Heene (2006) suggest that SME's seldom engage in formal CSR strategies. SME's are also said to encounter greater barriers and challenges in their quest to engage in CSR activities and are prevented from active CSR engagement due to various factors ranging from their size, lack of time and support, lack of financial resources and expertise on CSR issues (Blomback & Wigren, 2009; Lepoutre & Heene, 2006; Ortiz & Kuhne, 2008). For example Hsu and Cheng (2012) state that many SME‘s consider that they lack requisite skills and guidance in CSR, this is because some of the guidance developed on a global level or sector specific level are not suitable for their purpose. Murillo and Lozano (2006) state that SME's lack knowledge and know-how in relation to CSR issues which act as a barrier to their ability to effectively engage in CSR. Furthermore SME's make little or no attempt to communicate their involvement in CSR related activities or publish annual reports, which discloses their CSR engagements (Fassin, 2008; Giovanna et al., 2012; Murillo & Lozano, 2006). Fassin (2008) however assert that SME's actively engage in socially responsible practices although they do not formally publish or report their activities.

2.3 Small and Medium Sized Enterprises and Female Entrepreneurs in Nigeria

It is becoming increasingly important to study female entrepreneurs as a result of the souring influx of Nigerian women into entrepreneurship witnessed in recent decades (Woldie & Adersua, 2004). A 2012 study conducted by GEM shows that there are about equal levels of entrepreneurial engagement between Nigerian men and women. The study shows that almost 40 % of women in Nigeria are engaged in entrepreneurial activity. The influx of women into entrepreneurship is also reported on a global scale (GEM, 2012). For example the Women's Report carried out by the Global Entrepreneurship Monitor shows that an estimated 98 million women were running established business and 126 million were starting or running new businesses in 67 economies around the world (GEM, 2012). In light of recent economic downturns there is now recognition that the ability to increase global wealth is dependent to an extent on the development of successful entrepreneurship in transition economies. Transition economies such as the MINT economies (a neologism which refers to the economies of Mexico, Indonesia, Nigeria, and Turkey) are predicted to become substantial contributors to the global economy and Gross Domestic Product (GDP). The importance of the Small and Medium Scale Enterprise (SME) sector to these economies has also been recognised. In Nigeria, entrepreneurship is often the only option for those seeking an income to overcome poverty and unemployment. The unemployment rate in Nigeria is a staggering 23.90 % (National Bureau of Statistic, 2014). Entrepreneurship is a dynamic field particularly as it relates to the process of change creation and vision. The entrepreneurs' vision to recognise opportunities and willingness to take calculated risks are critical factors needed for success (Kuratko & Hodgetts, 2007). Consequently, the importance of the Small and Medium Scale Enterprise (SME) and the appreciation of their role cannot be overemphasised. SME's are recognised as one of the most vital contributors to people's income and to economic development however they may be defined (Harper, 1998). The importance attached to the sector rest on the belief that SMEs are perceived to be the seedbed for indigenous entrepreneurship and are known to generate many small investments. Thus encouraging entrepreneurship is a key policy instrument for promoting economic growth and employment creation in Africa. SMEs in Africa represent a large proportion of businesses contributing immensely to the mobilisation of resources, employment and poverty alleviation. Consequently, these firms are seen as dominant forces for economic development and industrialisation in the African region. Due to their small and flexible character, SMEs are able to withstand adverse economic environments and survive where many large enterprises fail.

In-spite of such promising reports about SME's, the Nigerian small and medium enterprise sector is however characterised by low productivity, inability to compete with imports, lack of diversification, unfavourable business environment, infrastructural deficiencies, corruption, low access and high cost of finance and weak institutions (OECD, 2005). Although both female and male entrepreneurs share many of these constraints, women entrepreneurs face additional obstacles rooted in discriminatory socio-cultural values and traditions (UNIDO, 2001; Woldie & Adersua, 2004). Women often lack the skills, education, and support system that can expedite their business pursuits. For example, GEM (2012) shows that the level of education for women entrepreneurs is lower than that of their male counterparts. Women's inferior education and lack of training puts them at a disadvantage and women are regarded as subordinate to men regardless of their age or educational status (Woldie & Adersua, 2004). Nigeria is a patriarchal society and entrepreneurship in Nigeria remains a traditionally male dominated activity, consequently women encounter significant obstacles compared to their male counterparts. Gender roles are still prevalent in many countries around the world (GEM, 2012) and Nigeria is no exception. Traditional female roles are still highly regarded and such qualities as subservience, supportive, and submissiveness meet with approval. Socio-cultural practices in many parts of Nigeria relegate women to secondary positions as wives and mothers and in many instances women are unable to occupy comparable positions as men. Furthermore women's prevalent position within the family makes it challenging for them to combine their various roles and female entrepreneurs often times juggle both family needs and entrepreneurship demand (GEM, 2012; Woldie & Adersua, 2004). In a developing country such as Nigeria, the concern for increasing women's economic participation can be seen within the wider general concern to alleviate the socio-economic conditions of the poor households. The growth and prosperity of any economy is highly dependent on dynamic entrepreneurial activity. In order to stimulate this activity, an economy needs individuals with the abilities and motivations to start businesses, and people participating at every phase of this process (GEM, 2012). Entrepreneurial activities provide a unique avenue for many women to thrive economically, thereby rising above many of the socio-cultural obstacles (Woldie & Adersua, 2004).

2.4 Corporate Social Responsibility Regulations in Nigeria

Many countries have witnessed radical change in the relationship between businesses and the society in which they operate. Consequently, counties around the globe are adopting tougher stance on businesses in relation to governance and ensuring that they embrace socially responsible practices within their strategic framework. There is a need to ensure that CSR rules and regulations adopted supports SME development rather than undermining their efforts (UNIDI, 2002). While there are valid arguments for legislative intervention, such as increased compliance and enforceability, increased public trust, promoting transparency and accountability and ensuring uniformed practices across all spheres and promoting fairness and certainty (Gatto, 2002), one cannot discount arguments against legislating which includes high cost and possibility that such legislative provisions would be reactive rather than proactive (Gatto, 2002; Ihugba, 2012). Furthermore, Ihugba (2012) argues that there is possibility of drafting complexities, which may arise from tokenism and ingenuous attempts to pacify lobbyists.

There are various legislative provisions in Nigeria, which regulate business activities and social responsible practices. For example the Nigerian National Environmental standards and Nigerian National Environmental Standards and Regulations Enforcement Agency Act (2007) contains provisions, which cater for CSR. Section 20 of the Act grants the Agency power to make regulations setting specifications and standards to protect and enhance the quality of Nigeria's air resources, so as to promote public health or welfare and natural development and productive capacity of the nations' human, animal, marine or plant life. Furthermore, Section 25 contains powers to implement Regulations for the purpose of protecting public health and promotion of sound environmental sanitation. Section 27 contains provisions regarding the discharge of hazardous substances and related offences and allows the Agency to impose fines and prison terms to those who contravene the provisions. The Agency is also empowered under Section 30 to enter premises, examine any article, and seize any items believed to contravene any provision of the Act. Furthermore, the Nigerian Criminal Code Act (1990) contains provisions on socially responsible practices. Sections 243 contain provisions with regards the sale of food or drinks. Section 245 deals with fouling water and sections 247 and 248 contain provisions with regards noxious acts and sale of matches made with white phosphorus and use of white phosphorous in manufacturing matches. In addition, the Harmful Waste (Special Criminal Provisions) Act (1988) contains relevant provisions and powers with regards carrying, depositing and dumping of harmful waste on land, territorial waters and matters under Section 1. Section 7 focuses on acts committed by body corporate and provides for negligence on the part of a director, manager, and secretary in contravening provisions. Section 10 contains enforcement powers to search, seize and arrest those found to have contravened the provisions contained under the Act. In-spite of the provisions available, law enforcement mechanisms in Nigeria are weak and ineffective. Ineffective institutions and corrupt practices among Nigerian law enforcement agencies further compound the situation.

The Nigerian government in a bid to reform CSR practices put forward a Corporate Social Responsibility Bill pending before the National Assembly since 2008. The purpose of the Corporate Social Responsibility Bill is to bring into effect an Act to establish the Corporate Social Responsibility Commission. Part 3 of the Bill states that the Commission will be tasked with ensuring that companies are accountable not only to employees and their trade unions, but to investors, consumers, host communities and the wider environment and develop environmental guidelines that need to be met by corporations doing business in Nigeria. In addition, the Commission is vested with powers to carry out a variety of function which include creating a standard for social responsibility of corporate organizations consistent with international standards, serving notices of social responsibility requests to organizations and implementing social and environmental Regulations. The Commission is also tasked with corporate organizations classification, ranking them according to organizational size and magnitude of investment, which determines the nature of corporate social responsibility expected of them. Publish annual reports on social and environmental impacts of company's direct activities on communities, develop policies to encourage corporate organizations to undertake community engagements as part of corporate social responsibility and ensure that companies sponsor cultural and educational activities that offer added value to Nigeria's socio-political and technological development. The CSR Bill is not without its critics, for example Mordi, Opeyemi, Tonbara, and Ojo (2012) while recognising that the Bill is a welcome development in helping to firmly establish corporate ethics among Nigerian firms, also highlights some of the deficiencies inherent in the Bill. According to Mordi et al. (2012) the Bill fails to provide for extensive enlightenment of the Nigerian society on the importance and benefits of CSR as well as identifying the minimum constitutional duties that are imposed on the Nigerian government. Furthermore the Bill on the face of it has the potential to add to the high cost and complexities of doing business in Nigeria. Part 5 of the Bill grants the Commission power to temporarily shut down and suspend operations of an organization, corporation or a company for a minimum of 15 of 30 working days as a penalty for non-compliance with statutory requirement. The Commission is vested with the power where an organization fails to comply with the statutory requirement of the Act to impose a fine of 2 % of its gross annual profit and on subsequent violation to impose a fine of not $<$3.5 % of its annual gross profit in addition to compliance with statutory corporate social responsibility within the given period. Firms operating in Nigeria face many obstacles and constraints ranging from poor infrastructure such as roads, electricity supply, lack of security, weak enforcement of contracts and high costs of finance (Amaeshi, Adi, Ogbechie, & Amao, 2006), consequently the CSR contributory charge proposed by the Bill could act as a disincentive to investment in Nigeria in light the already high cost of doing business (Mordi et al., 2012). This line of reasoning finds support in research work carried out by UNIDO (2002) who contend that if CSR demands are protectionist, culturally inappropriate or unreasonably bureaucratic, the net effect will be to undermine people's livelihoods.

2.5 Methodology

The study seeks to explore Nigerian female entrepreneurs' awareness of CSR related activities and examine the drivers and barriers experienced when undertaking CSR. The study adopts a mixed method approach involving the use of multiple data collection techniques in collecting data (Creswell, Clark, Gutmann, & Hanson, 2003). Questionnaire survey and semi-structured interviews were used in order to collect data for the study. The initial part of the data collection involved the use of a face-to-face questionnaire survey with 181 female entrepreneurs in Lagos, Nigeria. Bryman and Bell (2011) define a survey as *"a cross-sectional design in relation to which data collected predominantly by questionnaire or by structured interview in order to collect a body of quantitative or quantifiable data in connection with two or more variables, which are then examined to detect patterns of association"* (p. 54). The questionnaire uses a combination of closed-ended and Likert scale questions. Closed-ended questions were adopted in relation to the demographic characteristics of the female entrepreneurs, their business, awareness of CSR and their approach to CSR. A five point Likert scale was used to capture data in relation to the drivers and barriers of CSR. The advantage of these types of questions rests on the fact that they are easier and relatively quicker to administer. Questions can be answered within a short time, and the respondents can perform with greater reliability the task of answering the questions (Oppenhiem, 1992). The questionnaire is divided into three main sections. The first section contains demographic information of the female entrepreneurs. The second section sought to measure female entrepreneur's awareness of CSR initiatives. In particular the questions in this section were designed to assess the female entrepreneur's adoption of CSR related practices and readiness to adopt CSR initiatives. The final section of the questionnaire sought to explore drivers and barriers of CSR among Nigerian female entrepreneurs. The section also sought to assess their perception on the role of entrepreneurs in promoting CSR in Nigeria.

As a result of a lack of established data sets and records from which meaningful random sampling could be drawn, convenience sampling was used to identify the entrepreneurs who participated in the study. Convenience sampling involves the use of readily available participants to participate in the study (MacNealy, 1999). Malhotra (2010) notes the basic principle of sampling is that by selecting some of the elements in a population, a researcher can draw his/her own conclusion about the entire population. Consequently, the test of sample design is how well the sample structure represents the characteristics of the population it purports to be a representative of (Cooper & Schindler, 2011), bias inevitably occurs where the number of subjects is too small. Babbie (2010) states that the larger a sample the more representative of the population it becomes, and so the more reliable and valid the results based on it will become. This view is supported by Saunders, Lewis, and Thornhill (2009) who note that the larger the sample size, the lower the likely error in generalising to the population. The decision was therefore made to adopt a larger sample size in order to minimise the potential bias, which can often arise through convenience sampling. Consequently, a sample size of 200 was considered as an adequate and workable sample. Indeed several studies have worked with remarkably fewer samples and have achieved satisfactory results. From previous research done in Nigeria, the highest concentrations of SMEs are thought to be in Lagos, the sample target was set in Lagos state as Lagos is the commercial nerve centre of the country and is the most populated and diverse state in the country. In order to ensure that the sample is representative of the general population, the decision was made to focus the study in areas with a large cluster of small and medium scale enterprises. The sample includes female owned firms in different industries, different trading companies and companies in different geographical locations throughout Lagos in order to ensure diversity. In order to ensure validity and reliability, no leading questions were posed to the female entrepreneurs. Furthermore, the questionnaire questions are based on stable sources of literature. As Gill and Johnson (2010) rightly puts it, in the case of questionnaire, reliability derives from the clear formulation of questions, which facilitates understanding and hence correct answering. From the 200-questionnaire survey carried out with the female entrepreneurs in Nigeria, a total of 181 were fully completed. Data obtained from the questionnaire was analysed using the Statistical Package for Social Sciences (SPSS 22.0 for Mac). Descriptive statistics such as percentages and mean scores were used to analyse the information obtained from the female entrepreneurs.

The second part of the data collection involved the use of semi-structured interviews with 32 female entrepreneurs who took part in the questionnaire survey. This sample size is of an acceptable limit for an exploratory study of this kind (Burns, 2000; Jamali, 2009). The female entrepreneurs selected for the semi-structured interviews were chosen for their level of awareness of CSR concept and drivers and barriers experienced when undertaking CSR in Nigeria. The rationale for adopting semi-structured interviews rests on the premise that the study being exploratory in nature seeks to provide a narrative of real life occurrences and events from the respondents own perspective (Burns, 2000). The semi-structured interviews provided the researcher with ample opportunity to follow up ideas from the face-to-face questionnaire survey carried out with the female entrepreneurs, probe responses and investigate motives and feelings on some of the questions listed on the questionnaire (Bell, 1993). Information obtained from the semi-structured interviews was transcribed in order to make it more presentable and bolster the results obtained from the questionnaire survey.

2.6 Analysis of Findings

The analysis of findings is divided into two parts. The first part of the finding provides descriptive statistics in form of percentages used to provide a general description of the demographic characteristics of the female entrepreneurs obtained from the face-to-face questionnaire survey. The second part involves the use of mean and standard deviation in order to examine the responses provided by the female entrepreneurs in relation to their awareness of CSR related activities, drivers and barriers experienced when undertaking CSR. The data presented in the second part of the analysis contains findings obtained from both the face-to-face questionnaire survey and the semi-structure interviews carried out with the female entrepreneurs.

2.6.1 Demographic Profile of the Male and Female Entrepreneurs

The findings presented in Table 2.1 below shows that majority of the female entrepreneurs were in the 31–40 (39.8 %) and above-41 (30.4 %) age category. Findings in relation to academic qualifications show that many of the female entrepreneurs representing 60.2 % stated that they had obtained a diploma, 19.9 % stated that they had obtained a bachelor's degree/postgraduate qualification, 19 % stated that they had obtained a primary or secondary school certificate. The finding also shows that 29.8 % of the female entrepreneurs stated that they had skilled manual experience and a further 29.8 % stated that they were unemployed before starting their business. 20.0 and 20.4 % of female entrepreneurs stated that they had professional and prior SME experience respectively. Majority of the female entrepreneurs stated that they were motivated to set-up their business because of their desire to be independent representing 49.7%. 40.3 % of the female entrepreneurs stated that they were motivated by financial motives, 9.9 % stated that they were motivated by attractive lifestyle. The finding in relation to female entrepreneurs' firm characteristics in Table 2.1 below shows that many of the firms operated as sole traders representing 79.1 %. 20.9 % of the female entrepreneurs also operated as companies. Majority of the female entrepreneurs were seen to have high representation in the service sector 50.2 % of the female entrepreneur's stated that they operated in the service sector. 20.0 % of female entrepreneurs stated that they operated in the agricultural sector. 10.0 % of stated that they operated in the construction industry. Female entrepreneurs in manufacturing and commerce and retail sectors represented 9.9 % respectively. 40.3 % of the female entrepreneurs stated that their firms were between 11 and 20 years of age and 39.8 stated that their firms were between 1 and 5 years of age. 9.9 and 10.0 % of the female entrepreneurs stated that their firms were between 6 and 10 years above 21 years old respectively. The finding in relation to firm size shows that the majority of the female entrepreneurs were seen to employ between 1 and 5 employees representing 49.7 %. 20.3 % employed 6–10 and 20.0 female entrepreneurs employed 11–20 employees. 9.9% employed above 21 employees.

Table 2.1 Demographic characteristics of the female entrepreneurs

Demographic characteristics	Percentages	Mean
Age		
Below 20	9.9	
21–30	19.9	2.91
31–40	39.8	
Above 41	30.4	
Academic qualifications		
Secondary/primary school qualifications	19.9	
Diploma	60.2	2.20
Bachelor's degree/postgraduate degree	19.9	
Previous experience		
Professional experience	20.0	
SME experience	20.4	2.99
Skilled manual experience	29.8	
Unemployed	29.8	
Business structures		
Sole trader	79.1	1.40
Company	20.9	
Firm sector		
Agriculture	20.0	
Manufacturing	9.9	
Service	50.2	2.80
Commerce and retail	9.9	
Construction	10.0	
Firm age		
1–5	39.8	
6–10	9.9	2.20
11–20	40.3	
Above 20	10.0	
Number of employees		
1–5	49.7	
6–10	20.3	1.90
11–20	20.0	
Above 21	9.9	
Motivation for firm set-up		
Financial motivation	40.3	
Desire to be independent	49.7	1.90
Attractive lifestyle	9.9	

2.6.2 Female Entrepreneurs Awareness of CSR Related Activities and Drivers and Barriers Experienced When Undertaking CSR

The findings show that majority of the female entrepreneurs representing 70.2 % stated that they were aware of corporate Social Responsibility as a concept. Our findings here do not support previous research, which posits that SME's lack awareness of CSR (Jenkins, 2006; Murillo & Lozano, 2006). This finding supports past research, which confirms that there is evidence in African countries that SMEs engage in CSR related activity and contribute to their local community and environment. SMEs are seen to engage in philanthropic activities and often practice CSR without being aware of the notion of being socially responsible (Amaeshi et al., 2006; Azmat & Zutshi, 2012). The interviews carried out revealed similarities among the female entrepreneurs of their understanding of the term CSR. Some of the female entrepreneurs who took part in the interview stated:

> *Corporate social responsibility involves active engagement within your community and ensuring that you carry out your business in a moral and ethical manner... your business practices need to add value to Nigeria as a whole*

> *I see it as the ability as a business owner to engage in responsible ways of conducting business, ensuring that my business does not badly affect the local community and the environment...as a business you should be able to give back to the community*

> *...It includes how I interact with my employees, customers, community and the environment.*

Majority of the female entrepreneurs (80.1 %) stated socially responsible activities implemented within their firm were done on an informal basis. Jenkins (2004) argues that SMEs are likely to have an informal, trusting, and personally engaging approach to CSR. This finds support in the research work carried out by various authors who found that CSR activities of SME's tend to be informal in nature and often times fragmented (Jamali et al., 2009; Maitland, 2002; Perrini et al., 2009). This view is also supported by the responses obtained from the interview carried out with the female entrepreneurs. One of the female entrepreneurs stated:

> *There is no formal approach to CSR among many Nigerian SME's. we do what we can but many of the practices are informal...people need more awareness of the concept in order for it to take root...there are challenges in doing business in Nigeria, many entrepreneurs are faced with more dire problems... We try however way we can to help support our local community.*

The female entrepreneurs were asked if they were aware of available CSR related legislation in Nigeria. Majority of them representing 92 % stated that they were not aware of provisions contained in the Nigerian National Environmental standards and Regulations Enforcement Agency Act (2007), Nigerian Criminal Code Act (1990), the Harmful Waste (Special Criminal Provisions) Act (1988) or the Pending Corporate Social Responsibility Bill. When asked their perception of the content of the proposed Corporate Social Responsibility Bill, some of the female entrepreneurs stated:

> *This is yet another instance of lack of coordination with the government. How can you make such imposition without promoting the concept or taking responsibility yourself? There is a need for a top-down approach to CSR not a bottom-up approach like the Bill you are referring to.*

> *It will not work in Nigeria, it seems more suited to countries such as the UK and the US where there are established rules and institutions. The government needs to look at issues from a Nigerian perspective with weak systems. How can you impose such penalties when the average business is struggling to stay afloat and what provisions or support is provided to help people comply?*

> *This is not the best way to approach the situation. People will comply if they are aware of what is expected of them and if support is provided by the government to help them achieve the necessary outcome. Nigerian government needs to do more in order to promote socially responsible practices and also combat corrupt practices among law enforcement.*

The data in Table 2.2 below shows that majority of the female entrepreneurs strongly disagree that factor such as media coverage ($M = 1.70$, $SD = 0.90$), government agency rules and enforcement procedures ($M = 1.92$, $SD = 1.32$) were primary drivers of CSR. The female entrepreneurs agree that factors such as close nexus and ties with the local community ($M = 4.40$, $SD = 1.20$), the security, health and satisfaction of the firm's employees ($M = 4.09$, $SD = 1.38$) were primary drivers of their CSR. This finding is supported by research conducted by Murillo and Lozano (2006) and Perrini et al. (2009) who found that SME's are more likely to embrace programs, which involve their employees, and the local communities in which the SME operates. Some of the female entrepreneurs involved in interview stated:

> *There is a need to promote awareness in Nigerian not just SME. Some people do not know what CSR is or the societal benefit of engaging in such practices. The government needs to do more to promote the concept and also to put support in place*

> *You have to understand that there are challenges to doing business in Nigeria and many people struggle, more help is need if CSR is to be embraced fully in Nigeria.*

> *There is a need to ensure adequate rules in relation to corporate social responsibility, government incentives is required in order to ensure uptake of such practices and compliance and also in order to make sure that they are enforcing rules and regulations on CSR.*

> *Many of the larger businesses need to ensure that they show good examples*

The data shows that female entrepreneurs agree with the statement that their ethical, moral and personal values ($M = 4.50$, $SD = 1.20$) and their religious and cultural beliefs ($M = 4.60$, $SD = 1.20$) were primary drivers of their CSR engagement. Countries such as Nigeria have unique differences from Western countries due to their culture, religion and political economy, as such CSR initiatives and practices would to an extent be mirrored by socio-cultural norms thus CSR

Table 2.2 Primary drivers of CSR among Nigerian female entrepreneurs

Primary drivers of CSR among Nigerian female entrepreneurs	Mean (M)	Std. deviation (SD)
Stakeholder pressure is a primary driver of corporate social responsibility within our firm	3.09	1.76
Economic performance, Financial and production efficiency are primary drivers of corporate social responsibility within our firm	2.81	1.72
Increase in the image and reputation of the firm are primary drivers of corporate social responsibility	3.20	1.72
Customer expectation is a primary driver of corporate social responsibility within our firm	2.70	1.41
Close nexus and ties/integration with our local community are primary drivers of corporate social responsibility within our firm	4.40	1.20
Commitment to environmental sustainability is a primary driver of corporate social responsibility within our firm	3.60	1.42
The security, health and satisfaction of the firms employees are primary driver of corporate social responsibility within our firm	4.09	1.38
The female entrepreneurs' ethical, moral and personal values are primary driver of corporate social responsibility within our firm	4.50	1.20
The female entrepreneurs' religious and cultural beliefs are primary driver of corporate social responsibility within our firm	4.60	1.20
Marketing and advertising strategy are primary driver of corporate social responsibility within our firm	2.61	1.43
Improved competitive advantage is a primary driver of corporate social responsibility within our firm	3.11	1.70
Government agency rules and enforcement procedures are primary driver of corporate social responsibility within our firm	1.92	1.32
Media coverage is primary driver of corporate social responsibility within our firm	1.70	.90

Response range: 1 = Strongly disagree to 5 = Strongly agree

practices may be quite different from those practiced by their Western counterparts. The result finds support in previous research, which suggests that SME actively engage in philanthropic activities for example through religion/church (Giovanna et al., 2012). The result is not surprising, for example the finding in relation to religion as a driver of CSR is to be expected as many Nigerians openly profess some type of religion and religious associations are very dominant in many aspects of people's lives. Amaeshi et al. (2006) suggest that CSR as philanthropy in the Nigerian context could be connected to religious influences. In light of the importance attached to gifts and sacrifices within certain religion, such practice could be easily transposed into business understanding and practices. Furthermore the high responses received from the female entrepreneurs in relation to ethical, moral and personal values as key drivers of CSR finds support in the seminal article by Quinn (1997). Some of the female entrepreneurs involved in the study stated:

Social responsibility deals with morality and charity, businesses do not function in isolation... Businesses need to act in an ethical and moral way towards their customers and local community.

In Nigeria, social responsibility usually involves charitable contributions and also sponsorship through education or training in order to help contribute to people's lives and the community at large.

There are no rules or enforcement really, many SME's act in a responsible manner because they want to do so, it is voluntary effort on their part. I do not think strict enforcement will work in a place like Nigeria. What we need is more awareness of what is need and also substantial support from the government.

Table 2.3 below shows the result obtained from the female entrepreneurs in relation to CSR related activities adopted. An overwhelming majority of the female entrepreneurs were seen to engage in charitable activities within their local communities and contribution to projects that enhance a community's quality of life ($M = 4.30$, $SD = 1.18$). Furthermore many of the female entrepreneurs stated that they provided financial support and encouraged their employees to be involved in community activities ($M = 4.30$, $SD = 1.27$). The findings also show that female entrepreneurs did not take part in CSR related activities through sport sponsorship ($M = 1.60$, $SD = 1.02$). Majority of the female entrepreneurs strongly disagree that their firm does not support any social or environmental activities ($M = 1.70$, $SD = 1.27$). Majority of the entrepreneurs were aware of the importance of providing financial assistance as well as sponsorship programs, education and training activities and engaging in environmental protection and sustainability. The female entrepreneurs also commented that environmental initiatives require more resources and can be challenging for SMEs.

The data in Table 2.4 below shows that many of the women strongly agree that primary barriers affecting their adoption of CSR include lack of efficient government and NGO institution support ($M = 4.40$, $SD = 1.20$), high monitoring costs ($M = 4.40$, $SD = 1.20$), lack of financial resources ($M = 4.40$, $SD = 1.20$) and complex procedures of measuring and reporting CSR related activities ($M = 3.80$, $SD = 1.53$). Some of the female entrepreneurs who took part in the interview stated:

There are financial implications and this is a major challenge. Many SME's are not in a position to meet some of the standards. Nigerian government needs to work towards providing incentives for businesses to act in a more responsible manner

Awareness of CSR is lacking in some parts, people are not really aware of corporate social responsibility, the government can work towards promoting it by putting in place workshops and training facilities to educate SME owner/managers about CSR and put measures in place to monitor it and also provide financial assistance for those businesses who want to take part

The cost of being socially responsible is high in an environment like Nigeria. Many businesses in the first instance have to provide their own resources such as water, electricity and so on. Assistance is needed in order to ensure that these businesses embrace

Table 2.3 CSR related activities adopted by Nigerian female entrepreneurs

CSR related activities adopted by Nigerian female entrepreneurs	Mean (M)	Std. deviation (SD)
Sponsorship through Sport activities	1.60	1.02
Charitable activities within local communities and contribution to projects that enhance a community's quality of life	4.30	1.18
Providing assistance through education and training activities	3.50	1.50
Financial or other support to non-profit sector	3.90	1.51
Environmental protection and sustainability	2.61	1.50
Creation of good conditions for socially deprived groups	3.71	1.79
Providing financial support and encouraging employee involvement in community activities	4.30	1.18
Our firm does not support any social or environmental activities	1.70	1.27

Response range: 1 = Strongly disagree to 5 = Strongly agree

Table 2.4 Primary barriers affecting Nigerian female entrepreneurs adoption of CSR activities

Primary barriers affecting Nigerian female entrepreneurs adoption of CSR activities	Mean (M)	Std. deviation (SD)
Lack of time is a major barrier affecting my firms ability to adopt CSR initiatives	3.39	1.80
High monitoring cost is a major barrier affecting my firms ability to adopt CSR initiatives	4.40	1.20
Complex procedures of measurement and reporting are major barriers affecting my firms ability to adopt CSR initiatives	3.80	1.53
Lack of knowledge and expertise of CSR are major barriers affecting my firms ability to adopt CSR initiatives	3.00	1.73
Lack of efficient government and NGO institution support are major barriers affecting my firms ability to adopt CSR initiatives	4.40	1.20
Lack of understanding of the issue and its benefits are major barriers affecting my firms ability to adopt CSR initiatives	3.29	1.79
Lack of financial resources are major barriers affecting my firms ability to adopt CSR initiatives	4.09	1.38

Response range: 1 = Strongly disagree to 5 = Strongly agree

socially and environmentally friendly practices. . .many of the businesses will not survive, the cost of compliance is too high

All the female entrepreneurs agreed that adopting effective CSR practices is more challenging in a country like Nigeria. They also stated that there are specific constraints in the Nigerian institutional context that affect the evolution of socially responsible practices where SME's are concerned. 39.8 % of the female entrepreneurs agree that Small and medium-sized enterprises are better suited to Corporate Social Responsibility on a local level than MNC's or large corporations due to their familiarity with the local community. 60.2 % of the female entrepreneurs however disagreed with the statement. Some of the female entrepreneurs stated:

SME's are essential in this as they are the ones who operate in the communities and are closer to the customers and those living within the local communities. Nigeria has many small businesses operating in these communities. It is in everyone's interest if SME's are provided with the necessary resources and tools to be able to promote responsible practices.

We are more familiar with the environments and the communities. Many of us and our employees live here, we are from the local community, so it is in our own best interest to act responsibly

SME's are powerless to do much unless they are provided with necessary resources, many of the businesses are trying to survive. They need help otherwise it is futile.

The perception echoed by the female entrepreneurs is supported by past research which asserts that SMEs lack the resources needed for CSR and are prevented from active CSR engagement due to factors ranging from their size, lack of financial resources and expertise on CSR issues. Various writers note that SMEs by their nature experience specific barriers and challenges. Factors such as time, human and financial constraints act as a barrier preventing them from undertaking CSR related activities (Blomback & Wigren, 2009; Lepoutre & Heene, 2006; Ortiz & Kuhne, 2008). In-spite of the above mentioned challenges some SMEs are found to be more environmentally responsive compared to large businesses (Keinert, 2008). When asked about the firm's future intention for external social and environmental activities, 70.2 % of the female entrepreneurs stated that they intend to continue with the current level while 29.8 % of the female entrepreneurs stated that they would like to increase their CSR participation.

2.7 Conclusion

The need to ensure businesses act in a socially responsible manner and that sustainability, social and environment concerns are at the core of a firms' strategic agenda is now widely recognized. This paper contributes to growing body of literature on CSR and SME's as well as providing insight on the position of female entrepreneurs, their engagement with CSR and primary drivers and barriers affecting Nigerian Female Entrepreneurs adoption of CSR activities. The paper presented findings obtained from questionnaire surveys and semi-structured interviews carried out with female entrepreneurs in Nigeria. The findings show that female entrepreneurs view CSR as ethical and moral obligations towards various stakeholder groups. Many of the female entrepreneurs who took part in the study cited factors such as ties with the local community, security, health and satisfaction of the firms' employees and their religious and cultural beliefs were primary drivers of CSR. The findings also show that female entrepreneurs encounter barriers and challenges in their quest to engage in CSR activities and are prevented from active CSR engagement due to various factors such as lack of efficient government and NGO institution support. Furthermore, due to their limited resources, these female entrepreneurs are prevented from actively engaging in CSR activities as a result of high monitoring costs and lack of financial resources.

Extant research in this area shows that SME's may experience difficulties in supporting and financing CSR related social programs. The cost implication for CSR initiatives for SME's may have adverse impact on their profitability and possible survival. There is a need to ensure more support from government institutions in promoting the importance and benefits associated with CSR. Such support could be through provision of financial incentives to help encourage more female entrepreneur's active engagement in CSR. In addition, provision of training centres on CSR where female entrepreneurs can go for CSR related concerns could also help in providing much needed support. More guidelines are needed where CSR is concerned so as to provide a benchmark on which current practices can be measured. Various reports have confirmed that engaging in CSR has positive ramifications on business performance and society as a whole. Consequently, concerted effort is required from the Nigerian government, NGO's and businesses both large and small in ensuring societal and environmental concerns and sustainability issues are at the forefront of company and socio-economic strategy.

This study has several limitations first, the study utilized convenient sampling in identifying the female entrepreneurs who took part in this study due to the lack of data in which to draw any meaningful sample frame for the study. Second, the study focus is on Lagos State and may not be representative of other States in Nigeria. Future research may focus on comparison across different industrial sectors and States in Nigeria. Furthermore further research would benefit from adopting a more qualitative data collecting technique involving the use of interviews and focus groups with female entrepreneurs in order to better understand CSR motivations and practices of female entrepreneurs.

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Chapter 3
From Ideas to Impacts: CSR in the Eyes of Top Managers in Poland

Maria Aluchna

3.1 Introduction

The paper addresses the question how the concept of CSR is understood, introduced and developed at the strategic level by top managers and board members. The paper is based on a series on interviews with the executives and directors of 16 companies in Poland operating in different sectors as independent companies and as subsidiaries of international corporations. The evidence derived from the interviews with executives gives the opportunity to trace the real life of CSR at the strategic level, the way is has been changing and the positive contribution it delivers. The aim of the paper is to track whether the practical perception and implementation of CSR at the company level corresponds with its theoretical concept and to indicate shortcomings as well as directions for further development of CSR. This chapter is organized as follows. The first section addresses the concept of corporate social responsibility from the theoretical perspective. Referring to the practice of CSR the section identifies the stages of CSR development in the regulatory and organizational contexts. The second section discusses the idea of the business case of CSR indicating the areas of company functioning where it can be implemented. The results of the qualitative research are presented in the third section. The research is based on a series on interviews on the role of CSR in business carried out with board directors and executives of companies operating in Poland. Final remarks are delivered in the conclusion section.

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3.1.1 The Concept of Corporate Social Responsibility (CSR)

The concept of corporate social responsibility is defined as a set of assumptions and actions whereby companies integrate social concerns on their business operations and in their interaction with their stakeholders on a voluntary basis (Crowther & Jatana, 2005). This provides a broader approach to business role in economy and society where interests and expectations of various stakeholders are taken into account (Rok, 2004). The adoption of corporate social responsibility also translates in a wider framework for the evaluation of company performance including financial, social and environmental performance. Following works by Carroll (1983), "corporate social responsibility involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. To be socially responsible then means that profitability and obedience to the law are foremost conditions when discussing the firm's ethics and the extent to which it supports the society in which it exists with contributions of money, time and talent" (Carroll, 1983).

The CSR concept is understood as the movement of social awareness in the form of NGOs impact combined with regulatory activity (national and international policies and standards) and business self organization in the form of codes of best practice. The concept has been developing since 50s of twentieth century gaining momentum at the beginning of the new millennium (Rojek-Nowosielska, 2005). Despite implementation shortcomings and instrumental approach pursued by a number of companies, currently the principles of CSR are perceived as enlightenment of business strategy (Clement-Jones, 2004) rooted in a wider perspective known as the social model of corporations (Hawkins, 2006). This model attempts to balance the financial model and shareholder approach taking into account the interests, expectations and needs of stakeholders who are the members of the social and economic systems and are influenced by the operation of different companies. Corporate social responsibility assumes that corporations should incorporate stakeholder postulates and interests into their corporate strategies and corporate values. In result, in line with the CSR assumptions the economic performance should not be the only concern that companies focus on in their operation but should also consider social and environmental dimensions of their activity. The existing literature suggests that the adoption of CSR and sustainability provides companies with the licence to operate (Porritt, 2006) and legitimizes its functioning in the society. In sum, the problem area covered by corporate social responsibility corresponds with the diversified identity of the stakeholders and includes the following (Rok, 2004):

- Labour right that cover the right to form trade unions, lifts the labour, eliminating discrimination at work and child labour, providing work place safety and feedback for employee on their performance, providing rules of collective bargaining;
- Environmental protection which included striving for sustainable development, customer and employee safety, monitoring of its impact on the environment, green production process or promoting environmental awareness,

- Fight bribery and corruption which implements anti-corruption policy, implements corporate disclosure and code of conduct,
- Customer protection which related to product and service safety standards, providing for disclosure on advertisement practice and private policy.

The development of CSR resulted in the emergence of best practice, operation standards and reporting guidelines. The adoption of CSR and involvement in particular initiatives are perceived not just as the essential obligation of business towards society but provides new paradigm for strategic management. Corporate social responsibility becomes a driving force for setting strategic goals and emerges as a crucial source of sustainable competitive advantage allowing companies to distinguish from competitors. The concept also has become integrated into the organizational context providing (Brine, Brown, & Hackett, 2007; Grieg-Gran, 2002; Hollender & Fenichell, 2004):

- Internal benefits such as high quality employees, better motivation, lower costs of control, innovation, benefits to companies, its employees and shareholders and development in intangible assets (Adams, Thornton, & Sepehri, 2010) and
- External benefits such as improved image, higher reputation, higher customer loyalty what translates into larger sales and increase turnover (Brine et al., 2008).

First, the incorporation of stakeholder expectations into business operation provides a series of internal benefits to companies. Companies adopting CSR develop more coherent and stronger organizational culture with norms and values widely understood and shared by employees (Bonn & Fisher, 2011). Stronger culture helps sustain desired behavior, improves communication and identifies principles and rules for promotion. Moreover, as research reveals the company engagement in CSR activities improves its perception amongst employees and enhances their loyalty. Responsible and sustainable companies take usually top position in the rankings of the best employer. Research on the business case for CSR documents also a link between company involvement in responsible and sustainable programs and the ratio of innovation. The business reorientation towards social accountability and environmental responsibility remains an important source of new discoveries, product innovations and process changes (Asongu, 2007; Zagrabi, Poursadegh, & Jafarvand, 2013). According to Rexhepi, Kurtishi, and Bexheti (2013) the relationship is mutual—CSR boosts innovation and innovation allows to enhance company dedication to CSR.

Second, analyses on the importance of CSR for company performance relates to a number of external benefits it can derive from the market and customer base. Engagement in CSR supported with efficient communication improves image and enhances the brand reputation (Dunne, 2007). Since corporate responsibility is viewed as an essential source for competitive advantage and a feature that distinguishes a company from its market rivals, customers reveal higher loyalty (Asongu, 2007). More importantly, customers who prefer ecologically friendly and socially responsible products or services remain less price sensitive and may diminish the negative impact on sales or revenues in the times of economic crisis (Arevalo &

Aravind, 2010; Srchova & Dvorakova, 2010). Finally, strong organizational culture and leadership, accepted communication, efficient decision making process, clear and known promotion rules as well as customer loyalty, better image and higher innovation lead to increase productivity and enhanced performance of companies adopting CSR programs (Schaltegger & Wagner, 2006) although the results remain mixed (Grieg-Gran, 2002). Responsible companies involved in CSR reveal better ROE, generate higher profits and enjoy higher share prices (Hollender & Fenichell, 2004; Yelkikalan & Köse, 2012). What interesting the effects were sustained even in the case of companies engaged in window dressing which treated CSR activity instrumentally and focused on marketing or image effect.

According to the stakeholder theory adoption of CSR concept should have a positive impact on financial performance because firms benefit from "addressing and balancing the claims" of multiple key stakeholder groups (Friedman, 2005). The adoption of the concept may also lead to certain reputational benefits which produce positive results for investors, trading partners and suppliers and may enhance shareholder value (Abreu & Carreira, 2007). Porter and van der Linde (1999) argue that corporate social responsibility can also be considered as a measure of operational efficiency. Adhering to responsibility principles requires structural changes that may lead to competitive advantages such as technological innovation. For instance, environmental protection programs can boost innovations which may partially offset—or even outweigh—the costs of implementing them. Hewlett Packard module system and eliminating excessive packaging programs are the perfect illustration for innovation development. In contrast, constant failure to address the concerns and expectations of stakeholders, the poor level of best practice compliance and low transparency will ultimately reduce investor confidence towards the company, affecting its cost of financing (weighted average cost of capital) and thus its performance and shareholder value. Poor social and environmental performance may lead to the loss of reputation and customer trust being very costly to shareholders and impairing financial results (Hawkins, 2006). Additionally, several event studies reported strong negative stock reaction to information on environmental failures such as oil spills and positive reaction to release of information on emissions and positive events such as environmental awards. All the studies identified so far that relate to the US have found a significant effect of environmental events on the market value of the companies concerned, whether it be publication of independent environmental reports. Additionally, adoption of CSR concept is also a good indication of a firm financial viability, since it emphasizes the long term business perspective. In theory, firms that adhere to CSR principles should outperform those that do not comply with the best practice/recommendations as long term investment in CSR over short term profits should provide a more stable earnings and better performance in future (Adams et al., 2010). The importance of CSR adoption for corporate reputation and performance is explained by a senior portfolio manager cited in an Ernst & Young report (2003) saying "financial performance tells me what a company has already done. Nonfinancial performance tells me what it is likely to do" (SAM, 2011).

The links between CSR and corporate performance are studied in several ways:

- The case studies revealing a positive impact of CSR strategies on environment, community and economic performance (market share, financial results, customer satisfaction). The case studies indicate sources of corporate benefits for companies while the concept of sustainable business is adopted,
- The performance change or market reaction to company's announcements of certain activities related to CSR. The research method of event study allows for testing whether a certain company's decision (donation, involvement in a particular activity) is appreciated or rejected by investors while the share price increases or drops respectively,
- Analysis of corporate performance of companies which adopted sustainable business concept as compared to those firms which do not comply with sustainability requirement. Due to large number of variables describing compliance with sustainable business criteria, the research usually use the sustainability/CSR indexes which cover companies following the environmental, social and economic requirements.

Different academic studies have tried to show that responsible (environmental friendly) organizations usually obtain additional profits (Blacconiere & Patten, 1994; Cormier, Magnan, & Van Velthoven, 2005; Li & McConomy, 1999). Companies that actively manage a wide range of sustainability indicators are able to create long-term value for all stakeholders (Funk, 2003). The analysis on an unique dataset of 337 Dutch and Chinese firms suggests a significant positive association between environmental sustainability and firm performance (Vijfvinkel, Bouman, & Hessels, 2011). As noted by authors different indicators of environmental sustainability display a distinct relationship with the two performance measures. When firms have a policy on the re-usage of materials they perform significantly better in terms of profit development and when firms have a policy on the reduction of pollution they perform significantly better in terms of revenue development" (Vijfvinkel et al., 2011). The paper also reveals that company communication to employees about CSR efforts perform better in terms of the profit development. A weak support is also found for a moderating effect of communication to employees on the positive relationship between sustainability and profit development.

3.2 The Business Case for CSR

The business case for corporate social responsibility is a term used to indicate how the conceptual framework and principles are adopted in business on the company level Source. The business case for CSR provides a transposition of the ideas, regulatory principles and reporting standards to the functioning of the company. This means also that the concept is practically adopted by companies which perceive substantial external and internal benefits and treat it as an important determinant shaping company strategy and operation. CSR may play a crucial role for setting company values and philosophy but may also be perceived in a more practical way as an emerging force of new expectations and interests to be covered by company activity and incorporated in its strategic directions. The adoption of CSR in a company exerts significant influence and impacts the following areas of its functioning:

- Corporate governance which is understood as "a set of relationships between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined" (OECD, 2004). The role of corporate governance for implementation of responsible business is crucial as the control structure plays the essential role in the decision process upon the directions and goals of the company. Corporate governance assures also for the mechanism and standards for of the evaluation of executives performance. Corporate governance of the company which complies with responsible business criteria all monitoring, control and incentive mechanisms should balance the economic, social and environmental goals. The sustainable resource-stewardship model for corporate governance is to deliver (1) enhanced economic value, (2) enhanced social value, (3) enhanced ecological value and (4) enhanced market value (Wheeler & Davies, 2007). The responsible corporate governance focused on adopting sustainability criteria should include stakeholder empowerment, management and performance evaluation systems, transparency enhancement and finally stakeholder verification (Kuhndt & Tuncer, 2007).
- Strategy defines the trajectory of company operation in the long term perspective while strategic management is understood as a set of processes, systems and relationships which allows for the implementation of the strategy. The importance of CSR for shaping company strategy with respect to the corporate, strategic business unit and functional levels remains unquestionable these days and belongs to the most influential driving forces for companies' development. The KPMG research of 2008 revealed that 47.7 % analyzed companies perceived the issues of corporate social responsibility as important aspects of companies' activities and a major factor stimulating innovation. It is also viewed as an important source of competitive advantage which helps firms distinguish on the market from their competitors. Yet majority of these companies find it challenging to incorporate these aspects in their operation and make CSR an integrated element of their strategies. As research indicates the effective compliance requires adoption of the requirements of both concepts which have to be present at each stage and dimensions of company operations. Therefore the ideas of responsible business have to contribute to corporate actives at strategic, tactic and operation levels and to be incorporated in goals setting, strategy formulation, strategic control and measurement. Using the available inputs (resources) as well as internal and external context the organizational processes (planning, culture, communication and motivation) and structures should reinforce incorporation of responsible business (Bonn & Fisher, 2011). What is more important all these

levels and dimension supported by strong leadership should provide positive spillovers and via mutual links and interdependent impact provide for a coherent realization of sustainable business.

– Values and mission—the implementation of CSR strategy starts at the top level of strategic planning which is the formulation of core value and fundamental documents such as vision and mission statement. These documents are essential road map for corporate behavior and should serve as a point of reference in any case of strategy formulation. The message in core values, mission and vision statements set fundaments for decision making process. It is crucial for the documents to be updated and to address current challenges and threats the company is facing.
– Goals should reflect the general themes of corporate vision, role and mission as well as reflect the business realities outside of company as identified in the environmental scan. The goals should correspond with the business and capabilities internal to the company (also as identified in the environmental/internal scan) and should address
– Corporate level strategies are strategies formulated at the top of companies and refer to wide range of development. Addressing the dimensions of product diversity, international diversity, corporate parent role and managing portfolio should result from executive decisions rooted in balancing social, economic and environmental issues. Therefore, the decision making process should not only refer to the financial and market criteria such as possibility of profit and turnover increase, surge of the share price, extension of market, improvement of market share or lowering the costs and increasing the productivity. Rather as suggested, the decision on market penetration, product diversification, extending the market or entering new segments should follow the earlier formulated criteria of sustainable business. Similarly, the decision on merger and acquisition or strategic alliance should be made based on the sustainability criteria of the firm, the company takes over or engages in cooperation. The company complying with the sustainable business requirements should address in its corporate level strategies the problems of exaggerated consumption and high resources (e.g., water) usage in developed economies. The corporate decisions should then promote durable products whose production enables effective natural resources use and lowers its negative impact on the environment. The synergy effects between different strategic business units may lower the generated waster. All units within the corporations should follow responsible business requirements with respect to the environmental and social aspects and fulfilling the stakeholder expectations (Bonn & Fisher, 2011).
– Business strategies are formulated at the lower organizational level, at the level of so called strategic business unit (SBU). The SBU is a part of an organization for which there is a distinct external market for goods or services that is different from another unit (firm, subsidiary) (Grant, 2005; Johnson, Scholes, & Whittinngton, 2008). The external criteria to distinguish strategic business units refer to the nature of the marketplace. Two parts should be

regarded the same SBU in case when they are targeting the same customer types through the same sorts of channels and facing similar competitors. The business level strategies refer to the decision on what products the company would like to offer and to which segments and markets the company would like to address its offer. The practical dimensions of business level strategy refer to implementation of water saving or energy saving production technologies, introducing new packaging which lower materials usage, development of technologies and procedures for waste segregation and utilization. Additional activities include providing adequate working conditions, formulating the code of conduct or code of ethics and undertaking social dialogue with different stakeholder groups. Moreover, the incorporation of sustainable business requirements into the contracts with suppliers, subcontractors and other business partners remains at the essence of the business level strategy.

– Functional strategies refer to strategies of specialized area of operation such as production, finance, marketing and sales, innovation or human resources management. Following the criteria of CSR the company would focus on the product or services (Bonn & Fisher, 2011). Modification and modernization, changes in distribution policy or marketing strategy Functional strategies are supposed to contribute to the realization of business level and corporate level strategies. In order to provide for consistent adoption of responsible it is crucial to assure that functional strategies also follow certain economic, social and environmental criteria as they should support putting the sustainable business requirements into practice. Such approach leads to the incorporation of CSR measures to each of the functional strategies.

The model of business case for CSR integrating the motivation and drivers of companies, the framework for adopting the principles at corporate governance and strategic management levels as well as the implementation and results is presented in Fig. 3.1.

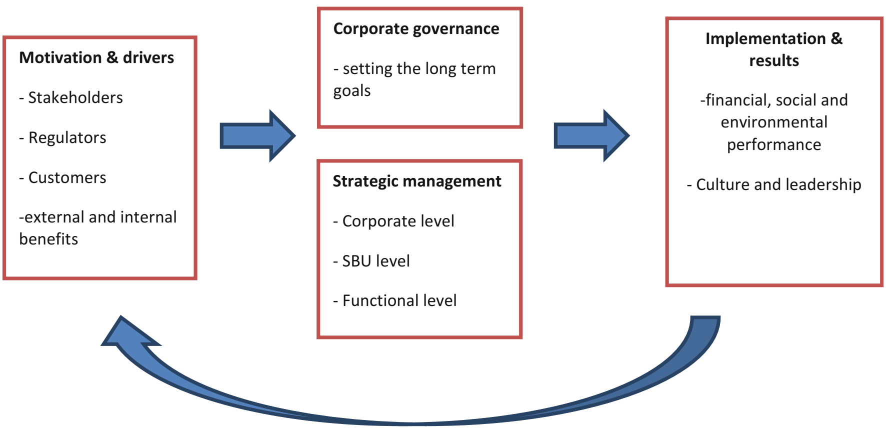

Fig. 3.1 The model of the business case for CSR. *Source*: own compilation

As shown in Fig. 3.1 the business case for CSR offers an integrated and comprehensive framework for getting goals based on the internal and external analyses and motivated by a set of market and organizational drivers and the implementation requirements and multidimensional results. These guidelines for CSR implementation at governance and strategic levels are provided by the complex model (Bonn & Fisher, 2011), while its adoption is proposed by the holistic approach combining strategy, leadership, structure and systems (Epstein, 2008). The crucial elements of CSR implementation are leadership and corporate culture which should support and enhance the overall strategy. The strong, charismatic leadership combined with power and resources is supposed to provide for conditions and structure to implement sustainable business strategy and motivate employees to follow on these actions and initiatives (Van den Steen, 2005). The corporate culture is defined as the set of commonly recognized and known symbols, language expressions, physical artifacts which provide corporate identity, helps on building motivation, leadership, communication, success factors (Deal & Kennedy, 2000). The development of strong corporate culture which clearly emphasized values and norms shared by employees in the organization prove to be positive from the perspective of effectiveness and efficiency of strategy implementation and company functioning (Robbins, 2003). The company should strive at employees' trainings on current environmental problems, corporate culture should emphasize the need for efficient resources use and the innovation to lower the resources consumption. The motivation system should reward environmental friendly and socially aware behavior portraying the leaders of sustainable business concepts in the company. Employee volunteering (known also as corporate volunteering) is not a recent phenomenon but has a long history constitutes an integral component of strategic corporate social responsibility and is viewed as a global phenomenon engaging small and medium companies as well as large global corporations (Basil, Runte, Easwaramoorthy, & Barr, 2009). The concept of employee volunteering aims at encouraging employees to participate in various CSR activities and including them into management and governance system. Its programs are viewed as a "way for staff to participate in the expression of the CSR values espoused by their employer giving them the opportunity to connect in a more meaningful way with these values" (Volunteering Australia, 2006). It represents the activity performed outside of work and results from the individual's decision to donate time to non-profit activities (de Gilder, Schuyt, & Breedijk, 2005). Corporate volunteering assumes that employees engage in socially beneficial activities on company time, while being paid by the company. Employee volunteering is understood as a collaborative effort between the company and its employees to internalize and implement principles of corporate social responsibility and sustainability. It also demonstrates the attitude of responsibility, transparency and accountability to the public.

3.3 CSR in the Eyes of Managers

3.3.1 Research Methodology: Purpose, Research Questions and Sample

The existing literature delivers crucial arguments supporting the implementation of the CSR concept in companies. As discussed in the two previous sections CSR is viewed as an important new paradigm for the role of business in the economy and society. The growing impact of companies on today's lives as well as the social and environmental challenges call for the adoption of responsibility, accountability and sustainability into business strategies and operation. The numerous examples document the internal and external benefits that companies adopting CSR enjoy. In the context of the positive arguments the research on the group of 16 CSR directors and executives of Polish companies was conducted. The purpose of the research was to confront the practitioners' positions on the role of CSR in company management with the existing theory and academic literature. The research was also to identify links between the arguments supporting CSR. In other words, the research attempted to address the questions whether in the opinions of directors and executives there is really any business case for CSR.

For the purpose of the research the following questions were formulated:

1. What is the role of CSR in the company?
   (a) Is CSR market/ performance driven?
   (b) Is CSR motivated by the public/ regulatory pressure/ stakeholder?
   (c) Is CSR the derivative of the intrinsic motivation of executives and employees?
2. How the adoption of CSR is organized within the organization structure?
   (a) Is CSR placed at the strategic level?
   (b) Is CSR incorporated in the strategy/ functional departments or carried out separately by dedicated department?
   (c) Is CSR related to core business?
3. What are the internal and external benefits of adopting CSR in the company?
   (a) Is CSR a source of competitive advantage?
   (b) Is CSR an element of marketing policy?
   (c) Does CSR pay off?
4. Are there any conflicts between profit generation and adoption of CSR?
   (a) Does the CSR budget decline in the times of financial or organizational crisis?

In order to address the formulated questions the qualitative research based on structure interviews was carried out. The research was conducted by the team of the

Table 3.1 General characteristics of the respondents' sample

Criteria	Number	Percent
Position		
Director	5	32 %
Executive	11	68 %
Gender		
Female	6	38 %
Male	10	62 %
Company		
Polish	6 (including two think tanks)	38 %
Foreign or controlled by a foreign owner	10	62 %
Total	16	100 %

Department of Management Theory at Warsaw School of Economics supervised by Professor Piotr Płoszajski. The material was collected during the in depth interviews. To assure for the consistency of collected data all team members used the same list of research questions and followed the same scenario which course followed the above formulated research questions. The main idea was to learn the opinions of practitioners working at the top levels of corporations and dealing, directly or indirectly, with the CSR issues. The interviews were carried out between August and November 2014. The breakdown of the respondents sample with the reference to their general characteristics is provided in Table 3.1.

The respondents represented different sectors: finance (3 firms), IT (3), retail (1), chemical (2), machinery and electronics (2), media (2). 14 respondents recruited from companies represented large firms hiring over 250 employees each. Additionally two thin thank experts were interviewed. The material was collected in the form of recorded interviews which were then transcript and analyzed with the reference of the constructed conceptual framework. All respondents approved the content of the transcript interviews and agreed to provide their names and positions for the purpose of the publication. The analysis was carried out between December 2014 and March 2015.

3.4 Findings

On the basic of the material collected from interviews the answers to the formulated research questions was provided as follows.

1. What is the role of CSR in the company?
   (a) Is CSR important for the company?
   All the respondents indicated significant importance of CSR for the company from the perspective of its development, strategy formulation,

strengthening organizational culture. They emphasized the need for the strategic perspective of CSR in the company—otherwise if no emphasis and support is provided from the top, the message will not to be taken seriously by employees. Additionally, the lack of incorporating CSR at the strategic level may result in the situation that the company may get engaged in contradicting activities—executing the CSR strategy while pursuing market or financial goals without the stakeholder expectations in mind.

(b) Is CSR market/performance driven?
Interestingly, 14 out of 16 respondents declared that the CSR policy was neither market nor performance driven. Although they support the idea that company should get involved in those CSR activities which are close to the company core business but the motivation results rather from the search for synergy effect and competence development than from the financial argumentation. What is more one of the respondents mentioned that "CSR is not about the profit. Taking into account all the investments we would be better off in financial terms if we would put the money into a deposit bank. The ROI is low, even in the long run". While confronted with the question of main motivation for adopting CSR in the company majority of interviewed company representatives responded that "it is the right thing to do". The respondents also indicated the responsibilities of the company, particularly if it grows and enjoys market success which "should be shared with the society". In the eyes of executives and directors CSR implemented at the company level is also perceived as a next step of management. The respondents noted however that the assumptions of CSR were already adopted many years ago within the responsible approach of the entrepreneurs and private investors.

(c) Is CSR motivated by the public/ regulatory / stakeholder pressure?
Majority of respondents (13 out of 16) did not point at the public pressure as factors motivating for adoption of CSR. Moreover, 12 of company representatives could not identify any stakeholder influence claiming that the stakeholders do not reveal particular interest in the social and environmental dimensions of company operations. Due to the fact that respondents represented companies in less regulated industries, the regulatory pressure was not perceived as an important determinant for the CSR implementation. As a matter of fact 12 out of 16 respondents indicated downsizing of reporting standards calling it as leading to "instrumental approach" and "box ticking mentality" which "may kill the idea of CSR and destroy employees' engagement".

(d) Is CSR the derivative of the intrinsic motivation of executives and employees?
Despite the lack of influence exerted on managers and executives of sample companies by stakeholders, NGOs and regulators, the role of their own feeling of responsibility and accountability appeared to be an important driving force for adopting CSR in the company. The respondents declared substantial awareness of social and environmental challenges and the

understanding of the necessity of company engagement in CSR programs,. Additionally, the respondents indicated that CSR is mostly driven by employees' expectations and viewed as an enrichment of the regular job tasks. Since as noted by one of the respondents "nobody wants to work for irresponsible company that cheats on customers and destroys the environment" adopting CSR programs emerges as human resource management tool and "makes the company look positive in the eyes of employees and future employees".

2. How the adoption of CSR is organized within the organization structure?
   (a) Is CSR placed at the strategic level? and
   (b) Is CSR incorporated in the strategy/ functional departments or carried out separately by dedicated department?
   One third of the interviewed executives and directors recognized the strategic role of CSR and the need for incorporating the concept assumptions into strategies. All the respondents were however very reluctant of placing the CSR department or CSR officer at the strategic level of the organizational structure. The preferred solution assumed establishing of a dedicated foundation with a disposable budget which would put in action the programs and initiatives. 5 of 16 respondents declared that companies implement general firm-wide program which interferes with procedures and policies. The stronger institutionalization of CSR in companies was observed in firms controlled by a foreign industry investor operating within an international business group. These findings are most likely explained by the observance of the inter-corporate policies and standards in such companies—a similar policy is adopted in all subsidiaries worldwide.
   (c) Is CSR related to core business?
   All the respondents agreed that the CSR activities may or even should be related to the core business of the firm due to the specialized know how, synergy effects and the potential for real contribution of the company and its employees. Few of them however identified the "fundamentalist approach that the CSR activity should not have any relations to the business itself".

3. What are the internal and external benefits of adopting CSR in the company?
   (a) Is CSR a source of competitive advantage?
   12 out of 16 respondents agreed that the adoption of CSR delivers internal and external benefits which may in turn become the source for an advantage on the market. Contrary to the research assumptions interviewed executives and managers indicated the internal benefits in the form of higher employee satisfaction and motivation as the most important positive outcome of CSR implementation. Interestingly, the main difference in answers related to the position and tenure of respondents—more experienced executives tend not to associate CSR directly with external benefits but rather see the bigger picture and indicate the CSR importance for the internal company matters, corporate culture, leadership and motivation systems. The respondents

remained at the same time relatively critical to the image improvement, reputation building and other external benefits for companies adopting CSR. According to half of the customers are not really interested in company involvement in CSR while the price plays the strongest role as the factor for the purchasing decision.

(b) Is CSR an element of marketing policy?
14 out 16 respondents were very critical to the strategy of placing CSR within marketing policy and recommended to keep it separate. First, the respondents indicated the separate motivation for engaging in CSR activities. Second, they called mixing CSR and marketing a risky approach which may lead to the loss of credibility of the company not only amongst customers but also amongst employees. Customers are these days well educated, have access to information and immediately notice when they are manipulated. Employees on the other hand may feel cheated or distrusted when they discover that their personal involvement was misused by the company for the purpose of a marketing campaign. Interviewed executives and directors assure that reputation matters but in their opinion customers value also other features of the company products such as innovation, quality, and most importantly price.

(c) Does CSR pay off?
The collected material indicated that companies are unable to estimate the link between better market and financial performance and engagement in CSR. Although the respondents indicated indirect links, focusing mostly on the internal benefits, in general they claimed that the financial motivation either does not play a role or is marginal for the decision of adopting CSR in the company.

4. Are there any conflicts between profit generation and adoption of CSR?
According to the collected materials the respondents were very reluctant to identify the conflict between profit generation and adoption of CSR. For majority of them CSR remains an additional dimension of activity in which companies may voluntarily get involved. Such approach also assumes that the scope of CSR programs is related and dependent on the company budget and the survival on the market and positive financial performance remains the key companies' goals. Therefore naturally in the times of financial or organizational crisis or in the case of lower profits or poor performance the CSR budget declines. Interestingly the executives and directors emphasized that the conflict between profit generation and adoption of CSR does not exist in that sense that companies "do not take shortcuts and engage in the socially or environmentally irresponsible behavior since this always leads to loss in reputation and deterioration of financial results". Moreover, they also referred to the shareholder-stakeholder conflict revealing the understanding and need for balancing the expectations. As one of the respondents mentioned "no one will sue an executive for spending money of CSR instead of paying the dividend".

3.5 Discussion

The empirical material collected during 16 interviews with executives and directors on companies operating in Poland reveals some interesting insights about the managers' perception on responsible business and the potential for the business case for CSR. First of all, the respondents agree on the significant importance of CSR for the company operation and strategic development. They are however more reluctant when it comes to giving CSR the strategic role and incorporating it totally into governance and strategy. The stronger institutionalization of CSR in companies was observed in firms controlled by a foreign industry investor operating within an international business group which usually formulate . inter-corporate policies and standards to be observed in all affiliated companies. Majority of interviewed executives and directors revealed also a critical approach towards the formalization of CSR adoption in company. They pointed at the formal procedures and reporting standards which may threaten the employees' engagement in CSR activities and lead to the instrumental approach to its implementation within company's policies and processes.

The respondents perceive CSR as a company's must, obligation towards society and "the right thing to do". Additionally, surprisingly the respondents do not recognize the financial or market motivation for introducing CSR indicating its limited importance for the point of view of purchasing decisions. CSR is not viewed as a driving force for marketing campaigns. Just the opposite the respondents indicated the threat of losing company credibility and customer trust when CSR would be used for marketing purposes. Interestingly, much bigger potential for CSR is identified in the area of human resource management as tools for making the job content attractive and appealing for young employees.

Referring the collected evidence on the practitioners' views on the CSR role in the company and its impact on firm performance interviewed executives and directors do not support the theoretical assumptions on the strategic role of CSR and its strong institutionalization. Similar reluctance was revealed when analyzing the direct impact of CSR upon firm performance. In the eyes of top managers too formal approach and too instrumental approach may be detrimental to stakeholders, both customers and shareholders as well as employees. CSR which is believed to be embedded in the individual moral obligations towards society appears to be based more on values and emotions than procedures and measures.

3.6 Conclusion

CSR is undoubtedly an important element for contemporary management. It provides guidelines for company operation and strategy, may become the source of competitive advantage and the determinant for innovation. The analysis of materials collected during a series of interviews conducted with 16 executives and directors of Polish companies aimed at understanding the practical dimension of CSR and confronting the theory with practice. This was to address the business case for CSR analyzing the strategic position of CSR in the strategy formulation, process of CSR implementation, standardization and reporting and finally its impact on firm performance measured by external and internal benefits. The collected evidence questions several theoretical assumptions on strategic CSR role, the need of its strong formalization within organizational structures and procedures and the impact on performance. The discussion of the research findings indicate that the value of the business case for CSR appears to be overestimated due to the price sensitivity of customers and their appreciation of other features of products and services. Additionally, standardization of procedures and reporting guidelines which are viewed as important progress to increase companies' disclosure is perceived by them in a more critical approach. The largest benefits for companies adopting CSR are identifies in the potential of internal advantages related to HRM, leadership, motivation and corporate culture. In other words, business practitioners are less explicit on the strategic and organizational role of corporate social responsibility in the company and market context and perceive it as a complex and sensitive issue crafting the relations between firm and its internal and external stakeholders.

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Part II
Conceptual Corporate Social Responsibility

Organisational Identity
Conceptual Development
Planning
CSR Conundrum

Chapter 4
Solutions or Legitimations? How the Conceptualization of Organizational Identity Shapes the Social Relevance of CSR Initiatives in Two Japanese Corporations

Scott T. Davis

4.1 Introduction

4.1.1 Japanese Firms and CSR: Criticism and Dichotomy

Corporations in Japan have recently come under increasing criticism for their lack of awareness of the social implications of their business activities—particularly those conducted outside of Japan. In May 2014 the Ministry of Economy, Trade and Industry released a report entitled a "*Survey of CSR Issues in Global Business Activities and their Management*" that was surprisingly critical of Japanese business for lacking both adequate sensitivity of social issues and for largely failing to integrate them into their business plans and activities (Ministry of Economy Trade and Industry, 2014). A wide ranging series of reforms have been implemented over the past three years by various government ministries, the Tokyo Stock Exchange, pension funds and a variety of other organizations all aimed at increasing the transparency and accountability of Japan's firms (Davis, 2016).

The target of these reforms is the "community firm" a corporate model that has been researched, praised and/or criticized in Japan since the 1960s (Hazama, 1963, 1971, 1996; Mito, 1976, 1989, 1991a, 1991b; Odaka, 1984; Tsuda, 1977, 1980, 1981, 1982, 1994; Tsuda & Natō, 1982; Umezawa, 2009). Despite its name, the community firm does not refer to a state of enhanced community awareness but to its opposite—to a firm which has become its own internalized community. In studies of labor economics this model has been depicted as a highly internalized labor market which facilitates rapid technological innovation by creating flexible organizations based on strategically defined functions, not organizationally defined jobs (Rebick, 2005), in the field of management strategy and history they have been

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explained as a mechanism for securing resources—capital, labor and social capital by creating cooperative organizations or overcoming friction (Buchanan, Chai, & Deakin, 2012; Dore, 2000, 2005; Inagami & Whittaker, 2005; Johnson, 2001; Whittaker & Deakin, 2009; Witt, 2006), in governance studies they are generally considered to be an anachronism, not suited to the demands of contemporary capital markets and transparent investment environments (Jacoby, 2007; Schaede, 1994; Seki, 2005), and in recent studies of the software industry they have been depicted as an organizational logic that promotes insularity and undermines growth (Anchordoguy, 2005).

The majority of studies of the community firm model tend to concur that they are defined by **internalism**. Previously identified as one of the key structural characteristics of Japanese-style management from the days of "*Japan as Number One*" (Abegglen, 2006), Japan's community firms are now being criticized as a source of corporate insularity which makes them either insensitive to social issues or causes them to perceive many developing social and environmental trends as threats to their business interests and freedoms as corporations. Despite this criticism, however, many firms in Japan continue to value their traditions of strong organizational identity as a critical asset—claiming that it promotes a sense of belonging among employees, of continuity amidst rapid change, and serves them as a moral compass.

4.1.2 Two Divergent Cases in the Conceptualization of CSR

This paper will examine two Japanese firms, both of which conform to the organizational profile of a community firm, display very strong organizational identities and are actively engaged in CSR. However, they diverge in that the external evaluations of their respective social performance levels differ remarkably. While one firm has been awarded for its CSR reporting and for many of its CSR initiatives, the other rarely appears in CSR rankings or (except in corporate sponsored newspaper advertisements and panel discussions) in media coverage of best practices in innovative social or environmental initiatives.

This paper will argue that the difference in social performance between these two firms is a result of contrasting conceptualizations of organizational identity. In the former case, organizational identity is conceptualized and integrated into the processes for planning, implementing and evaluating business so as to promote the development of an innovative and competitive business strategy which is also both socially informed and socially relevant. In the latter case, however, the organizational identity is devised to act as a buffer to shield the business from social issues, legitimate it against stakeholder claims, and preserve its freedoms and independence so as to enable it to dedicate its resources to serve its own carefully defined economic interests.

The business strategies of these two firms vary greatly in the degree to which they are socially informed. This concept of a socially informed strategy is central to this paper. A strategy is considered here to be **socially informed** to the extent to which: social and environmental issues have been identified as strategic issues (Ansoff, 1980, p. 133) in its **planning**, relational interactions (Hillman & Keim, 2001) with stakeholders promoted in its **implementation**, and the extent of value creation (Ghoshal, Bartlett, & Moran, 1999) and innovative transformation (Edwards, 2010, p. 35; McNulty & Ferlie, 2004, p. 1392; Chapman, 2002, p. 18) of the social context of markets and industries have been considered and emphasized in its **evaluation** processes.

4.2 Objectives of This Paper

This paper has three objectives, to:

1. Develop a framework to facilitate the analysis of the processes whereby organizational identity shapes the identification of social issues within firms,
2. Apply this framework in a comparative study of two Japanese firms operating in the same market and industry that display remarkably different levels of strategic CSR, and
3. Identify the practices (organizational structures and processes) that promote the formulation of socially informed business strategies.

It is hoped that this comparison of two ostensibly "community firms" with contrasting approaches to CSR will further both the understanding of CSR in Japanese corporations and, more generally, yield insights into the structures and processes that facilitate strategically embedded as opposed to decoupled CSR initiatives. In order to meet these three objectives a framework must first be developed by which to examine the relationship between the identity of an organization, the process by which an organization identifies social and environmental issues in its business environment, and how it acts on its awareness of these issues.

4.3 Organizational Identity: A Review of Theory

4.3.1 Meaning of Organizational Identity at Individual and Firm Level

Organizational identity (hereafter: OI) refers to the characteristics of an organization that both define it for its members and shape its interaction with its constituents. In order to serve as an identity these characteristics must be central, distinctive and enduring (Albert & Whetten, 1985). For the individual member an organization's identity facilitates a sense of **belonging** by providing a "schema for what that person believes are core attributes shared by members of the organization" (Dutton & Penner, 1993, p. 95), a sense of **orientation** by serving as a "cognitive map" (Fiol

& Huff, 1992, p. 267), and a sense of **direction** by framing "what is good, real, important possible, and necessary" (Stoecker, 1995, p. 113).

The identity of an organization is powerful. To the extent that it influences the individual's sense of self and purpose, the OI also promotes a strong feeling of vested interest among its members regarding the organization's activities and its external evaluation (Dutton & Penner, 1993, p. 550). Identity will therefore direct an organization's "attentional resources" towards issues deemed legitimate (Dutton & Penner, 1993, p. 98), facilitate or prevent change (Reger, Mullane, Gustafson, & DeMarie, 1994, p. 33), and at times may even override its interests as a business by supplying a "criteria for making decisions that compete with instrumentally rational ones" (Polletta & Jasper, 2001, p. 293).

4.3.2 Functions of OI: Integrative and Operational

Taking a social systems approach, Seidl defines two central functions for an OI to fulfil over time: an **integrative function** (Seidl, 2005, p. 82) by which the organization accounts to itself as an entity, and an **operative function** by which the organization frames its activities and decisions (Seidl, 2005, p. 83). Describing its integrative function Seidl explains that: "Organizational self-descriptions represent the organization to the organization. They provide the organization with a sense of unity: on the basis of the self-description the organization can observe its different parts as related to each other… it focuses its operations and prevents the organization from 'losing" itself" (Seidl, 2005, p. 82). Ashforth likens this operational function to a lens "for perceiving and interpreting the environment… An [OI] affects what is attended to and, therefore, what gets *noticed*" (Ashforth & Mael, 1996, p. 46). This operational function informs action in two ways: by shaping the perception of issues, and by evaluating decisions and actions on their conformity identity.

4.3.3 Frames of Reference for OI Construction: Comparative and Historical

Whetten has identified two frames of reference for the construction of OI: **historical** and **comparative** (Whetten, 2006, p. 223). The former is inward focused, emphasizes the story of the organization over time and is primarily concerned with its central and enduring characteristics, while the latter, being concerned with the identity of the organization as opposed to others, looks outward and concerns distinctive characteristics which thereby ground a sense of association. While the historical construction is concerned with "a temporal conception of acting in-character, commonly expressed as 'honoring the past' or 'doing what's right for the organization'"(Whetten, 2006, p. 223), the concern of the comparative construction is with legitimacy, accountability and Albert and Whetten's characteristic of distinctiveness.

4.4 Identity as an Inherently Dynamic Process of Interaction and Change

A wide range of approaches towards OI have been developed (Brown, 2001; Cornelissen, Haslam, & Balmer, 2007; Whetten, 2006) which vary according to how the organization is seen as either a social system (Scott & Davis, 2007), social actor (King & Whetten, 2008; King, Felin, & Whetten, 2010, p. 292), or by taking identity to be the product of an ongoing narrative (Czarniawska, 1997, p. 17).

Kirchner has observed that another key difference between conceptualizations of OI lies in their approach to change: "OI appears to be either enduring by definition or an ongoing process of continuous (re-)creation" (Kirchner, 2013, p. 36). Weick argues that "identities are constituted out of the process of interaction" (Weick, 1995, p. 20). Expanding on this Gioia maintains that just as "a sense of continuous formulation and preservation of the self through interaction is essential to notions of individual identity," OI within firms is a "processes of interaction with outsiders—for instance, customers, media, rivals, and regulatory institutions" (Gioia, Schultz, & Corley, 2000, p. 65).

4.4.1 Identity as a Cycle of Making Sense

The process whereby individuals identify with an OI is characterized by Ashforth, Harrison and Corley as consisting of a cycle of sense-breaking and sense-giving. Ashforth, Harrison and Corley explain that: "Individuals begin to incorporate elements of the collective into their sense of self by enacting identities and then interpreting responses to these enactments. Organizations encourage enactment and provide feedback through sense-breaking and sense-giving. These individual and organizational processes work together as a cycle... that captures the moment-by-moment attempts to become prototypical members of the organization. Individuals construct an identity narrative as a way of linking these moments over time, generating a story that integrates 'who I am now' with 'who I have been,' while suggesting 'who I might become' (Ashforth, Harrison, & Corley, 2008, p. 340).

Interaction with stakeholders can potentially alter the ongoing process of identification between firms and their members resulting in sense-breaking events outside the identification process. For Weick, Sutcliffe, and Obstfeld, **sense-breaking** events constitute an explicit "shift from the experience of immersion in projects to a sense that the flow of action has become unintelligible in some way"

(Weick, Sutcliffe, & Obstfeld, 2005, p. 409). Pratt and Foreman, in a study of Amway distributors, found that "sense-breaking involves a fundamental questioning of who one is when one's sense of self is challenged" (Pratt, 2000, p. 264). According to Bundy, Shropshire, and Buchholtz "those stakeholder issues that induce identity or frame conflict represent a particularly strong disruption of order—a "sense-breaking" or "dislocating" event that triggers a fundamental questioning of one's sense of self" (Bundy, Shropshire, & Buchholtz, 2013, p. 365).

4.4.2 OI as a Mental Model

In sharp contrast to these sense-breaking events and subsequent reflective reappraisal of identity and meaning as a result of stakeholder interaction, left uninterrupted, identification processes can result in path dependency where the cognitive map of OI restricts perception of the business environment and social context. Porac has shown that "core identity and causal beliefs that permit managers to define competitive boundaries and make sense of interactions within these boundaries... are reinforced by a mutual enactment process in which the technical choices of firms constrain the flow of information back to decision-makers, thereby limiting their vision of the marketplace to that which has already been determined by existing beliefs" (Porac, Thomas, & Baden-Fuller, 1989, p. 412). Similar feedback effects have also been identified in a number of other studies (Bromley & Powell, 2012, p. 493; Covaleski, Dirsmith, & Michelman, 1993; Tilcsik, 2010) in a variety of organizational settings.

4.4.3 Continuity and Change

Chreim develops the concept of **confluence** to portray the state where "simultaneous continuity and change" are maintained in a narrative discourse of identity: "The notion of confluence in identity calls for considering continuity and change not as contradictory elements, but as complementary and interwoven" (Chreim, 2005, p. 587). Chreim explains those in times of organizational change "confluence can be established by reframing the meaning of past experience so it appears consistent with the present and future requirements" (Chreim, 2002, p. 1132) and thereby "provides anchors to the past that organizational participants rely on for a sense of self-consistency" (Chreim, 2002, p. 1119).

Foreman and Parent classify an organization with significant discontinuity in its identity over time as being **iterative**. In Foreman and Parent's formulation: "the iterative organization is one that convenes or organizes itself on a periodic or recurring basis... They are characterized by an interruption or unevenness in the continuum of activity, resulting in a series of organizational manifestations. It is this unevenness in activity and the degree to which each manifestation is connected to its priors and followers that fundamentally characterizes these types of organizations. We call this characteristic *discontinuity*" (Foreman & Parent, 2008, p. 223).

4.5 Stakeholders and the External Expectations of Firms

Firms are influenced by the expectations of their stakeholders. Firms interact with or influence a wide range of stakeholders as indicated in Freeman's seminal definition of the stakeholder as constituting "any group or individual who can affect or is affected by the achievement of the organization's objectives" (Freeman, 1984, p. 46). Stakeholder expectations or "claims" are numerous, varied and constantly require to be balanced (Neville, Bell, & Whitwell, 2011, p. 357). Explaining the importance of stakeholders to business strategy Freeman has indicated that "to be an effective strategist you must deal with those groups that can affect you, while to be responsible (and effective in the long run) you must deal with those groups that you can affect" (Freeman, 1984, p. 46).

4.5.1 Stakeholder Multiplicity

Neville and Menguc have defined the term **stakeholder multiplicity** to explain the "degree of multiple, conflicting, complementary, or cooperative stakeholder claims made to an organization" (Neville & Menguc, 2006, p. 377). Multiplicity increases in correspondence with the firm's degree of dependency on these "pressuring institutional constituents for its legitimacy or economic viability" (Oliver, 1991, pp. 165–166), and the variety of entities making demands upon the firms resources as a result of relationship dispersion (Pfeffer & Salancik, 2003, pp. 272–273).

4.5.2 Stakeholder Salience

Stakeholders and their claims are of differing degrees of salience to firms. Mitchell, Agle and Wood define the **salience** of stakeholders as "the degree to which managers give priority to competing stakeholder claims" (Mitchell, Agle, & Wood, 1997, p. 854).

This priority can be determined upon the basis of salience with either the integrative or operative function of an OI. Neville suggests an integral approach: "the moral legitimacy of a stakeholder's claim is an assessment by managers of the degree to which a claim exceeds a threshold of desirability or appropriateness within some personally, organizationally, and socially constructed system of ethical norms, values, beliefs and definitions" (Neville et al., 2011, p. 369). By contrast Ashforth and Mael propose an operative approach by explaining that "to be labelled a strategic issue, something must be noticed and interpreted as potentially relevant to the organization's status or performance" (Ashforth & Mael, 1996, p. 46). Similarly, Luders argues from an operative approach that the level of a firm's receptivity and responsiveness to stakeholder issues are calculated in terms of a playoff between concession and disruption costs (Luders, 2006, p. 969).

4.5.3 Stakeholder Identification of Issues as "Contests Over the Creation of Meaning"

Interaction with stakeholders can involve the exercise of power—power to: identify, contest the meaning of, and thereby potentially redefine issues critical to the integral and operative function of organizational identities. For Lamertz, Martens and Heugens issues, as the expectation of stakeholders, are not "seen as objective descriptions of events, but as reflections of a dynamic interaction between the participants in an enacted structure, who engage in a power struggle over the meaning constructed for the underlying objective conditions" (Lamertz, Martens, & Heugens, 2003, p. 86). Scott and Lane argue that: "OI is best understood as contested and negotiated through iterative interactions between managers and stakeholders. Thus, we explicitly integrate power in the conceptualization of OI" (Scott & Lane, 2000, p. 44). Lamertz, Martens and Heugens contend that: "adopting a symbolic interactionist perspective, it is argued that social issues should be interpreted as socially constructed disruptions of an institutional order that structures purposeful exchanges between actors. Under these conditions, issue evolution resembles an ongoing sense-giving battle in which actors seek to restore the order by imposing their unique 6solution preferences on the situation" (Lamertz et al., 2003, p. 82).

Identity comes to be depicted as reputation and image. For Fombrun and Shanley: "Publics construct reputations from available information about firms' activities originating from the firms themselves, from the media, or from other monitors... Established reputations themselves are signals that also influence the actions of firms' stakeholders" (Fombrun & Shanley, 1990, p. 234). Image is different to reputation. Whereas reputation is a depiction of the attributes used by external entities to describe the organisation (Dutton & Dukerich, 1991, p. 547), image is the internal representation of reputation. For Dutton and Dukerich: "an organization's identity describes what its members believe to be its character; an organization's image describes attributes members believe people outside the organization use to distinguish it" (Dutton & Dukerich, 1991, p. 547).

4.5.4 Action in the Face of Contested Meaning Creation: "Symbolic" and "Substantive" Responses

In order to manage issue identification in the negotiation of OI, firms may offer either symbolic or substantive responses to stakeholder claims. Weaver, Treviño and Cochran have observed that firm responses to stakeholder expectations can be either **symbolic** (decoupled) or **substantive** (integrated): "corporate responses to expectations for social performance can be decoupled from or strongly integrated with regular organizational activities" (Weaver, Trevino, & Cochran, 1999, p. 546). For Ashforth and Mael **substantive management**: "involves real, material change in organizational practices. An organization adopts certain ways of doing things—a structural configuration, technologies, accounting practices, operating routines, and so on. These adoptions both inform and are informed by the organization's identity and strategy, such that there are continuous, reciprocal interactions between self-definition, choice, and action" (Ashforth & Mael, 1996, p. 35).

By contrast, symbolic responses have been characterized as forms of "window dressing" (Weaver et al., 1999, p. 539) wherein structures are decoupled from "each other and from normal ongoing activities" (Meyer & Rowan, 1977, p. 34). Symbolic has been classified variously as non-market strategies (Baron & Diermeier, 2007), OI work (Kirchner, 2013), or symbolic action. Baron and Diermeier propose three **nonmarket strategies** by which firms can manage the risk of reputation damage due to activist campaigns: (1) implement proactive reputation building and operational modifications, (2) campaign management, and (3) mitigate the supply of activism. The third form of nonmarket strategy identified by Baron and Diermeier refers to action taken by a firm to influence the level of social support for activism and thereby change the "supply of activism, which depends on both the public support for the activists' agenda and the costs of conducting a campaign. Strategies focus on reducing the support from the public, raising the cost of activism, and restraining activists' actions" (Baron & Diermeier, 2007, p. 602). Kirchner defines **organizational identity work** as: "individual or collective activities within an organization that are directed towards the creation, disruption, or maintenance of OI" (Kirchner, 2013, p. 42). Kirchner identifies three forms of OI work: "manipulation of external perceptions, adaptation and persistence of internal coherence." **Manipulation** involves ceremonies for "signalling compliance and socially desirable traits to external observers," **adaptation** involves "proactive and reactive activities" to resolve a "mismatch between the environment (image or reputation) and actual identity," and **maintaining** refers to attempts to "repair damage to consistency and to maintain existing structures" (Kirchner, 2013, pp. 42–43).

4.5.5 Models of Stakeholder and Issue Management

A firm can conceptualize its interaction with its stakeholders as either a continuation of past experiences, as a function of their perceived alignment with stakeholder interests, or as the result of the implications of stakeholder claims to the firm's OI and/or strategic objectives. Two such identity-based structures by which firms manage multiplicity have been proposed: the **stakeholder cultures** model by Jones, Felps, and Bigley (2007), and the **stakeholder identity orientations** developed by Brickston (2007).

4.5.6 "Stakeholder Cultures": A History of Relationships Approach

Jones et al. (2007) contend that organizations resolve the moral tension between self and other interest in their relationships with stakeholders by reference to solutions embedded in past experience. Defining this embedded experience as "stakeholder culture" Jones, Felps & Bigley define it as a "firm's collective reconciliation of these contradictory motives in the past and, as such, consists of its shared beliefs, values, and evolved practices regarding the solution of recurring stakeholder-related problems" (Jones et al., 2007, p. 142). Based upon an ethical "continuum of concern for others which ranges from self regarding to other regarding" (Jones et al., 2007, p. 143). Jones, Felps & Bigley identify five categories of corporate stakeholder cultures: amoral, corporate egoist, instrumentalist, moralist and altruist cultures (Jones et al., 2007, pp. 144–150).

4.5.7 "Identity Orientations": A Nature of Relationships Approach

Brickson has proposed that firms as organizations display "identity orientations" towards stakeholders. Brickson defines an identity orientation as being "determined by its locus of self-definition. Do members understand the organization as a sole entity, as a dyadic interentity relationship partner, or as a member of some larger collective? The locus of self definition can be assessed by considering the traits and characteristics most salient to members when describing their organization" (Brickson, 2007, p. 867). Brickson (2005) has identified three *identity orientations* based upon cognitive and motivational differences by which firms as organizations relate to their stakeholders. For Brickson interactions with stakeholders represent an operationalization of OI: "An *individualistic* orientation refers to an organizational self-conception as a sole entity atomized and distinct from others. A *relational* orientation corresponds with a self-conception of the organization as a dyadic interentity relationship partner possessing particularized bonds with specific stakeholders. Finally, a *collectivistic* orientation refers to an organizational self-conception as a member of a larger group with generalized ties to other stakeholders in that group" (Brickson, 2007, p. 865). Issues identified by stakeholders are therefore perceived as constituting either a confirmation or denial of its OI.

4.5.8 "Strategic Cognition": A Meaning of Issues Approach

Taking as their starting point the observation that "firms and managers do not respond to stakeholder and environmental characteristics per se. . . [but] to specific issues and concerns advocated by stakeholders" (Bundy et al., 2013, p. 353). Bundy, Shropshire, and Buchholtz focus their efforts on developing an "*issue salience perspective* for examining firm responsiveness to stakeholder issues" (Bundy et al., 2013, p. 353). Building upon Seidl's depiction of the integrative and operative function of identity (Seidl, 2005), Bundy, Shropshire, and Buchholtz use the term **expressive** and **instrumental** logic to conceptualize the "organization's core values and beliefs" and the "rational pursuit of organizational goals" (relating to competitive advantage and economic performance) respectively (Bundy et al., 2013, p. 353).

Stakeholder issues are defined by Bundy, Shropshire, and Buchholtz as the: "explicit concerns and requests raised by individuals/groups that can affect or be affected by the firm" (Bundy et al., 2013, p. 352). Issues are either irrelevant, consistent or in conflict with either or both of these two logics (defined as cognitive and strategic frames) thus yielding nine issue types: True opportunity (consistent with both identity and strategy), True threat (conflicting with both), Identity conflict (consistent with strategy but conflicting with identity), Frame conflict (conflicting with strategy but consistent with identity), Instrumental opportunity (consistent with strategy but unrelated to identity), Instrumental threat (conflicting with strategy but unrelated to identity), Expressive opportunity (unrelated to strategy but consistent with identity), Expressive threat (unrelated to strategy but conflicting with identity), and Nonissue types (unrelated to both) (Bundy et al., 2013, p. 369). In the second part of their framework Bundy, Shropshire, and Buchholtz then associate each of these issue types with the firm's response in terms of its materiality ("either symbolic or substantive") and form ("either defensive or accommodative") (Bundy et al., 2013, p. 353). Thus in their own words, Bundy, Shropshire, and Buchholtz's model allows us to "enter the black box of managerial decision making so as to understand how firms act as interpretation systems to receive and process stakeholder issues" (Bundy et al., 2013, p. 356).

4.6 A Framework

Although highly selective, this brief review of theory related to OI, issues, and stakeholder relations permits the extrapolation of the following six propositions. These propositions will be used here to guide an analysis of the implementation of CSR in the two cases.

Six propositions regarding the meaning of CSR from an OI perspective:

1. The implementation of a firm's CSR is an enactment of its OI.
2. Identity gives meaning to the issues (perception and prioritization), actors (identification and interpretation) and actions (location and design) that comprise CSR for the organization.
3. Identity makes sense of the effects (impact and change), relationships (obligations and expectations), and outcomes (reputation and experience) that result from the CSR activities for the organization.
4. Values characterizing a firm's OI will shape the direction of, and be subsequently reconstructed by, the outcome of CSR activities.
5. The value characterization of OI will define a firm's CSR activity as either a transformational (self reflection and renewal) or transactional (rationalization and legitimation) process.
6. The process nature (transaction or transformation) of a firm's CSR will promote the formation of either an internally informed business strategy or a socially informed business strategy.

4.7 Research Method

The research consisted of a series of interviews conducted in two phases. The first phase comprised of a series of interviews with employees and executives of firm A and B, while the second phase was an interview with personnel from the CSR office or department of both firms respectively. A total of 31 interviews were conducted at firm A (24 employees and 7 executives) and 29 at firm B (20 employees and 9 executives).

4.7.1 Interview Structure

Interview respondents were asked to:

1. Identify the social issues and stakeholders most relevant to their business activities.
2. Explain the social and environmental implications and impacts of their company's business activities.
3. Describe the CSR initiatives of their firm.

Throughout the interviews respondents were encouraged to speak freely about their current responsibilities, business activities, strategies and future plans of their corporations.

Confidentiality agreements require that the names and identities of both firms and their individual executives and employees be withheld, and that no identifiable information regarding the respective firms be made public.

4.8 Research Findings and Discussion

Both firms were of similar size, history, and industry, and, importantly here, both corresponded closely to the profile of a community firm. Specifically both firms:

1. Employ the auditing board model of corporate governance whereby the board is overseen by a group of statutory auditors. This model is unique to Japan and roundly criticized by governance scholars and overseas investors as providing inadequate monitoring and control of the board.
2. Internally promoted (career) CEOs.
3. Previous CEO currently serving as chairman, and former chairman currently serving as corporate advisors.
4. All board seats filled (until very recently with the introduction of independent directors) with internally promoted executives.
5. An all-male board (with the exception of one or two independent directors who are women) and with less than 5 % of all corporate executives being female.
6. Extensive cross shareholdings. This practice is widely criticized as a mechanism to weaken the ability of investors to influence management—however it is explained by both corporations as being the result of strategic investments.
7. The labor force is divided into a stable, core of mostly male employees with extensive benefits (pensions, health insurance, housing and family allowances, and access to corporate subsidized vacation lodges and hotel packages) annual salary increases and biannual bonuses tied to overall corporate financial performance (often termed “seniority pay”).
8. A large number of contracts, part-time contingent workers paid only salaries and commuting allowances, without either pensions or significant benefits, are employed by both companies. These contingent workers serve as a buffer to provide stable employment for the core workers while allowing for sufficient flexibility in workforce management and payroll cost controls to compensate for market and economic risk (often considered a mechanism to support “lifetime employment” for the core workforce).
9. Consistently low ratings on governance rankings in Japan.

4.9 Organizational Identity and the Implementation of CSR

Working upon the assumption that a corporation's statement of values would encapsulate an expression of its organizational identity, case analysis commenced with a comparison of the value statements of each firm. In a pattern which was to be observed repeatedly throughout the fieldwork, although both firms evidenced remarkable similarities in their organizational/structural design of their CSR, they diverged radically in terms of its management and operationalization. This structural similarity yet functional divergence becomes particularly evident in a comparison of the two firm's value statements.

4.10 Statement of Corporate Values

In written form the texts of both Firm B and Firm A's corporate value statements were of a remarkably similar format—each consisting of only a few lines of text—but substantially different in content. Looking at only the keywords contained in the statements (in order to avoid identification) shows that Firm B places central emphasis on three values: integrity, reliability and trust, while Firm A employs a more pragmatic terminology of: promotion of innovation, solutions and welfare. Most respondents at Firm B would refer to their corporate identity cards and quote them verbatim when asked about their firm's corporate principles. This was in sharp contrast to Firm A where corporate values and principles were almost always explained using illustrations of how they applied to or guided the respondent's past or current work. For Firm B CSR was conceptualized as a reputational dimension of stakeholder relations that existed outside of core business activities, while for Firm A it was conceived of as *constituting* the social relations of business.

4.10.1 Structural Organization

The organization of CSR at Firms A and B were virtually indistinguishable from each another when defined exclusively in terms of organizational structure and staff allocation. Both Firms A & B maintained a CSR office or department attached to the corporate planning department of its headquarters, overseen by a CSR committee comprising of various corporate department heads and ultimately reporting to a senior executive at board level who was also nominally the "officer in charge of CSR" as well as the chair of the CSR committee. The CSR office in both of the firms was staffed by approximately ten people each. Despite these structural similarities, however, the interviews revealed that the processes used to plan and implement CSR initiatives contrasted markedly between the two firms.

4.10.2 Organizational Identity as Giving Meaning to the Issues, Actors and Actions of CSR

The orientation of OI differs remarkably between the two firms in terms of their CSR infrastructure, and their conceptualization of social issues and stakeholders.

4.10.3 The "Infrastructure" of CSR

This difference was reflected in the infrastructure of CSR at both firms. The term **CSR infrastructure** is used here to refer to the manner in which CSR is structurally organized and administered as a corporate function within the firm. CSR at Firm B is managed as a structurally centralized and distinct function. Its administration follows that of other discrete corporate functions such as quality control, risk management or legal compliance. CSR is planned and budgeted for on an annual basis. The CSR department submits an annual budget request using the same procedure as other departments.

Firm B retains a CSR consulting firm to plan and guide its activities. Each year, before the budgeting round, the consultancy prepares and submits a plan for CSR activities for the following year. This proposal typically contains a sub-budget for the annual CSR report (production of which is subtracted out to the consultancy) and plans for various CSR projects and activities, continuations of existing initiatives, and other new or one-off proposals. A member of the CSR office then submits this annual CSR activity proposal to the CSR committee. Its contents are debated and the proposed activities are prioritized to enable adjustment in the event that funding is below the level requested and expenditure has to be reduced.

Firm A maintains a considerable CSR infrastructure which, although closely coordinated by the CSR office, is more structurally diverse and decentralized than that of Firm B. The following were identified as its key components:

Annual Strategy Meeting This involves a series of meetings among all departments which culminates in a final companywide daylong meeting where the upper management of all operating departments meet to hear and review each other's proposals for the following 12 month and 5 year period. This series of meetings is different to the regular business strategy planning process in that it concentrates on developing what are termed "business scenarios" which are used to evaluate current and proposed business strategies upon the basis of emerging or currently evolving social and environmental trends.

CSR Workshops Firm A includes a series of workshops by a variety of consulting experts in the range of skill and knowledge areas including: design thinking, social design, stakeholder relationship management, critical thinking, and others. A workshop in each theme is held at least twice annually for a 2 to 3 day period with a capacity ranging between 20 to 30 participants. Employees may apply to participate with the authorization of their department manager. Participation in these and other workshops is strongly encouraged by executive management and is considered as a factor in personnel evaluation. Employees give feedbacks on these workshops—which are managed jointly by the HRM and CSR departments—and often suggest topics for further, more detailed or additional workshops.

CSR Database Firm A's CSR database is a catalogue of organizations (government agencies, research centers and laboratories, university centers, and facilities run by NGOs and NPOs), and specialists (in other corporations, universities, national centers, consultants, and includes specialists in retirement who would be amenable to short-term contract work) describing their activities and areas of expertise. The catalogue is accessible by all employees via the firm's intranet and any employee is able to add, edit and update entries "wiki-style." Entries include reports detailing the content of information gained from the experts when they gave presentations to employees at the firm, were engaged for projects, and consulted on an ad hoc basis. Entries also include journal, magazine and newspaper clippings with notations, and summaries of relevant monographs. Employees reported that the database can be used to research a very wide range of social and environmental issues and, in the event that information is inadequate, to locate experts for consultation. Respondents reported that they frequently made use of the database and all could recall instances of having used it in their work.

Formal Study Employees may apply to participate in executive education and regular academic programs at domestic and overseas universities lasting between two weeks and up to one year for a Masters level graduate program. A list of programs is maintained by the CSR department and employees are encouraged to participate.

Overall, Firm A maintains a rich and varied annual cycle of thought-provoking and integrated activities specifically aimed at encouraging and enabling individual employees to plan, implement and evaluate their regular business activities with a shared awareness of the firms values and principles, and current and future social issues.

4.11 Conceptualization of a "Social Issue"

The conceptualization of what constituted a social issue—how they were identified and acted upon—was remarkably different between the two firms (see Table 4.1).

At Firm B a panel of external experts was used to identify social issues at a panel discussion held annually and covered in detail in the CSR report. This annual panel discussion figured as a highlight of Firm B's CSR activity. The panel discussion consisted of a group of experts in various social and environmental fields who analyzed the firm's current social and environmental performance and identified

Table 4.1 Orientation, goals and focus of CSR in firm A and B

	Firm A	Firm B
CSR orientation	An activity whereby the firm conveys the meanings and motivations behind its actions to its constituents in its environment in order to promote constructive partnership	An activity whereby the firm communicates its actions as a corporation
CSR goals	To plan and implement innovative business models based on the transformation of existing social relations in order to better utilize resources and create value	To legitimate the status quo and ameliorate the risk of threats and calls for change
CSR issue focus	Concentrate on identifying multiple, specific, locally contextualized issues while still emerging trends or in very early issue development stages	Identify and prioritize issues in a late development stage which require amelioration or appeasement

issues and areas in need of action or remedy. Experts were chosen each year by the consulting firm to match the reports annual theme and they, and their areas of concern, therefore changed each year in order to "maintain public interest" as one respondent explained.

Each panel discussion followed a similar pattern with each of the four participating experts first presenting a prepared 10–15 min speech giving their evaluation of the firm's achievements and shortcomings. The corporate executives in attendance (usually the CEO, VP, CSR executive and PR manager) would then respond to the points by reading a pre-prepared response. Following this, the facilitator (a consultant from the CSR consultancy) then posed a series of questions to the experts based on 2–3 topical key issues, such as global warming, biodiversity and resource usage and recycling. Prior to the discussion the experts were given a copy of the previous year's CSR report and basically relied on their specialist knowledge in analyzing the company and identifying issues for action. Experts do not meet before the panel discussion or coordinate their analysis or comments.

The effect of this issue identification process on Firm B's CSR initiatives was pronounced. Each year initiatives were added to comply with the demands of the panel experts for any issues that could not be rationalized away as irrelevant or handily satisfied by publicly issuing a statement of policy on the issue. Over time, this issue identification process resulted in a large number of wide ranging, small-scale and short-term CSR initiatives and a largely incoherent CSR strategy. The call to address many issues on topics that shifted each year pushed the initiatives into a similar format of financial support of charities, sponsorship of events and contests, and donations of supplies and materials to NPO's and other social entities. One executive commented that "in order to protect the corporate reputation it is critically important that the firm be seen to be constantly aware of, and be seen to be actively supporting efforts to relieve, issues of high social concern in a timely manner."

Firm A had no dedicated procedure for identifying social issues. It relied instead on the CSR infrastructure described above to fulfil this function. By promoting high levels of information and access throughout the organization (embedded within the business planning, implementation and evaluation cycle) Firm A tended to identify early, conflicting, fluid and often highly ambiguous social issues. By contrast, being organized separately from the business planning, implementation and evaluation cycle, Firm B's panel tended to identify late stage, potentially disruptive issues amenable to placation by transactional CSR activities—such as making CSR policy pronouncements, supporting charities, and sponsoring contests and educational programs. Issues identified at Firm A are defined within, and integrated into, the firm's business planning and evaluation processes so as to inform strategy, whereas at Firm B these issues become material for public relations.

4.12 Stakeholder Identification

Employees and executives at both firms A and B were able to define a similar number of stakeholders—approximately eight each—with a tendency for younger employees to identify a larger number of shareholders than their more experienced and older colleagues. However, while the stakeholders identified at firm B showed a marked level of consistency, those identified at firm A displayed considerable variety.

Firm B executives and employees tended to identify a highly generic form of stakeholder such as: the environment, customers, trading partners, investors, employees, national government, local community, and regional governments being among the most common. Firm A's employees and executives identified very specific stakeholders usually closely related to their own work or business activities. These included such stakeholders as: indigenous, traditional inhabitants of resource rich regions, elderly members of rural populations with increasingly limited access to transport, investment funds with a strategic focus on renewable energy production, researchers in universities specializing in illnesses and the physiology of the aged, consumers with high awareness of food additives, and shopping complex developers seeking high returns on their properties. This granularity and breadth in the identification of stakeholders, combined with specific and concrete explanations of how these stakeholders were relevant to business activities and business models, by the employees of firm A was in stark contrast to the generic—almost homogenized—stakeholders identified at firm B.

Furthermore, when asked to explain the interests and relationships of stakeholders to their firms, executives and employees of firm B spoke about the responsibility of the firm to act as a responsible corporate citizen, building trust between the firm and its stakeholders by means of rigorous legal compliance, disclosure and transparency in all its actions, and acts of charity and social support to promote corporate understanding and social understanding. Overall stakeholders tended to be defined as either a potential threat which had to be placated, or as influential entities which could either legitimize or delegitimize the firm in the market. Both the employees and executives of firm B displayed a similar stance here, with one key difference being that executives tended to stress to the relevance and importance of past actions to the current reputation of the firm.

Firm A's employees generally explained stakeholders in terms of their specific social context and the relevance of their respective identities and situations to the present and or future direction of business activities and firm performance. While firm B's employees usually spoke of corporate performance as being "at risk from stakeholder actions and or attitudes," firm A's employees tended to explain business performance in terms of relationships and interactions with their stakeholders. This was particularly pronounced among firm A's executives who explained their business relationships to, and the impacts on, their stakeholders in terms of a process of mutual reconfiguration and transformation of relationships. Firm B's executives frequently referred to stakeholders as having power over the reputation of the firm, while firm A's executives would describe stakeholders as owners of the resources and needs which could be translated through innovative business planning into opportunities. Also, while firm B's executives largely identified stakeholders as singular entities, firm A's executives would often describe them in terms of their relationship with other stakeholders and firms whereby they constituted systems of relationships extending beyond, but inclusive of, the firm.

As outlined in Table 4.2, the difference in approach towards stakeholder relationships can be explained as a reflective as opposed to a reflexive approach. Firm A's executives and more experienced employees also portrayed their specific stakeholders in temporal terms using scenarios whereby the contexts and therefore interests, resources and relative levels of welfare changed and could be enhanced over time. No similar approach was mentioned at firm B. Any mention of change mostly concerned the growth of the firm's business and the enhancement of its reputation, social trust, and attractiveness as an employer and business partner, and strength as a competitor.

Table 4.2 Two approaches approach towards stakeholder interaction

Firm A	Reflective	Stakeholders are identified and understood within the wider social context which, because it is also seen as being the field within which the firm conducts its business activities, gives stakeholders a strategic identity as current and/or potential business partners and the owners and/or controllers of resources.
Firm B	Reflexive	Stakeholders are identified as a social or environmental entity which is outside value creating business relationships and therefore comprises a nonstrategic actor which can potentially influence the plans and actions of the firm.

4.13 Making Sense of CSR: Effects, Relationships and Outcomes

4.13.1 Self Evaluation of CSR Accomplishments

Firm B executives expressed considerable pride in their past corporate achievements and often included the phrase "serving society for over 100 years" in their public relations announcements.

Firm A, while also displaying equal pride in its past achievements, augmented this with a strong future orientation and an emphasis on the importance of realizing the corporate mission of long-term, ongoing growth and industry wide development. Firm A's executives and employees both explained the social contributions of their firm as an indication of the extent to which they were aware of emerging and developing social trends, and able to integrate this awareness into every aspect of their strategic business activity. Respondents often used the phrase "contributing to society through our core businesses" to explain this approach. CSR initiatives at Firm A were therefore not evaluated as isolated activities, but integrated within the regular business planning, implementation and evaluation cycles.

The situation was remarkably different at Firm B where the function of evaluating annual CSR performance was essentially delegated to the expert panel as a topic for their discussion. The typical outcome of this process was that the experts would identify an extensive list of distinct issues in their own field that differed widely from those posed in the previous year and by other experts. The result of this, as reported by one participating executive was a "feeling that social/environmental demands on the company are increasing exponentially, that they all required some degree of response, and leave a growing a sense of encroachment or impingement of external organizations on the rights and resources of the firm," and additionally that there was a "need for the corporation to draw a line beyond which it would fight against any claims it considered to be illegitimate or otherwise risk being overwhelmed."

The panel's evaluations were covered in the annual CSR report which was distributed to employees who were encouraged to read and discuss it. Respondents reported a certain level of satisfaction and pride in their firm's "comprehensive range of social support initiatives." CSR reports were made publicly available on the corporate homepage and printed copies were sent to anyone who requested them. The CSR reports included a questionnaire asking readers to review its issue coverage and presentation. Respondents were asked to indicate articles from the report that most interested them, that they would like to read about in more detail, or have excluded from future reports.

By incorporating the evaluation of its social contribution performance into that of its regular business, Firm A employed business criteria to assess and question the effects, relationships and outcomes of its CSR initiatives. In sharp contrast Firm B's approach was one of assurance and qualification as a public relations exercise that increasingly separated social issues from their business agenda.

4.13.2 Managing Multiplicity

Closely related to self-evaluation is the question of how the two firms manage the multiplicity of issues (claims). Firm B actively avoided engagement in volatile and contested issues (early life-stage issues) because of a perception that they were time-consuming, made engagement outcome difficult to predict, and therefore constituted an unjustifiably high reputation risk due to their volatility and potentially negative results. CSR officers frequently mentioned their responsibility to present management with issue agendas that closely matched the firm's current competencies and capabilities as a business. This tendency had a self-reinforcing cyclical effect whereby social issues chosen for their identity compatibility would then in turn define the firm's social mission and thereby subsequently reinforce its identity. By contrast, firm A actively sought out, and engaged in, early life-stage issues as an opportunity to access new and different forms of information, develop new business and organizational capabilities and test the applicability of existing capabilities. Executives frequently emphasized the importance of change and growth for the firm's future. As one responded: "Our strengths today are a result of the efforts of generations of past employees who constantly strove to improve the firm by seeking out challenges and growing. It is what we learn today that will support future generations, not just how much we earn."

4.14 CSR and the Reconstruction of OI

Overtime, Firm B's CSR initiative had assumed the nature of a highly refined public relations exercise designed to identify issues of wide public concern, evaluate short-term, external initiatives relevant to them and select and fund them efficiently, and present their results in a manner both understandable and of interest to as wide a public audience as possible. Although the cost of overall initiatives was not disclosed (either internally or externally) Firm B's employees were proud of the volume and variety of initiatives, and the number and range of stakeholders that benefited from them. A typical comment was "a responsible corporation must commit to supporting society—reputation is based on the a corporation's willingness and ability to help those in trouble. This is a defining tradition of Japanese society. A tradition of being a good neighbor and responsible member of the community." Conversely, some respondents expressed concerns regarding the total expense of these initiatives and the need to advertise them as effectively as possible in order to gain the greatest possible return on these "investments." Employees also expressed some degree of dissatisfaction that the effort and resources invested in Firm B's CSR initiatives were not adequately recognized by CSR rankings and ratings, and that "more effort was required on the part of their partners [fund recipients] to achieve their goals and publicize these results."

The thematic incoherence of Firm B's CSR initiatives, combined with their being administered separately from regular business management processes, made it difficult to explain them in anything other than abstractions. It was difficult for respondents at Firm B to articulate the values driving their firm's CSR initiatives without reciting the official wording of their corporate principles. These abstract values of "integrity, reliability and trust" did not fit Albert and Whetten's criteria of being central, distinctive and enduring and had to be constantly and artificially reinforced.

In contrast to Firm B's employees and their recitations of the official OI, Firm A's employees and executives were enthusiastic storytellers and shared a seemingly endless number of narratives which illustrated the growth and development of their OI. Firm A employees frequently related stories involving past events, both failures and achievements, where the moral was that: "the firm owes its existence to society, and will thrive or fail depending on society's willingness to support it" and "in order for us [the firm] to prosper and grow on the long-term, it is necessary that our partners and customers grow and thrive first." Stories abounded where innovative reconfigurations of hitherto standard and "common sense" industry wide practices were ingeniously overturned to the benefit of all, where problems were identified by enterprising employees framing issues from the perspective of partners or customers, and where the benefits enjoyed by partners in transactions became the starting point and opportunity for new projects and businesses.

Stories were also told at Firm B, but they tended to focus on events and accomplishments where employees had produced remarkable results at the cost of great self-sacrifice (especially of private/family life) and of various "smart" or "tough" dealings with suppliers, customers or regulatory authorities. The theme of such stories tended to emphasize value acquisition over value generation, the hierarchical authority of individuals, and a sense of competition and contest as legitimation.

4.15 OI and Transactional Vs. Transformational CSR

Corporate values can be articulated in either a transformational (pragmatic) or transactional (descriptive) manner. Firm A's mission statement declares that it is committed to contributing to the promotion of the industrial, social and environmental welfare of its partners by the ongoing innovation of its business and its industry. By contrast, Firm B's mission statement states that Firm B, by acting with the utmost integrity and warm heartedness, will strive to be the most trusted and respected corporation in the industry.

Firm A designs and operates its CSR initiatives so as to promote business model innovation informed and enabled by awareness of social and environmental trends (the changing context of business). Firm A values originality and creativity, new perspectives and insightful questioning. By contrast, Firm B values "rapid, accurate and effective" decision-making by its employees. At Firm A, issues were articulated in terms of relationships and resource sets of partners while at Firm B they are largely defined as problems externally identified by the annual panel of experts. Firm A and B were clearly working from different (managerial vs. paradoxical) cognitive frames.

Firm A expends considerable effort to promote what they call a "questioning attitude" among its employees. At Firm A, executives and employees are regularly exposed to detailed scenarios—and the thinking that goes into them—explaining changing trends and evolving themes presented by experts in a wide range of fields at monthly "training sessions." Each training session comprises of a lecture and a Q&A session lasting for approximately 3 h in total. Recent themes have included: water resource management and conservation, information technology and manufacturing quality improvement, information technology and privacy protection law, regional economics, meteorology technology advances and risk management, nutrition for the aged, and a variety of other topics. The objective is to expose employees to raw information on issues and trends, and different disciplinary modes of analyzing issues, that they can refer to as they plan, implement and evaluate their business activities. They are encouraged to develop an awareness of these trends, look for new angles in them, and to think about their relevance for current and future businesses and to act proactively wherever possible.

Firm B employees are rarely ever urged to do anything other than read the judgments of the panel experts contained in the CSR report. Social and environmental issues are supposed to be dealt with at Firm A on the corporate level where they are managed as either problems for risk management and or compliance, or social and environmental causes for sponsorship and support.

4.16 Response to Disruption: Sense Breaking and Rationalization

This difference in attitude was made clear in the days and months following after the Great East Japan earthquake and tsunami of March 11th 2011 (referred to in Japan as "3-11") and its subsequent events.

Both firms A and B were seriously impacted by "3-11." The roles of government, corporations and communities were all challenged by this event and scrutinized during the nationwide period of soul-searching which ensued. Across Japan corporate responses to the actual crisis and its aftermath differed greatly—some responses were limited to crisis response as a process of "hastening the return to normal," while others included a reflective dimension whereby corporations asked (1) what lessons could be learnt for business and society, and (2) what must be changed in order to realize a better "post crisis normal."

Firm B's response can be characterized as being reflexive—it made much of its efforts to facilitate the rapid return to normal operations which included large donations of products and cash to affected areas and press announcements of solidarity with, and support for, those affected. After the crisis and return to normal operations top management introduced a companywide business continuity plan (BCP) which aimed at "hardening" and or the regional dispersion of its business critical IT systems, the physical reinforcement of key plants, the installation of auxiliary energy sources, the establishment of backup data processing and storage centers in cities outside Tokyo in areas of low risk or with different risk profiles. Firm B's executives in particular expressed great pride at the comparative speed with which they restored operations and extensively advertised this as proof of the firm's identity as a good "corporate friend" to the community in bad as well as good times.

Firm A's approach was subtly though profoundly different. Immediate post crisis relief was defined as the effort to restore the "lifeline" and critical services to affected areas in accordance with their specific situations—areas were variously affected by structural damage by the quake and/or the tsunami, regions that were unlivable, habitable but dangerous due to damage infrastructure and buildings, or habitable but without essential lifeline services of electricity and water. Having thus zoned the affected regions, firm A then began actively coordinating its relief efforts with other firms, government agencies and community organizations. Corporate facilities were used in collaboration with others and firm A personnel also worked out of the facilities of other firms and organizations. On the morning after 3-11, the president of firm A convened an emergency meeting of all division heads where he declared the crisis to be a "test of our worth as a corporation" and announced that all normal budgeting procedures would be suspended and resource requisition and purchase requests reviewed and approved on a day by day basis. Relief strategies developed in specific regions were evaluated and if deemed effective were shared for general application to those areas where they would be applicable. Post crisis—defined as "after the lifting of emergency government restrictions on normal operations"—involved a series of "strategic reassessment projects." One of the first of these projects involved the research and compilation of a "crisis report" detailing the disruption caused to various communities, critically reviewing the relief strategies implemented, and going on to identify and analyze the prevailing industry and market factors that either exacerbated or mitigated the disaster's impact. A series of review meetings were held at corporate headquarters and in each operating and regional division. Each meeting started with an address by the president wherein he defined the 3-11 disaster as a "blunt and critical assessment of our worth and capability as a corporation, as a member of society, and of our modern way of life." These meetings were designed to review the experience of this wide reaching and variously compounded crisis, its business and social lessons, and identify and conceptualize reforms to current business processes and innovate new ones.

The central difference between Firm A & B's response was that Firm A included the way that its business was organized and integrated into society as a factor responsible for the extent and manner by which the crisis impacted society in general and various communities specifically. The experience of the crisis was commemorated at Firm B on its homepage and CSR reports. Surprisingly, while

Firm B introduced a flurry of CSR initiatives after the crisis—including employee volunteer support programs, donations for crisis response equipment (helmets, bags, and blankets) for schools, and setting up storage areas with emergency food reserves, Firm A made almost no changes to its CSR programs. Firm A's experience of the crisis informed extensive and profound change to the planning, implementation and evaluation of its business processes, but had relatively little effect on its CSR programs.

Rather than triggering a sense breaking event, the OI of Firm B translated "3-11" into a reaffirmation of business as usual. For Firm A, seeing "3-11" as a sense breaking event served to promote a critical review of current and past business activities that enabled the identification and realization of numerous business innovations and promoted growth.

4.17 CSR and Socially Vs. Internally Informed Strategy

4.17.1 Absolute Versus Relative Identity

Firm B defines its mission in abstractions and the recognition of achievements defined in above-industry average returns and sales growth as their key performance indicator.

Firm A's Mission acknowledges that its achievements as a business are based on, and contextualized by relationships with its social, environmental and business partners. Firm A also emphases innovation and the level of transformation of existing businesses is a key component of its performance evaluation criteria.

Two contrasting formulations of identity can be observed in the cases: an **absolute** identity at Firm B and **relative** identity at Firm A. An absolute identity refers to the organization as the defining entity with all other social entities and organizations defined by their relationship to the firm's interest and their pursuit and or protection. This identity assumes the organization is separate to its context. By contrast relative identity is defined by the dynamic of relationships constituting its context. Here the organization is assumed to be a functional unit of its context (perceived from a *Eulerian* as opposed to a *Lagrangian* frame of reference).

4.18 Conclusion

As summarized in Table 4.3, applying the OI framework to the analysis of the two cases has revealed clear differences between the planning, implementation and evaluation of CSR in the two firms respectively. Using the OI framework this analysis has shown that Firm A displays identification characteristics largely consistent with a collectivistic orientation, that its stakeholder relationship patterns

Table 4.3 Comparative overview of CSR at Firms A & B based upon the OI framework

Framework proposition	Firm A	Firm B
1. Implementation of CSR as enactment of OI		
Central function: Integrative & operative	CSR articulated as operative process of achieving OI goals through business activities.	Emphasis of the integrative function of CSR as an expression of stable and distinct OI.
OI construction: historical or comparative	Values expressed as operative processes combine with comparatively framed OI to yield CSR based on relative identity within social context.	Unchanging values expressed in historically framed OI promotes CSR based upon themes of continuity and legitimacy thus creating a source of path dependency.
2. OI gives meaning to issues, actors and actions		
Stakeholder multiplicity	Seeks to accommodate multiplicity by maintaining a decentralized system of issue identification to inform overall social awareness.	Plans and implements CSR as a means to reduce and control the number of issues, actors and actions.
Stakeholder salience	Define stakeholders reflectively as the constituents of the firm's business context.	Define stakeholders as reflexively as separate entities operating within the same context.
3. OI makes sense of the effects (impact and change), relationships (obligations and expectations), and outcomes (reputation and experience) of CSR		
Identity comes to be depicted as reputation and image.	CSR as an ongoing part of the business planning, implementation and evaluation process.	CSR as a process of validating corporate reputation against external claims and divergent interpretations.
4. OI values shape and are shaped by outcome of CSR activities		
Individual identification with IO consisting of a cycle of sense breaking and sense giving	CSR as a means for renewing relationships in order to promote/achieve transformative innovation.	
Contests over the creation of meaning. OI as contested and negotiated through iterative interactions between managers and stakeholders		CSR as a coordinated activity to support and promote the firm's claims of legitimacy and right to act freely.
5. OI defines process nature of CSR as transformation or transaction		
Firm's responses to stakeholder expectations can be either (1) symbolic (decoupled) or (2) substantive (integrated).	CSR as a dimension in the firm's ongoing process of transformational based growth.	CSR managed as a highly symbolic and decoupled transactional routine for placating external demands and legitimating actions.
6. Process nature defines business strategy as either internally or socially informed		
Strategizing based upon understanding of firm as either (1) sole entity, (2) dyadic interentity relationship partner, or (3) a member of some larger collective.	CSR predicated upon a collectivistic OI whereby the firm perceives its rights and claims as relative to others.	CSR predicated upon an individualistic orientation (or dyadic in response to specific external demands) based upon absolute rights and claims.

resemble that of a relational orientation, that it is innovation and market evolution oriented and seeks to actively participate in transformational business model innovations by managing relationships and therefore requires trust to access the resources of social and public stakeholders via creating transformational, value creating visions, stories of mutual growth and development and the planning of inclusive business models. Firm A seeks to play a pivotal role in this process as a key agent for change and correspondingly adopts a transformational form of CSR as a tool to facilitate its participation in the public dialogue shaping the social expectations of business.

By contrast, Firm B displays identification characteristics largely consistent with an individualistic orientation, but its stakeholder relationship patterns resemble that of a collectivistic orientation. Firm B seeks to maintain its legitimacy in order to protect its ability to act with relative (within the confines of legal compliance) freedom (the ability to exercise its rights in its own interests without external interference). However, because it is very difficult for a firm to maintain its legitimacy and freely exercise its rights consistently over time (especially one operating within the Japanese context where a corporation in business for many decades would have experienced vast changes in political climate, social expectations and material conditions) it employs a transactional form of CSR (policies and activities) as a tool to maintain and manage a distance between its self characterization and the public dialogue on the social expectations of ("responsible") business.

Analysis of the integration between OI and the processes for planning, implementing and evaluating CSR also suggests that they effectively influence each other in an ongoing cycle of sense giving, definition, sense making and enactment as shown in Fig. 4.1.

Firm B almost seems to set a "trap" for itself whereby it's CSR actions and experience lays the way for a subtle, yet compelling tendency whereby it's OI defines and realizes a narrow and uni-dimensional CSR which reduces sensitivity towards and understanding of nascent and emerging social/market trends and issues by focusing its organizational awareness inwards in a centralized process of self affirmation and legitimation. Although also closely coordinated, firm A's articulation of CSR is driven by the business-based activity of its members in their ongoing engagement with their business and social partners and stakeholders. Whereas firm B invests considerable time and energy into the identification and selection of issues for its CSR initiatives, Firm A's issue identification process could be compared to a form of "open innovation" where wide, external input is valued and the development of new and innovative processes to respond to evolving challenges is prioritized.

Firm B displays a form of organizational behavior regarding the identification of CSR issues that closely resembles path dependency as identified by Sydow et al. (2009). Firm B's cycle of issue identification and identity reaffirmation yielded a rigidly standardized issue management process whereby the number and variety of potential issues were actively reduced and effectively homogenized. By contrast, Firm A showed a marked capability to identify new and emerging

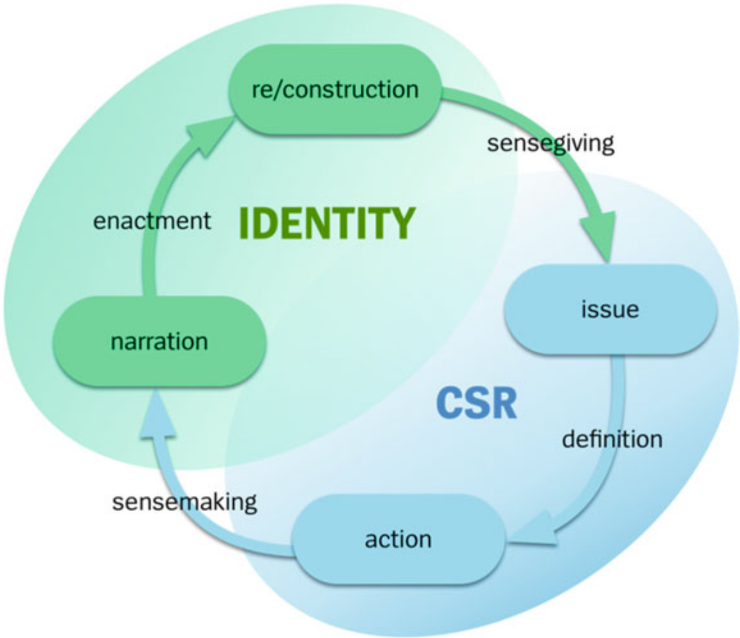

Fig. 4.1 Cyclical framework of OI based approach to CSR

issues and allocate attention and resources to their understanding in a highly flexible manner.

One of the key functional differences between these two approaches, and a likely explanation for the difference in the results yielded in the two firms, was the relatively large number of organization members in Firm A behaving as both strategically informed and contextually aware actors. The function of issue identification at Firm A was distributed throughout the organization and the approaches employed varied widely according to the strategic role of the actor and the context they faced. By sharp contrast the process was divided and centralized at Firm B. Firm B's external experts bought contextual awareness to the issue identification process while (authorized) organizational members chose which issues were organizationally relevant. Relevance here was rarely strategic or transformational, tending instead to be conservative and risk aversive.

The remarkably different outcomes from the OI CSR cycles of firms A and B could be attributable to a key fundamental difference in their business strategies and basic approach to the market. Firm B places a high value on the accuracy of calculations of risk and return. Some industrial analysts have criticized the firm for a lack of innovation. Interviews with firm B's executives at times revealed an almost opportunistic attitude whereby they would stress the importance of developing new products and moving into new business areas as being more important than fundamentally overhauling and re-launching existing products and transforming existing businesses. By contrast, Firm A's executives were somewhat preoccupied with constantly getting what they referred to as a "feeling/sense for the market." Firm A is a recognized innovation leader and transformer widely known for constantly revitalizing its product lines and reconfiguring its partnerships. Although it is beyond the scope of this current chapter it may be worth investigating the impact that this difference in the approach to market strategy has on the interaction between OI and CSR.

The OI approach presented here is an effective framework to facilitate analysis of the way in which the formulation of a firm's mission, vision, and values, and the manner by, and degree to which, this is integrated into the process of planning, implementing and evaluating business activities influences the perceived strategic relevance of relationships with social entities, the breadth and scope of social innovation (positive transformation of social and business relationships), and the enhancement of the relative welfare of respective stakeholders. The OI perspective offers many insights for the study of CSR. Using this approach has made it possible to understand how OI functions as a lens to identify social issues in these two cases. Applying this perspective has show that the strong organizational identities displayed by a community firm can become an asset for realising social contribution through the promotion of socially informed business strategies where the firm identifies its role in terms of value generation and transformational change and designs its CSR initiatives so that they are informed by, and make sense of, its mission as a business.

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Chapter 5
Corporate Social Responsibility: Theoretical Underpinnings and Conceptual Developments

Mark Anthony Camilleri

5.1 Introduction

There are many concepts that are often used interchangeably with the CSR terminology. One of the earliest contributors on the subject of Corporate Social Responsibility (CSR) had associated this promising concept with philanthropy and discretionary spending (Carroll, 1979). Notwithstanding, this term is typically used when evaluating the effects of business on society. Some of these theoretical proposals may seem more significant than others. As a matter of fact, the earliest contributors on the subject had associated CSR with corporate philanthropy, stewardship principles and business ethics.

Carroll (1999) reviewed and discussed over 25 different ways which tackle the notion of CSR. On the other hand, neo-classical economists had acknowledged that CSR is a rational, economic justification for 'doing good' (McWilliams & Siegel, 2001). Nowadays, CSR behaviour is usually manifested when businesses support other organisations and/or individuals in diverse fields including humanitarian, medical and social cases, environmental causes, cultural and heritage protection, philanthropic activities and sport related initiatives. Moreover, the emerging theoretical underpinnings increasingly point out that CSR is a driver for business and societal benefits (Camilleri, 2013; Falck & Heblich, 2007; Porter & Kramer, 2011). Empirical studies have proven that there are significant advantages to be gained for businesses if they engage in laudable responsible behaviours. Arguably, firms can leverage themselves through social and environmentally-responsible practices, as there may be opportunities for operational efficiencies, economies and effective processes. Emerging notions that relate to the business case of CSR include; strategic CSR and creating shared value among others (Camilleri, 2013). These

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academic concepts are gaining considerable popularity, particularly among business practitioners themselves. In a nutshell, this chapter explains the evolution of the notion of CSR, and how it has transformed and adapted itself to reflect societies' realities.

5.2 The Evolution of the CSR Perspectives

The origins of CSR can be traced back to the earlier years of the twentieth century. Abrams (1951) indicated the concerns about management's responsibilities towards their employees, customers and the public at large. At the time, these issues were picked up by several academic contributors as there was an increased awareness on business responsibility. Bowen (1953) published his seminal book, 'Social Responsibilities of the Businessman'. Interestingly, his enquiry was about the responsibility of businessmen towards society.

5.2.1 Corporate Social Responsibility

The discussions on CSR grew in popularity and took shape during the 60s. Davis (1960, 1973) and Walton (1967) noticed that the corporations had considerable bargaining power; and that their power called for responsibility. It was widely agreed, that the corporations had responsibilities towards society beyond their economic and legal duties. The most important social movements included civil rights, women's rights and consumers' rights. Other individuals were also affiliated with environmental movements. This period was characterised as an issue era, where companies began noticing specific societal problems that arose from social, environmental and community issues. There was a focus on philanthropy and a manifestation in charitable donations (Carroll, 1979; Murphy, 1978). Muirhead (1999) described the period from the mid 1950s to the mid 1980s as a period of growth in terms of corporate contributions. Apparently, the gifts in kind have expanded to the groups representing the health and social services, culture, arts, and the community.

In a book entitled, 'Corporate Social Responsibilities', Walton (1967) had addressed many facets of CSR in society, at the time. He came up with a number of models of social responsibility as he underlined that social responsibility involves a high degree of voluntarism, as opposed to coercion. Moreover, the corporations were incurring significant costs for their CSR engagement. In a similar vein, Johnson (1971) had presented a variety of definitions or views of CSR in his book entitled, 'Business in Contemporary Society: Framework and Issues'. This author may have inadvertently referred to a precursor of the 'stakeholder theory'. Johnson (1971) indicated that the corporation has a multiplicity of interests. The author has also identified several interest groups that may affect the organisation in different ways.

The Committee of Economic Development (CED, 1971) with its publication entitled, 'Social Responsibilities of Business Corporations' have made a ground breaking contribution to the notion of CSR. Apparently, the CED became aware of the substantial changes which business practitioners were experiencing at that point in time. The CED's views of CSR were considered quite influential, considering that the committee was composed of business people and educators. The committee had mirrored the latest developments which have occurred in the business and societal contexts. Evidently, the businesses were encouraged to assume their broader responsibilities in society. The business enterprises were being pressured to contribute more to the customers' quality of life, rather than simply producing and delivering quantities of goods and services. Steiner (1972) substantiated the terminology of CSR and indicated how it can be interpreted and applied. He suggested that business is and must remain fundamentally an economic institution but it does have responsibilities to help society achieve its basic goals. He implied that business has social responsibilities (Steiner, 1972).

Davis (1973) had presented the pros and cons of social responsibilities. Davis (1973: 312) maintained that managers did not have the necessary expertise (social skills) to make socially-oriented decisions. He went on to say that managers were oriented towards finance and operations. On the other hand, the author remarked that the businesses at the time were exhibiting authoritative 'power'. Generally, the early scholars were seriously taking into consideration the ethical requirements, without forgetting their societal expectations. Eells and Walton (1961) affirmed that the general public believed that the subject of corporate social responsibilities arose following the negative behaviour of some corporations. Davis (1973) held that the businesses ought to be concerned about the ethical consequences of their behaviour. Lewis (2003) noted that the corporate reputation was positively related to the community's acknowledgement of the businesses' operations.

Apparently, in the late 1970s, the business ethics movements were raising concern about ethical values and principles. Some academic experts on the subject such as Frederick (1986) sought to explain such normative ethics behind the CSR rationale. Carroll (1979) attempted to synthesise the fundamental principle of social responsibility. He explained the rationale behind social responsibility initiatives and went on to describe the corporate responses to social issues. Carroll (1979) implied that businesses had a commitment towards society. He intimated that businesses were obliged to engage in economic, legal, ethical and discretionary (philanthropic) activities.

Carroll (1991) described these four distinct categories of activity by illustrating a Pyramid of Corporate Social Responsibility. He maintained that his pyramid conceptualisation illustrated the obligations of the business. Carroll (1991) argued that the economic responsibility was the foundation which was required by global capitalism; the legal responsibility had to do with complying with the laws and regulations; the ethical responsibility involved the stakeholders; and the philanthropic responsibility consisted of charitable and stewardship principles toward the community at large (Carroll, 2004).

Eventually, Schwartz and Carroll (2003) have proposed an alternative approach that was based on three core domains (economic, legal and ethical responsibilities). The authors had produced a Venn diagram with three overlapping domains; which were later transformed to seven CSR categories. This latest development was consistent with the relentless call on the part of the business community for the business case of CSR. Kotler and Lee (2005) have demonstrated how a CSR approach had established a new way of doing business that combined the success and the creation of value (Porter & Kramer, 2006; Wheeler, Colbert, & Freeman, 2003) with a respectful and proactive attitude towards stakeholders (Freeman, 1984).

5.2.2 Corporate Social Performance

The notion of corporate social performance (CSP) theory had evolved from previous theoretical approaches. CSP reconciled the importance of both corporate social responsibility and corporate social responsiveness. It also placed an emphasis on achieving better performance out of the socially responsible initiatives (Carroll, 1979; Wartick & Cochran, 1985; Wood, 1991). This notion had moved the CSR agenda closer to the idea of the business case. Apparently, the arguments in favour of the business case for CSR were more relevant at multiple levels. Freeman and Liedtka (1991: 96) pointed out that the businesses' self interest ('self creation') and the 'community creation' were two sides of the same coin. They went on to suggest that they were seeing scope in pursuing both ends of individual and collective goods (Freeman & Liedtka, 1991).

The CSP theory maintained that businesses were responsible for the social problems they caused. These responsibilities would extend beyond their typical objectives of wealth creation as well as their expected observance to comply with relevant regulation and law. CSP also comprised the ethical, discretionary or philanthropic actions which businesses should undertake for societal wellbeing. Wood (1991) posited that businesses could improve their corporate social performance when they engaged in responsible behaviours that will result in beneficial outcomes for society.

The 1970s were characterised by protests against capitalism and growing social concerns. These developments have led to formal requirements, which were imposed through government legislation and regulation. Academic literature was devoted to corporate behaviours. Sethi (1975) wrote about corporate social responsiveness. Evidently, there were various societal needs and demands at the time. These authors urged businesses to become proactive in their societal engagement. Sethi (1975) distinguished between corporate behaviours (that he considered as social obligation), social responsibility and social responsiveness. He held that social responsibility implied bringing corporate behaviour up to a level where it was congruent with the prevailing norms, values and expectations.

The social responsiveness was also associated to 'issues management'. However, this concept highlighted the social and political issues. Heath and Nelson (1986) maintained that the 'issues management's approach were intended to minimise the potential environmental threats, which were involuntary triggered through social and political change. Preston and Post (1975: 112) introduced the unpopular concept of public responsibility. They explained the organisational setting within the context of public life. The term public rather than social was deliberately chosen in order to give due importance to the public processes. The authors affirmed that the notion of public responsibility was suitable for setting organisational goals and criteria. Apparently, this public responsibility approach did not turn out to be so popular, as it was not widely acknowledged. Some authors pointed out that social responsibility ought to be considered as participative and responsive rather than being of a substantive nature. Jones (1980) in particular, was very critical of the concept of public responsibility. Eilbirt and Parket (1973) and Holmes (1976) have contributed to the development of the theoretical underpinning which explained the CSR causations. As they identified the executives' perceptions of their firms' social involvement, they investigated the factors which prompted executives to go for specific areas of social involvement. Some of the most popular CSR activities at the time were focusing on recruitment and training of the personnel, community affairs, charities and the like. Carroll (1977) came up with a managerial approach to CSR, as he suggested that companies should plan and organise themselves for the institutionalisation of corporate social policy.

Wartick and Cochran (1985) presented their take on the corporate social performance model. Their model had integrated three dimensions, including; responsibility, responsiveness and social issues. The authors based their model on Carroll's approach by suggesting that corporate social involvement rests on the principles of social responsibility, the process of social responsiveness and the policy of issues management. The 1970s and 1980s saw the introduction of legal and regulatory initiatives. At the time, appropriate legislation covering several aspects of businesses' operational practices was enacted. This meant that many companies were being pressured for legal compliance. For instance, law was being enacted in environmental protection, product safety, employment discrimination and workers' safety. It may appear that society had mandated the businesses' to serve society. Consequently, businesses' licence to operate was not only creating economic growth, but also contributed to society's requirements (see Porter & Kramer, 2006, 2011).

5.2.3 Business Ethics

Frederick (2008) noticed that in the 1980s there were continuous discussions about the corporate business ethics. There was an increased focus for ethical corporate cultures. The research at the time was linking CSR with CSP (Lee, 2008). There were fewer definitions of the concept, but they were refined in their content. Complimentary concepts and themes such as corporate social responsiveness, corporate social performance, public policy, business ethics, stakeholder theory and stakeholder management had evolved. There was also more empirical research along with the conceptual development of alternative themes. At this stage, the CSR variants included business ethics and stakeholder theory (Freeman, 1984) as well as further developments in the CSP area. There were other contributors who emphasised on the social control aspect of the business, by paying attention to public responsibility. Freeman and Liedtka (1991)went even further as they implied that CSR had given a human face to capitalism. Nonetheless, they noticed that there was a complete separation between economics and ethics. Carroll (1991) pointed out that the vagueness of the CSR concept might have been considered as a weakness by some contributors. He remarked about the importance of integrating the stakeholder perspectives within the existing traditional approaches.

Perhaps, there was a lack of integration between the ethical normative aspects and duty aligned perspectives. Swanson (1995) noted that Wood's (1991) institutional principle searched for legitimacy, but it did not necessarily advocate the moral motivation of respect. Swanson (1995) had incorporated the business ethics perspectives. However, the proponents of the CSP model may have struggled to reveal how the business was respectful to all stakeholders. For instance, the academic contributions in this area were focusing on better human conditions in the workplace, as they promoted discretionary activities. Apparently, the terms such as societal values, social expectation, performance expectation and so forth, were much preferred than the mention of ethical duties or other expressions. Carroll (1999: 284) debated about such ethical responsibilities. He specified the kind of behaviours and norms that society was expecting out of businesses.

Subsequently, the CSP model had re-emerged by becoming more specific in terms of actors, processes and contents. This form of CSP was being directed to the constituent parts of society, as there were more actors which were demanding corporate social performance. These actors comprised both internal and external stakeholders. Therefore, businesses were encouraged to establish processes of communication and dialogue with stakeholder groups in order to determine an appropriate standard of corporate social behaviour. Notwithstanding, more corporations were becoming adept and proactive in publishing their CSR or sustainability reports on their economic, social and environmental performance. This development was consistent with the idea of the triple bottom-line approach, as proposed by Elkington (1998).

At this time, the Global Report Initiative (GRI) had turned out to be very popular in addition to the wide array of certifications or reports such as the UN Global Compact, AA1000, SA8000 and others. All of these developments may have inevitably resulted in more complexities being introduced in the corporate social performance models. Husted and Allen (2000) had presented a contingency theory of the corporate social performance (CSP) model. They integrated elements of the corporate social responsiveness, issues management, and stakeholder management literatures. Interestingly, Griffin (2000) hinted that the existing research in related disciplines like marketing and human relations may have helped to accelerate the understanding of CSP.

5.2.4 The Stakeholder Concept

There are different interpretations of the 'stakeholder theory' which have been used to describe the structure and operations of established corporations (Donaldson & Preston, 1995). This is graphically illustrated in Fig. 5.1. The first authors who contributed in this field of study have attempted to raise awareness among corporations, to act in a responsible way toward stakeholders. They suggested that, if the firms behave responsibly, they will avoid stakeholder pressures.

Jones (1980) maintained that CSR must be considered in all the decision making processes of the firm. The stakeholder theory considered all groups and individuals with an interest in the company. Usually, the stakeholders comprised all those who stand to benefit or lose by the businesses' behaviour. Therefore, this perspective went even further than the previous notion of shareholder value theory. Curiously, this theory held that corporations had obligations towards society and their constituent groups (Jones, 1980: 59–60). It was widely agreed that the firms' obligations should have not been triggered by coercive forces of law or union contracts. It was widely agreed by many business practitioners that socially or environmentally responsible practices ought to be taken up voluntarily by organisations themselves. The stakeholder theory maintained that the businesses' obligations go beyond the traditional fiduciary duties toward shareholders. The organisations' obligation had been extended to other groups including the customers, employees, suppliers and neighbouring communities (Jones, 1980: 59–60). Jones (1980) argued that there

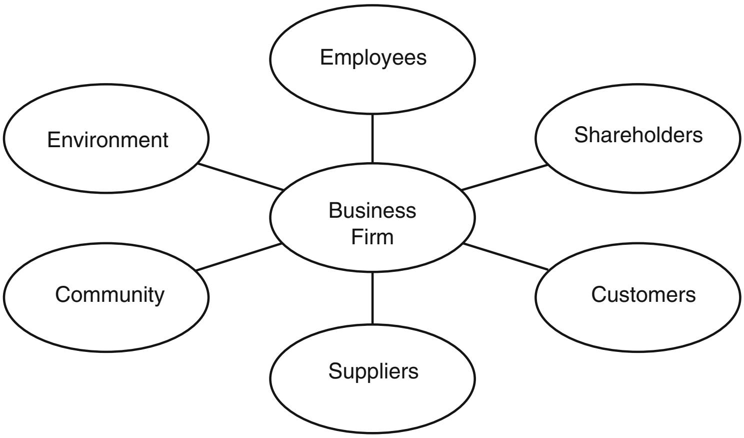

Fig. 5.1 The stakeholder approach to CSR [*Source*: Adapted from Freeman (1984)]

were reasonable arguments both in favour and against the notion of stakeholder theory. He admitted that it was difficult to reach consensus among stakeholders of what could constitute socially responsible behaviour.

Unfortunately, there were some controversial issues which have emerged during the 1980s. Some illegal practices involved; employee health and safety issues, the deterioration in the quality of work life, employment discrimination, consumer abuse, environmental pollution, the deterioration of urban life and other questionable practices of multinational corporations. It transpired that the stakeholder theory had developed as a compelling theme. Many authors agreed that the conceptual framework behind the development of the stakeholder theory was rooted in strategic management. It was believed that business organisation could enhance their financial and strategic performance through actors (Waddock & Graves, 1997). For instance, Freeman (1984) described the constituent groups as the fulcrum of the stakeholder theory. In his own words; "...the groups who can affect or are affected by the achievement of an organisation's purpose" (Freeman, 1984: 49). Eventually, Evan and Freeman (1988) claimed that the businesses need to forge, fruitful relationships with all stakeholders.

The stakeholder theory was considered as a normative theory which pushed managers to consider their moral duty towards the legitimate interests of all stakeholders. Evan and Freeman (1988) went on to argue that management's decision-making should incorporate stakeholder representatives. There were a variety of perspectives which were closely related to the stakeholder theory. For example, Clarkson (1995) perceived the firm as a system of stakeholders which operated legally within society, with a market infrastructure. He held that the purpose of the firm was to create wealth or value to its stakeholders. Eventually, Freeman and Velamuri (2006) have revisited their stakeholder theory, by insisting that the main goal of CSR is to create value to stakeholders, including the local community. Consequently, they suggested replacing the notion of corporate social responsibility by company stakeholder responsibility. This was not intended to be a mere semantic change, as it was a completely different interpretation of the CSR meaning. Perhaps, Freeman and Velamuri (2006) stance may have been influenced by Wheeler et al.'s (2003) article. The authors presented a proposal for the creation of value (economic, social and ecologic perspectives). Essentially, they have proposed the reconciliation of the stakeholders' approach with CSR and sustainability. They argued that this new approach has increased the economic value for shareholders.

Apparently, this latter stakeholder value-oriented approach (Wheeler et al., 2003) was considerably different from the original stakeholder theory (Freeman, 1984). This revised perspective had highlighted the benefits of inter-stakeholder relationships which ultimately leads to 'synergistic value'. Phillips (2003) asserted that certain stakeholders were particularly important and 'legitimate' to the socially responsible organisation. This legitimacy relied on the organisations' moral obligation towards their stakeholders. Evidently, the stakeholder theory seemed ethically superior to the previous versions of corporate social responsibility. This theory took into consideration the stakeholders' rights and their legitimate interests including the shareholders' interest. According to the stakeholder theory; the management's duties' extended beyond the fiduciary duties they owed to shareholders. Undoubtedly, this theory has recognised the importance of human resources to the organisation. This reasoning was also consonant with Handy's (2002) statement that a good business is a community with a purpose.

The concept of stakeholder management was becoming very popular among business practitioners. Apparently, this theory seemed to provide a guideline which led towards achieving business success in the long term (Collins & Porras, 1994; Pedersen, 2009). Berman, Wicks, Kotha, and Jones (1999) held that there was a need for further research to establish a clear relationship between stakeholder theory and financial performance. Interestingly, Phillips (2003) has noted that there was also pertinent criticism to this theory. There were different views including distortions and/or misinterpretations of the stakeholder theory. Some saw the stakeholder theory as a comprehensive moral doctrine that was derived from socialism. There was also the fake perception that stakeholder theory was not only applicable to business corporations. Some critics including Jensen (2000) as well as Sundaram and Inkpen (2004) argued that when businesses attempted to balance their stakeholder interests, they were distancing themselves from their primary objective of maximising economic value. On the other hand, the stakeholder theory did not necessarily work against the shareholders' interests (Freeman, Wicks, & Parmar, 2004). Clearly, the value creating opportunities for stakeholders were also pro-shareholders. Several authors like Jensen (2000), Marcoux (2000) and Sternberg (2000) noted that managers resorted to stakeholder engagement for their own good. The managers seemed to justify their managerial opportunism by appealing to the stakeholders who were benefiting from their responsible behaviours. Whilst, Phillips (2003) believed that managerial opportunism was a problem, Sternberg (2000)asserted that the stakeholder theory destroyed the businesses' accountability. He argued that a business cannot satisfy all its stakeholders at once, as he remarked; '...a business that is accountable to all stakeholders is actually accountable to none' (Sternberg, 2000).

Marcoux (2000) argued that the stakeholder theory was concerned with the distribution of final outputs. He suggested that the stakeholder theory is simply concerned with who is involved in decision making and who benefits from the outcomes of such decisions. Phillips (2003) held that the procedure for the stakeholder theory was as crucial as its final distribution. Several criticisms were derived from the idea that managers owed their fiduciary duties as agents to their principals. In this case, the principals were the stakeholders. In this light, Marcoux (2000, 2003) and Sternberg (2000) underlined the importance of balancing the stakeholders' interests and treating them alike. Marcoux (2003) made a clear distinction between stakeholders and shareholder relations. The managers owed fiduciary duties to the shareholders. Marcoux (2003) went on to suggest that the stakeholder theory lacked in morality as it failed to account for the fiduciary duties towards shareholders. The stakeholder theory treated all stakeholders' interests equally; despite the shareholders have a legitimate claim. Interestingly, Phillips (2003) pointed out that there were some misunderstandings regarding legitimacy. He concluded that only the legitimate interests should be considered within the stakeholder theory context.

On the other hand, managers may not always understand what their stakeholders expect them to do. Gioia (1999) believed that stakeholders do not adequately represent the social, economic and organisational realities which managers face. Another potential weakness to the stakeholder theory was the lack of suitable representation of the diverse stakeholder groups in corporate decision making. Etzioni (1988) argued about this point. He recognised that there were reasonable difficulties in both implementation and justification, in having stakeholders' involvement in corporate governance issues. In addition, Mahoney (2006) noted that the term stakeholder seemed to include many groups who exhibited conflicting demands on the company. For instance, the creditors may ask for better terms; the employees may desire better working conditions including higher salaries and wages. These demands may be met at the expense of shareholders. Arguably, the better terms for suppliers and/or distributors may translate to higher prices for customers.

Evidently, the normative stakeholder theory or the company stakeholder responsibility required further refinement. Nonetheless, this theory is still widely acknowledged in shaping the business-societal relationship. From a practitioner perspective, stakeholder theory has taught good managerial and instrumental practices to firms. Similar themes included the regurgitated notion of corporate social performance and the discourses that revolved around business ethics and sustainability. Surprisingly, the notion of corporate citizenship was gaining ground in academic publications, particularly in the later 1990s.

5.2.5 Corporate Citizenship

Corporate citizenship is a recent concept which has its roots in political science. Again, this notion has recently been used interchangeably with CSR. This term considers the corporations as social institutions which respond to societal pressures (Crane, McWilliams, Matten, Moon, & Siegel, 2009). Frequently, this notion overlaps with the previous theoretical perspectives. Moon and Chapple (2005) suggested that corporate citizenship is a metaphor for business participation in society. Many academic contributions about corporate citizenship maintain that it reinforces the social and ethical dimensions of the business.

Arguably, corporate citizenship activities can create competitive advantages by reducing risks and enhancing corporate reputation. Many authors have found a positive link between corporate citizenship and a long term financial performance (Fombrun & Pan, 2006; Gardberg & Fombrun, 2006; Vidal, 1999). In the main, these authors asserted that citizenship programmes and strategic investments in intellectual capital, research and development, innovations and advertising may also help companies in their endeavour to improve their stakeholder relationships. During the late 80s and into the 90s, practitioners seemed to engage themselves in building a relationship with society (Altman & Vidaver-Cohen, 2000; Windsor, 2001). Several pioneers in the CSR field, including McGuire (1963), Davis (1973) and Carroll (1979) have floated the idea of looking at the firm as being a citizen. Davis (1973) claimed that a firm was not socially responsible enough if it just complied with the law (Davis, 1973: 313). Eilbirt and Parket (1973) floated the concept of social responsibility by using the expression ‘good neighbourliness’, which sounded as very close to being a good citizen.

Epstein (1989: 586) noted that good corporate citizenship was simply evidenced in socially responsible organisational behaviour. Apparently, the businesses’ assistance (through financial and/or non-monetary contributions) to the community demonstrated the organisations’ credentials in corporate citizenship. Significant empirical and conceptual work on corporate citizenship was also carried out in the late 1990s (see Andriof and McIntosh, 2001; Logsdon & Wood, 2002; McIntosh, Leipziger, Jones, & Coleman, 1998; Tichy, McGill, & St Clair, 1997). The increasing popularity of the concept can be attributed in part to certain factors that may have had an impact on the relationship between business and society. For instance, issues such as globalisation, the crisis of the welfare state and the power of large multinational companies have also led to the development of this notion. Muirhead (1999) noted that there was a considerable diversification of strategies as a result of globalisation. At the time, many multinational companies were establishing their presence in the global economy. Some of them were giving prominence to the social and environmental agenda.

For the first time, there were even management positions which were dedicated to corporate giving. Management roles, particularly within the marketing and public relations were including the tasks of corporate social responsibility and public affairs. Corporate citizenship gave way to new concepts such as global social investment, corporate reputation, community partnerships, corporate social policy and other notions were becoming quite popular across large companies. By the 2000s, there was an emphasis for the conceptual development of corporate citizenship. With regards to management philosophy or policy there was more concern for strategic giving, cause-related marketing, international donations, employee volunteerism, sustainability and global corporate citizenship (Windsor, 2001).

Moreover, empirical research has been carried out into the related topics of stakeholder theory, business ethics, sustainability and corporate citizenship. Some authors argued that there was potential for further theoretical development in this promising field of study. Perhaps, there was scope in drawing several practices under the umbrella of corporate citizenship. Kotler and Lee (2005) had presented several practices which were aimed at business practitioners in their CSR engagement. They categorised the best practices into six types of social initiatives which included; cause-promotion, cause-related marketing, corporate social marketing, corporate philanthropy, community volunteering and socially responsible business practices. The authors suggested that cause-promotion increased awareness and concern for the social causes. The cause-related marketing effectively sought increased sales. The corporate social marketing involved initiatives which triggered the required behavioural change. Kotler and Lee (2005) and Kotler (2011) genuinely believed that corporate philanthropy contributed directly to societal causes. The community volunteering encouraged the organisations' human resources to dedicate their time and talents in the community.

For decades, businesses were taking part in philanthropic activities. Sometimes they contributed through their donations in cash or in kind to the community. This was widely perceived as a clear expression of appropriate corporate citizenship. Apparently, this was the way how corporate citizenship has been conceived and accepted by the general public. The businesses were voluntarily engaging themselves in social and environmental activities. Such practices were not necessarily mandated by law. Carroll (2004) noted that the businesses were never expected to engage themselves in such activities, yet they felt that they acted as good citizens in society.

Towards the end of the 1990s, the businesses in general, seemed to have genuine concern towards the communities around them. Perhaps, this may have been attributed to a backdrop of intense protests against globalisation. Undoubtedly, it appeared that the businesses in general were facing difficult times ahead. In 2002, thirty-four chief executives of the world's largest multinational corporations signed a document during the World Economic Forum (WEF) entitled, 'Global Corporate Citizenship: The Leadership Challenge for CEOs and Boards'. Evidently, the WEF had recognised that corporate citizenship was a business response towards society. The WEF urged businesses to engage themselves in social investment, philanthropic programmes and public policy (WEF, 2002).

Wood et al. (2006) and Matten, Crane, and Chapple (2003) among others, have noted that the language of corporate citizenship was frequently used when referring to CSR. Other scholars went even further as they suggested that the notion of corporate citizenship was actually a different approach of understanding the role of business in society. Logsdon and Wood (2002) believed that this linguistic change (from CSR to corporate citizenship) has resulted in changes in the firms' normative behaviour. Windsor (2001) also stressed that corporate citizenship was a completely different conceptualisation than corporate social responsibility. Moreover, Birch (2001) described the notion of corporate citizenship as innovation. It seemed that there was more to corporate citizenship than the name itself. While some business practitioners were using notions such as social responsibilities and business ethics, the concept of corporate citizenship was gaining ground among academia. The corporations were recapturing their rightful place in society, next to other citizens with whom the corporation form a community (Matten et al., 2003:111). Eventually, Moon and Chapple (2005) have developed a related concept to corporate citizenship, which they entitled 'Global Business Citizenship' (GBC). Curiously, this notion was effectively an extended view of corporate citizenship. The authors suggested that in some places, large corporations were noticing that there was a lack of government intervention, as there was a lack of regulation in some sensitive and ethical issues. Conspicuously, this approach described how businesses were adopting a similar role to that of the government in tackling societal and environmental problems.

Van Oosterhout (2005) alleged that there was little empirical support on the subject. The author criticised Matten and Crane's approach to corporate citizenship, claiming that they were not clear enough about the corporate rights and responsibilities. Consequently, Crane and Matten (2004) have responded to these criticisms by elaborating their previous conceptual works. Windsor (2001) argued that corporate citizenship is dependent on managerial discretion and on the firms' philanthropic ideology. In a similar vein, Goddard (2006) affirmed that corporations can create value in the long term through undertaking corporate citizenship activities.

This philanthropic ideology considered the business entity as a member of society. Moreover, the related definition; global business citizenship was increasingly being associated to moral duties and human rights. There were beneficial effects for the companies themselves, as they were resorting to philanthropy and corporate citizenship practices. Nonetheless, it was widely agreed that there was a need for further conceptual development and empirical studies in this area of study. Munshi (2004) noted there was a lack of clarity among practitioners with regards to who is responsible for setting the standards for global citizenship. According to Orlitzky and Swanson (2008), corporate citizenship was rhetorically a superior synonym to the concept of corporate social performance. As a matter of fact, more authors were using the corporate citizenship term (see Crane & Matten, 2004; Gunther, 2004).

Orlitzky, Schmidt, and Rynes (2003) investigated the relationship between corporate social performance and corporate financial performance. Clearly, the financial performance is clear cut in its measurement, as it indicates the degree to which a firm achieves its financial or economic objectives (Venkatraman & Ramanujam, 1986). The corporate financial performance was assessed by using the market and/or the accounting standards. On the other hand, the construct of corporate citizenship could have raised dubious measurement properties. Empirical studies have suggested that the construct validity of both variables were far from perfect. Nonetheless, their measurement was still considered for research syntheses (Orlitzky et al., 2003). Hunter and Schmidt (2004) asserted that there was a lack of construct validity in corporate citizenship. In fact, they identified random and systematic errors which could produce flawed research literature.

5.2.6 Strategic CSR

As the CSR concept has gained momentum among businesses, the notion progressed from its apparent shallow considerations of 'window dressing' to a strategic orientations. Arguably, CSR can be considered as strategic in its intent and purposes. Businesses are capable of implementing socially responsible behaviours as they pursue their profit-making activities. Carroll (1979) affirmed that business has economic responsibilities as it provides a decent return on investment to owners and shareholders; by creating jobs and fair pay for workers; discovering new resources; promoting technological advancements, innovation, and the creation of new products and services along with other objectives.

Interestingly, Reinhardt (1998) found that a firm which engages in CSR strategy can generate significant returns when it prevents its competitors from imitating its strategies. Expenditures on strategic CSR activities are typically intended as long-term investments that are likely to yield financial returns (Vaughn, 1999). This is a type of philanthropy that is aligned with profit motives (Quester & Thompson, 2001). The strategic CSR perspective seems to resonate well with Friedman's (1970) vision. Yet, businesses' way of thinking has changed dramatically since Levitt (1958), Friedman (1962, 1970) held that the companies' only responsibility is to maximise their owners' and shareholders' wealth. CSR developed during the latter part of 20th century as the recognition of all stakeholders, rather than just shareholders being the legitimate concern for the business, see Freeman (1984).

Strategic CSR or strategic philanthropy (Carroll, 2000) is undertaken to accomplish strategic business goals. (2001:200) described CSR's goals as "good deeds are believed to be good for business as well as for society". With strategic CSR, corporations "give back" to their constituencies because they believe it to be in their best financial interests to do so. Many authors including Baron (2001), Feddersen and Gilligan (2001) claimed that strategic CSR was a driver for innovation and economic growth. They believed that CSR will help the company to achieve a competitive advantage. Lantos (2001) suggested that CSR can derive positive benefits for both the societal stakeholders and the firm itself. Lantos (2001) was very clear and straightforward about strategic responsibility, as he described it as the fulfilment of philanthropic responsibilities that will simultaneously benefit the bottom line. The author held that companies should undertake CSR strategies which add value to their business and disregard other activities which are fruitless. In this context, Porter and Kramer (2002) have raised the issue about CSR as they held that corporate philanthropy should be deeply rooted in the firms' competences and linked to its business environment. Snider, Hill, and Martin (2003) held that strategic CSR optimises the organisational performance. Zadek (2004) also suggested considering the socially responsible practices, in a strategic way. He argued that the full realisation of CSR can only be achieved after the concentration of civic concerns. Soon, the relationship has developed into a kind of necessary integration of 'business in the society', where the society interacts with the business at large. Garriga and Mele (2004) suggested that in the long term the business creates value in society. McWilliams and Siegel (2011) affirmed that Strategic CSR is defined as any "responsible" activity that allows a firm to achieve a sustainable competitive advantage, regardless of motive.

Yet, some cynical commentators maintained that strategic CSR had impoverished the notion of citizenship. Arguably, philanthropy could be considered as self-serving and insincere. Perhaps, this is one of the reasons why many companies are not communicating their CSR initiatives which are related to their core business activities. Moon (2001) held that the motivation for engaging in CSR is always driven by some kind of self-interest. Rollinson (2002) admitted that it is difficult to tell whether ethical behaviour is triggered by altruism or self-preservation. Similarly, Hemingway and Maclagan (2004) described the strategic CSR contributions as disguised profit-motivated expenditures (regardless of whether the activity is strategically-driven, or altruistic).

Generally, it is quite difficult and daunting to quantify the returns of responsible behaviours, Past empirical studies have yielded inconclusive findings. Relevant research has shown that those companies that practice social and environmental responsibility did prosper in the long run (McWilliams & Siegel, 2001; Orlitzky et al. 2003). However, other research has indicated that it is also possible to overspend on strategic CSR — as this is true of all discretionary marketing expenditures (Lantos, 2001). It may appear that there is an optimal level of spending on strategic CSR (Orlitzky et al. 2011). The factors contributing towards creating value are often qualitative and may prove very difficult to measure and quantify, such as; employee morale, corporate image, reputation, public relations, goodwill, and popular opinion (Miller & Ahrens, 1993). Lantos (2001) advocated the need to identify CSR activities that will yield the highest payback. Of course, every stakeholder group has its own needs and wants. Therefore is important to continuously balance conflicting stakeholder interests and measure the returns from strategic CSR investments (Camilleri, 2013; McWilliams & Siegel, 2011).

Porter and Kramer (2006) believed that organisations can set an affirmative CSR agenda that produce maximum social benefits and gains for the businesses themselves, rather than merely acting on well intentioned impulses or by reacting on outside pressures. They referred to the value chain (Porter, 1986) as an appropriate tool to chart all the social consequences of business activities.

This value chain model presents operational issues which have an effect on the companies' performance. It depicts some of the activities a company engages in while doing business. This model can be used as a framework to identify the positive and negative social impacts of those activities. Porter and Kramer (2006) held that through strategic CSR the company will make a significant impact in the community. They suggested that companies may be triggered to doing things differently from competitors, in a way where they could lower their costs. The authors went on to say that strategic CSR involve both inside-out and outside-in dimensions, working in tandem. Interestingly, the authors indicated that there are 'shared value' opportunities through strategic CSR (Porter & Kramer, 2006, 2011). They argued that the companies' may strengthen their competitiveness by investing in social and environmental aspects.

The success of the company and of the community may become mutually reinforcing (Porter & Kramer, 2006). They maintained that the more closely tied a social issue is to the companies' business, the greater the opportunity to leverage the firms' resources and capabilities and will in turn benefit society at large. Falck and Heblich (2007) related the notion of strategic CSR to the shareholder value theory. This approach implied a long term view of wealth maximisation. As it was also the case for the agency theory. These authors suggested that proper incentives may encourage managers 'to do well by doing good'.

5.2.7 Creating Shared Value

The concept of creating business value is not new to academia. Wheeler et al. (2003) came up with a simple framework for the creation of value. They reconciled the concepts of corporate social responsibility and sustainable development (or sustainability) with a stakeholder approach. They held that the reputational and brand value were good examples of intangible value. However, they failed to relate them to economic value over the long term. Nonetheless they came up with a business model in their value creation approach. Their sustainability model embraced the concepts of CSR, corporate citizenship and the stakeholder theory (Wheeler et al., 2003). In a similar vein, Porter and Kramer (2006) claimed that the solution for CSR lies in the principle of 'shared value'. According to Porter and Kramer (2011), the businesses are in the best position to understand the true bases of their company productivity. It is in their interest to collaborate across profit and non-profit boundaries. Porter and Kramer (2011) gave relevant examples of how efficient processes are aimed at adding value to the firm and to society at large.

The authors explained that the creation of shared value focuses on identifying and expanding the connections between societal and economic progress. A shared value proposition requires particular areas of focus within the businesses' context (workplace) as well as looking after society's interests (comprising the environment, marketplace and the community) for the firm's self-interest. The enterprise's performance must be continuously monitored and evaluated in terms of its economic results. Creating Shared Value (CSV) is about embedding sustainability and corporate social responsibility into a brand's portfolio. All business processes in the value chain (Porter, 1986) operate in an environmental setting within their wider community context. Porter and Kramer (2011) held that this new approach has set out new business opportunities as it created new markets, it improved profitability and has strengthened the competitive positioning. Crane and Matten Blog (2011) admitted that Porter and Kramer (2011) have once again managed to draw the corporate responsibility issues into the corporate boardrooms. Crane and Matten Blog (2011) had words of praise for the 'shared value' approach as they described the term as compelling and endearingly positive. Elkington (2012) argued that sustainability should not be consigned to history by Shared Value. The author recognised that Porter and Kramer's shared value proposition is undeniably a key step forward in corporate strategy. Yet he maintained that shared value can play a key role in destroying key resources, reducing the planet's biodiversity and destabilising the climate. Then Elkington (2012) went on to say that Porter reduced corporate sustainability to resource efficiency. Eventually, Crane, Palazzo, Spence, and Matten (2014) have also critiqued Porter and Kramer's (2011) shared value proposition. They argued that this concept ignored the tensions that were inherent to responsible business activity. They went on to suggest that shared value is based on a shallow conception of the corporation's role in society. Eventually, Porter and Kramer (2014) admitted that "shared value" cannot cure all of society's ills as not all businesses are good for society nor would the pursuit of shared value eliminate all injustice. However, Porter and Kramer defended their (2011) proposition as they argued that they had used the profit motive and the tools of corporate strategy to address societal problems.

5.3 Research Limitations

An extensive literature review has revealed that there are wide set of definitions of CSR. It may appear that there is still no consensus on an appropriate term that could encapsulate CSR. This chapter indicated that there is a lack of uniformity and consistency in the use of the CSR notion. Moreover, this research area is attracting researchers from heterogeneous backgrounds; bringing different values, ideologies and perspectives in shaping and formulating CSR theory.

5.4 Summary

This chapter has reviewed the evolution of CSR theories. Remarkably, all of these CSR perspectives can be used to describe the businesses' laudable behavioural practices. Most of these theories and paradigms were normative in nature. Debatably, not all the proposed concepts may be equally acceptable for today's businesses. Any theory is usually established after a significantly number of tests of validity and internal consistency. In practice, many companies may be better described as following the shareholder model. Other businesses may seem closer to the stakeholder model. However, one can also find some companies which correspond to the corporate social performance model. It may appear that an increasing number of corporations may be intrigued to adopt the corporate citizenship or the global business citizenship model. This may be the case of the larger multinational companies. Interestingly, every theory has been derived from a different field of knowledge. For instance, the corporate social performance is related to sociology, the shareholder theory to economic theory, the stakeholder theory is rooted in several ethical theories and the corporate citizenship has been derived from a political concept. The concept of creating shared value seems to be integrating many different perspectives. This chapter has explained the evolution of the notion of CSR, and how it has transformed and adapted itself to reflect societies' realities.

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Chapter 6
Relationships Between Corporate Social Responsibility and Strategic Planning

Catalina Sitnikov and Claudiu Bocean

6.1 Introduction

Although the first known definition of CSR was given in 1953 by Howard Bowen (1953, p. 6) the time of business environment becoming aware of corporate social responsibility importance started in '60s and '70s. As a result of businesses globalization and interconnection, companies increasingly follow the globally imposed trends, social responsibility being at the forefront of such trends (Halme, Roome, & Dobers, 2009). Over the last decades of the twentieth century and the first decades of the twenty-first century, there have been developed a variety of concepts related to social responsibility: corporate social performance (Carroll, 1979), corporate citizenship (Marsden and Andriof, 1998; McIntosh, Thomas, Leipziger, & Coleman, 2003), corporate accountability (Gray, 1992; Zadek, Pruznan, & Evans, 1997), corporate governance (OECD, 1999; Shleifer & Vishny, 1997; Zingales, 1998; Baron, 2001).

Currently, the issue causes an utmost interest both in the academic community and among managers of multinational companies. The main topics investigated aim at the multitude of CSR actions and the consequences they can have on business. The managers are aware of the diversity of legal norms, standards, practices and CSR needs for the nation, region or line of business, and of the fact that local managers are subjected to constant pressure from stakeholders in order to enhance their involvement in CSR.

Following the carried out investigations, McWilliams and others (2006) concluded that CSR analysis is still in an embryonic stage, any theoretical frameworks, indicators and empirical models generally accepted and easy to implement being absent. Moreover, CSR has been analyzed from the perspective of several research

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areas, due to its interdisciplinary. Over time, there have been stated a number of theories that formed the basis of CSR research views (agency theory, stakeholder theory, stewardship theory, resource-based view of the firm, institutional theory, theory of the firm etc.).

Social responsibility involves taking into account all stakeholders expectations, as well as the management of all economic, social and environmental aspects manifested in relations with stakeholders in their areas of influence: work place, market, value-adding chain, community and public policy. Social responsibility is the solution to render the company's objectives concerning profit with social objectives. Attention to social problems may support maintaining or improving organizational ethics, increasing the company's market value and local community consideration (Heal, 2004; Kraft & Hage, 1990).

Representatives of civil society question organizations' motives to carry out CSR programs, considering that these programs are just public relations campaigns which aim at improving organizations reputation. This view is grounded on the civil society actors' distrust in the companies' intentions which want to only increase profits. Oppositely, there are views that reject CSR role in a market economy where the primary responsibility of companies is with its shareholders and focuses on maximizing profits (which may be payable to capital holders as dividends or be capitalized by investments increasing company's value). According to this view (Rangan, Chase, & Karim, 2012) the value of any campaign is given by the added value it creates. CSR actions that do not simultaneous create profit for any company, are considered loss of corporate resources, therefore being unnecessary.

Corporate social responsibility is, therefore, a new business philosophy, which emphasizes the need to look beyond their ultimate main goal (customer's satisfaction in order to maximize profit to be distributed to capital holders) and to pay attention to other stakeholders in order to minimize the negative impact that these corporations have on the environment or society in general.

6.1.1 Strategic Corporate Social Responsibility

Globally there is a trend towards the process of organizational changing and developing that has profound strategic implications, since that aims the business strategy model adopted by the company in order to operate more efficiently and achieve better results. According to Andrews (1987), Friedman (1970), company strategy development implies attaining those economic choices that affect not only the company's results but also a large number of stakeholders that are associated either directly or indirectly with the company. In other words, the strategic decisions made by large companies involve economic, social and environmental issues and consequences, which are closely interlinked. Porter and Kramer (2006) highlighted the existence of interdependence between organizations and society as a whole, due to the fact that an organization's activities have a direct impact on the communities where it operates. In the process of strategy development, one should take into account the positive and negative effects that may occur as a result of decision-making, not only on the organization's activities, but also on various stakeholders and society in general (de Sousa, Wanderley, Gomez, & Farache, 2010).

Andrews (1987) considers that the four components of a strategy development are:

- business opportunities;
- skills and company resources;
- values and aspirations;
- obligations to shareholders and society as a whole.

In this way, Andrews acknowledges that an important component of the strategy is accountability to the needs and requirements of stakeholders and society as a whole. To formulate new models of social strategies, Husted and Allen (2001) used the tools and concepts borrowed from strategic management. Molteni (2006) places social responsibility as part of corporate strategy as it supports organization management in finding solutions to solving stakeholders' requirements and expectations. He proposes an innovation model based on social responsibility, saying that this may be an important factor in boosting competitiveness.

For any company, the strategy must go beyond the process of choosing the best practices in a field. Porter and Kramer (2006) believe that the strategy involves choosing a unique way of doing business that either reduces costs or better meets customers' specific set of needs. This applies to the relationship between organization and stakeholders and society as a whole. Strategic CSR takes into account both the effects on the organization's value chain, and on environment, allowing maximum effect with minimum effort. Strategic CSR opens the way to developing a symbiotic relationship between business and community success which mutually reinforce. Typically, the more a social problem is related to corporate business field, the more the possibility of using company resources with maximum effect, with benefits for both company and society, increases. Godfrey and Hatch (2007) believes that, approached from a strategic perspective, CSR literature can be divided into two sub-domains: the ethical or moral orientation and the business orientation. The first approach envisions CSR as a series of actions which mutually take place between company and stakeholders. From this point of view, selecting actions in a CSR program depends on stakeholders' needs and objectives (Mitchell, Agle, & Wood, 1997). On the contrary, the second approach considers that there is a causal relation between CSR programs and financial performance. This perspective suggests that CSR is consistent with profit maximization objective and can be harmoniously integrated into company business strategy (Sharp & Zaitman, 2010). Whatever the chosen approach, integrating CSR programs in business strategy is necessary to ensure the effectiveness of CSR programs, the networking with the company's business objectives and the elimination of redundant actions and processes.

Burke and Logsdon (1996, p. 496) believe that social responsibility is "strategic when produces substantial benefits for the company, particularly by supporting its core activities, thereby contributing to the company's mission fulfilment." They underlined that it is important for organizational management to be aware of strategic CSR benefits; otherwise CSR will be regarded as an operation used to improve company's image, a way of communication, but not a way of doing business. Burke and Logsdon (1996) consider that a company should include planning and investment effecting in CSR field as parts of corporate planning process which will facilitate the assessment of benefits generated by CSR programs for both the organization and society as a whole.

Following empirical research, Murray and Hazlett (2005) found that in some organizations there is not a clear CSR policy. Such organizations do not try to benefit from the advantage offered by the status of being socially responsible. CSR is perceived as an obligation to conduct a series of activities in order to not be disapproved by community. One can say that such organizations carry out CSR actions under duress (for example, the case of companies that significantly pollute the environment where they operate). There is also another category of organizations that engage in CSR in order to get a good image and reputation in community (Murray & Hazlett, 2005). Even if the organization wins by the means of a better reputation, the benefits are difficult to be quantified. One can therefore say that such organizations are engaged in altruistic CSR activities rather than in strategic CSR activities. Oppositely, there are the organizations understanding that CSR should be a tool to support the organization maximizing its results and increasing its competitiveness. Many such organizations have a separate CSR strategy which sets objectives and outcomes expected from CSR program (Murray & Hazlett, 2005). In these organizations, CSR is viewed as a business opportunity, creating numerous benefits to both the organization and stakeholders.

Brooks (2005) states that as integrating quality management in organizational processes CSR also takes time and often involves a change of organizational culture. Due to the lack of CSR strategic integration, the organization cannot fully benefit from its potential benefits (Hemingway & Maclagan, 2004; Joyner & Payne, 2002; Lantos, 2001).

In turn, Gyves and O'Higgins (2008) studied the relationship between implementing CSR programs and organization strategy, indicating the existence of four different ways to apply CSR:

- non-strategic activities of constrained CSR (donations that companies feel obliged to do). These types of CSR activities do not benefit companies;
- strategic activities of constrained CSR (companies take CSR actions as a result of their obligation under environmental or social issues legislation). These types of CSR activities do not benefit to a great extent to companies, but may give rise to opportunities that lead to the development of voluntarily CSR strategic activities.
- non-strategic activities of voluntary CSR (donations that companies make following a careful selection of social causes they wish to be involved in). However, there is not a link between the basic strategy of the company and these donations. The benefits of this type of CSR are public gratitude, improved

reputation, and increased employee morale, increased ability to attract and retain valuable human resource. The benefits, however, cannot be clearly quantified and the ratio of effort and effect is not optimized.

- voluntary CSR strategic activities (companies put in accordance their CSR programs with the basic strategy and the activities of value creation chain). This is possible only if CSR is integrated within the core strategy.

Voluntary CSR integrated within basic strategy of the company determines obtaining maximum and sustainable benefits both for the company and for its stakeholders and society as a whole (Gyves & O'Higgins, 2008). In turn, based on the voluntary approach and the strategic focus, Husted and De Isus Salazar (2006) distinguish between three types of CSR: strategic CSR, selfless CSR and constrained CSR, implemented as the result of community pressure.

Porter and Kramer (2006) consider that the predominant approaches regarding CSR are fragmented and disconnected from business strategy which leads to missing a number of beneficial opportunities for both the company and society as a whole. Although social responsibility and corporate strategy were considered as two distinct components of company policy (social responsibility contributing to achieving social goals, and corporate strategy contributing to achieving economic objectives), there is a need for interconnecting the two components (Husted & Allen, 2001). Therefore, in recent years, economic and academic environment has paid more attention to the possibility of integrating within a company's strategy corporate social responsibility.

In order to integrate CSR into core strategy of a firm, Heslin and Ochoa (2008) have defined a set of seven principles: "cultivate needed talent; develop new markets; protect labor welfare; reduce your environmental footprint; profit from by-products; involve customers; green your supply chain". McWilliams and Siegel (2001) suggest that CSR activities should be included in strategy development and that the resources to be used for CSR programs should be determined by cost—benefit analysis. The analysis of CSR strategic implications is hampered by cultural and institutional differences that lead to different expectations. For companies that operate in several countries with different cultures this fact complicates determining CSR activities to be addressed and the human, financial and material resources to be used.

McElhaney (2009) investigated CSR in terms of strategy, saying in turn, that CSR should be part of the organization strategies. Moreover, McElhaney defines strategic CSR as a business strategy that is integrated with core business objectives and core competencies of the company, being designed to create added value and generate positive social changes and being incorporated into the organizational culture and daily operations. Guadamillas-Gomez, Donate-Manzanares, and Skerlavaf (2010) considers that this integration targets issues of organizational culture, leadership, organizational structure, stakeholder involvement and participation in making important business decisions, employees' motivation to achieve their full involvement in CSR activities.

Given the large number of heterogeneous CSR actions within an organization and the multitude of motivations that form the base to these actions, it is quite difficult for an organization to coordinate them and, at the same time, to integrate them within organizational strategy. Rangan et al. (2012) argues that every organization should have a strategy for unifying all CSR activities under one umbrella. However, they consider that the concept of CSR strategy does not mean a complete integration within organization's strategy, but it is a separate component of it. Based on this premise, Rangan et al. (2012) defines three main areas of CSR that can have strategic implications. The characteristic feature of each area is given by the manner in which specific programs will address the CSR priorities of an organization.

The first field groups together philanthropic activities, even if they can generate potential benefits for the organization. The second area includes CSR activities with a social or environmental impact, aiming the entire chain of added value creation (including supply chain, distribution channels, and production processes). The third area includes programs that aim to fundamentally change the company environment. This transformation aims at sustainable development of the organization, but often involves addressing short-term risks in order to create social value. Rangan et al. (2012) considers that an organization is not required to address all three areas simultaneously or sequentially, but must choose those actions that it thinks will bring a competitive advantage over other organizations and to develop a coherent strategy for its CSR programs. Types of CSR programs addressed by an organization should be determined by its core competencies and institutional capacity.

Within the process of CSR integration into the strategies, operations and current activities of a company, it must be taken into account the interests and objectives established by stakeholders. Norris and O'Dwyer (2004, p. 174) show that in companies there is a change in the way of doing business: it is paid particular attention to the accountability towards all stakeholders, not only towards certain shareholders. It can be said that there is a rethinking of relations with all those involved in the company's business (shareholders and other investors, customers, suppliers, employees, local community, state and local government, etc.) through the application of ethical principles and values in the company's activities.

Integrating social needs with business ones involves a number of adjustments in the organization. Few companies have identified and prioritized social issues that could have a significant influence on the company's competitive context. Porter and Kramer (2006) believe that companies need to move from a fragmented, defensive approach to an integrated, offensive one. The focus should move from obtaining a better image to the actual fulfilment of social needs related to company's activities, from a responsive CSR to a strategic CSR.

Porter and Kramer (2006) believe that while responsive CSR requires only the approach of a good corporate citizen status and diminishing the social damage caused by activities of the value chain, strategic CSR is more selective. Companies should address only those social issues which represent opportunities and provide a competitive advantage for organization through the significant impact they have on the society as a whole. If organizations make the right choices and take social focused, proactive and integrated actions, their core strategies will increasingly differentiate from the rest of competitors.

However, in most organizations which had already implemented a CSR strategy, CSR programs were and still are not fully integrated within business strategy. A CSR strategy is a first step towards integrating CSR in the business strategy, but it is not enough. CSR actions must be strategically integrated within the organization. CSR should not only be the subject of activities, reports, and strategies programs, but must be integrated into employees' attitudes and behaviors, be part of the decision-making process and organizational culture. In this way, CSR will not only be an image vector but a driver of sustainability, competitiveness and overall performance.

6.2 CSR Impact on Company Competitiveness and Performance

When managed effectively, CSR programs can create significant benefits in terms of reputation, motivation and employees loyalty. CSR can contribute also to strengthening the partnerships with various stakeholders (Pearce and Doh 2005; Jones, 1995). Husted and Allen (2001) highlighted the positive association between strategic actions of social responsibility and competitive advantage. Other authors argued that corporate reputation, which can be enhanced by social responsibility actions, is a crucial element in increasing the amount of products and services sold and provided (Logsdon & Wood, 2002), reputation strengthening determining, therefore, a competitive advantage.

Implementing CSR in the company's core strategy can create social benefits and increase the company's reputation, because when the strategies are established and company's activities get under way, other objectives set by various categories of stakeholders are taken into account in addition to the central objective of the business (profit maximization) (Guadamillas-Gomez et al., 2010). In this regard, it is necessary an organizational development process in order to integrate CSR within company's strategies, processes and activities (Donaldson & Preston, 1995).

Ideally, well-run CSR programs create social value, while supporting the organization's performance goals and the diminishing of operating costs, as well as the strengthening of relationships with stakeholders. Therefore, Rangan et al. (2012) considers it imperative for organizations to establish a CSR department whose primary responsibility is coordination and integration of CSR actions, even if functional responsibility for various actions remains dispersed throughout the organization.

McElhaney (2009) believes that the benefits of strategic CSR, most often encountered in literature and proven in practice, are seen in human resources, talent management, organizational reputation, branding and operational cost savings. Employees are more loyal to companies that have corporate responsibility programs. As a result, CSR can be used as an effective strategy to recruit and retain the best employees from a field and a given market.

An important topic concerning the relationship established between CSR and companies' strategy refers to the possibility of an effective CSR program to turn into a source of competitive advantage through product, processes or corporate image differentiation in relation to its competitors (McWilliams and Siegel, 2000). Although the expenditures involved in CSR activities may reduce short-term performance, some studies (Garcia-Castro, Canela, & Arino, 2008; Ogden & Watson, 1999) show that on long-term organizational performance will be higher because of the competitive advantage gained reported to competition and increasing reputation.

A company can create added value and achieve competitive advantage through social responsibility actions only if CSR programs are interconnected with corporate strategies. In the public eye, the actions of social responsibility add value to products and also improve the business environment (Porter & Kramer, 2002). de Sousa et al. (2010) proposes a theoretical framework that allows understanding social responsibility as a competitive advantage strategic creator. In this framework the company's strategy formulation is the result of implementing organizational values into practice, understanding the importance of stakeholders, analyzing internal resources and skills, identifying opportunities in the external environment and analyzing the structure of the economic sector where the company operates. The main elements used to formulate social strategies should be linked to the company's core activity (Burke & Logsdon, 1996; Husted, 2003; Zadek, 2005).

To measure the impact of strategic CSR, organizations must develop a system of indicators to analyze the results in terms of triple-bottom-line: impact on people, environment and organization's profit. The opportunities for strategic CSR can occur at any level within an organization or even from outside. During the implementation of CSR initiatives, some employees tend to reject organization's change of attitude. Therefore, based on the indicators characterizing the performance of strategic CSR, achieving objectives must be integrated in the reward system (Heslin & Ochoa, 2008).

Summarizing, strategic CSR can be defined as a win-win approach of social responsibility, organizations demonstrating responsibility towards society and obtaining at the same time, benefits (Lantos, 2001). CSR can support building and improving an organization's reputation (Fombrun & Shanley, 1990). Moreover, CSR can support an organization in gaining competitive advantage as the activity is difficult to imitate (Litz, 1996; Barney, 2001). Besides the benefits of improving the reputation and competitive advantages, the integration of CSR in organizational strategy can lead to lower operational costs, attracting talented human resources, improving long-term performance. Also, integrating CSR into the overall strategy will help organization meet the growing demands of stakeholders, contributing to the organization's strategic compatibility with the environment in which it operates.

6.3 Models for Integrating CSR in Business Strategy

Although there is a need to integrate CSR into company strategies, there are not generally accepted models in this respect. Implementation of a CSR model involves changes in organizational strategy. Currently there are responsive type models which involve carrying out the following steps:

- integrating the principles of social responsibility within the organization's vision and values system;
- evaluating CSR actions undertaken so far without a well-structured plan;
- developing CSR program that contains the actions to be undertaken in the intervention targeted areas;
- creating a communication plan through which the organization is trying to disseminate all CSR activities and effects obtained.

One of the best-known theoretical frameworks to create a CSR strategy was developed by Porter and Kramer (2002, 2006). In 2002, they first established a framework for achieving a competitive advantage based on corporate philanthropy activities. The framework consists of five stages: the competition examination, the review of existing philanthropic portfolio, the analysis of potential philanthropic activities that can add value to the company, the identification of those opportunities related to other partners and the monitoring and evaluating of results (Porter & Kramer, 2002). In 2006, Porter and Kramer (2006) reformulated this framework emphasizing the importance of integrating within the company's core strategy of strategic CSR (Porter & Kramer, 2006).

Prioritizing social issues that the company should focus on can be very difficult. Porter and Kramer (2006) suggest dividing social problems into three categories: generic social issues, social issues that have an impact on the company's value chain, social problems affecting the competitive context. Creating a corporate social agenda goes beyond the idea of responsive CSR, according to which the company must be a good corporate citizen and must reduce the negative impact of value chain activities.

Corporate social agenda allows company to focus on strategic CSR (Porter & Kramer, 2006) and obtain a unique position by combining the connections with stakeholders. In this way, companies can easily identify social problems that might become relevant for inclusion within the strategy.

The benefits of a strategic CSR can be substantial, but the potential challenges arising from making changes to organizational structure and culture needed to implement strategic CSR can leave organization's management in difficulty. Heslin and Ochoa (2008) believe that an organization management must follow five guidelines to successfully implement strategic CSR: CSR initiatives choice, identification and involvement of relevant stakeholders, effective management of ethical dilemmas, developing a system of reporting indicators, and integration in the reward system.

Based on a careful analysis of the strategic challenges and opportunities, the organization should focus only on few CSR initiatives that have the best prospects in terms of results and the fulfilment of stakeholders' expectations. Prioritization can provide the necessary focus to achieve the best outcomes of a CSR program. The choice of stakeholders is important because, although there is not necessary those to have a contractual link with the organization, their ability to influence public opinion, the organization's reputation and the results can be significant. Implementation of strategic CSR poses a number of ethical issues to organization. Organizational management should carefully consider relevant ethical principles that form the foundation of the organization's affairs to avoid dilemmas that may arise. A proactive management, by using the "devil's advocate" technique can prevent a number of problems that can harm the organizational reputation.

Bhattacharyya, Sahay, Arora, and Chaturvedi (2008) developed a theoretical model for designing CSR programs which include five steps:

- identifying stakeholders,
- identifying stakeholders 'needs and requirements,
- identifying areas subject to CSR activities in which the company has a strategic interest,
- identifying social and environmental problems, the resolution of which may turn into an opportunity for the company,
- estimating the benefits that strategic CSR actions can bring to the company and stakeholders.

The leaders of an organization know that to achieve the targets set they need strategies that guide all organizations' members and ensure mobilization of resources in places where they are needed (McElhaney, 2009). Because the real goals of most CSR actions do not support the typical functions of a company, such as production, sales, supply etc., company managers fail to clearly establish some objectives or strategies specific to CSR actions. The result is a mix of strategies that are not interconnected to each other or to the basic strategy of the company. According to McElhaney (2009) developing a CSR strategy involves the following steps:

- Company management, including the board of directors should clearly express their public commitment to CSR programs and initiate the process of establishing a strategy;
- CSR strategy alignment with the core competencies of the company (companies should choose those social problems for which their work is part of the solution to these problems);
- fully integrating CSR into corporate culture, corporate governance and the company's development strategy, and within management and performance existing systems;

- developing key performance indicators to measure the impact of their CSR strategies on the company and environment.
- communication on all channels of the company's CSR program to increase synergistically its effects.

In turn, Galbreath (2009) exposed how CSR can be effectively integrated into the company's strategy. He identifies six dimensions of the strategy to be integrated into CSR programs: mission, strategic issues, markets, customer needs, resources, competitive advantage. All six dimensions form inherently the foundation for strategy development, being interconnected. An organization should consider how CSR fits in every dimension if it wants to fully integrate CSR in the core strategy.

According to Guadamillas-Gomez et al. (2010), integrating CSR in business strategy could be achieved through three stages. Implementing the CSR program actions within organization's strategy is achieved by implementing the strategic objectives of CSR program (established taking into account stakeholders' needs and requirements) within the company's general objectives system. CSR implementation involves the integration of CSR actions and processes among business actions and processes, taking into account leadership, human resources practices, and management system. CSR generalization refers to CSR integration into organizational culture, vision and values. This third stage is complemented by the establishment of a reporting system in order to measure the evolution of CSR and company and stakeholders benefits.

Rangan et al. (2012) developed a model for creating a CSR strategy consisting of three stages (auditing, remodelling and development) which involves approaching CSR programs actions from three perspectives (organizational, functional and community). The first step in developing a CSR strategy (audit) involves classifying and grouping CSR actions in one of the CSR domains. The second stage involves passing CSR actions from the operational level to strategic level. Establishing a comprehensive and coherent CSR strategy requires the interconnection among the various actions. Without coordinating various CSR programs through a coherent strategy, the organization will not have a clear direction, but rather distinct and, possibly, ineffective campaigns. This coordination takes place in the third stage when a unified CSR program is developed.

However, the models developed are still too focused on theory, with no practical tools to make them applicable for organizations' managers. Therefore, in our opinion, creating those tools that support the CSR integration within organizational strategy, it is necessary. These tools should offer practical solutions, not just theoretical elements, so that CSR becomes an organic part of the organization's strategy.

6.4 A New Methodological Framework for the Implementation of the CSR Throughout the Whole Process of the Strategic Planning

The authors believe that a new paradigm in implementing CSR programs in the overall strategy of a company is needed. This paradigm should be based on four aspects (process-based approach, global monitoring system, management by objectives and participative management) used as factors of integration to meet four important levels of integration (compatibility, coordination, integration, involvement). The model is based on the methodology used by Jorgensen model of integrated management system (Jorgensen, Remmen, & Mellado, 2006) (Fig. 6.1).

Compatibility means ensuring correspondence between operational CSR activities and current activities of the company, eliminating doubling, confusion and redundant activities. *Coordination* ensures alignment of policies and objectives within processes and tasks. *Integration* implies the interweaving of policies and objectives, and the development of a single process to underpin the responsible conduct of business, in conditions of maximum profitability. *Involvement* requires interaction with stakeholders (local community, customers, suppliers, employees, state and local government), understanding the internal and external influence factors in the domain of social responsibility.

Process approach involves using PDCA cycle of continuous improvement, on which should be based, in authors view, integration of CSR programs into business strategy. In this way it is provided a tool that enables effective integration of CSR activities in core activities. Planning phase allows the analysis of the current

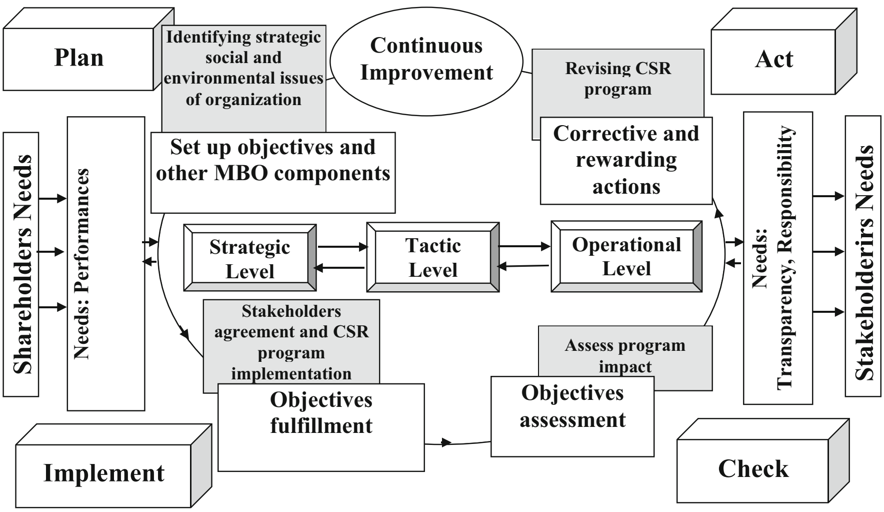

Fig. 6.1 Model of CSR integration within organization's strategy

situation, identifying social and environmental issues of strategic interest to the organization, establishing performance measurement indicators of CSR program.

Implementation phase involves obtaining stakeholder agreement and implementation of CSR at the same time with the current activities of the organization. Verification phase consists of assessing the impact of the program to determine the level of fulfilling the targets set out in the CSR. Action phase require readjusting the organization plans as well as of CSR program in order to achieve the objectives.

Global monitoring system allows setting indicators to measure the performance of CSR program. In this regard, one can use indicators that are generally accepted such as those proposed by Global Reporting Initiative (GRI) that is a reference instrument in the area of sustainability reporting.

Management by objectives is the structured instrument that allows the implementation of strategic plans of the organization. Stages of development and implementation of CSR strategy (Identifying strategic social and environmental issues of organization, stakeholders agreement and CSR program implementation, assess program impact, revising CSR program) can be integrated in the stages of implementing management by objectives (Set up objectives and other MBO components, Objectives fulfilment, Objectives assessment, Corrective and rewarding actions). In this way there is a permanent control of CSR objectives' fulfilment and the full integration of CSR goals with the overall objectives of the organization's performance is ensured.

The fourth factor of integration, *participatory management*, ensures the involvement of all stakeholders in the achievement of both social and environmental goals and in the organization performance objectives fulfilment.

By using the four factors of integration and covering the four levels of integration any organization will be able to address CSR in a strategic manner.

The model is designed to operate at all three levels of implementation: strategic (long-term, under the responsibility of top management), tactical (medium term, under the responsibility of each department manager), operational (short-term, under the responsibility of working teams and individuals).

Many companies are eager to implement social responsibility programs, investing significant funds in this sense, but their efforts are often frustrated by the lack of a comprehensive strategy that integrates social responsibility. The programs are fragmented and therefore their effectiveness to support the local community or society as a whole is limited.

The model that we proposed would be very useful to international corporations like Apple or Microsoft, which are perceived as organizations that rank capital owners as the most important, developing, only in the background, a series of activities dedicated to social responsibility. Apple does not have a CSR strategy. Apple's CSR is the responsive type. The degree of transparency is low, the company does not have a team to deal with the design of such activities, stakeholders do not represent a particular concern for the company, and there is no triple bottom line thinking.

In contrast, although Microsoft invests heavily in this area, develops and implements social responsibility strategies—citizenship strategies, these strategies are not integrated into the overall strategy of the company. An integration of corporate social responsibility within current activities will change public perception and lead to improved reputation and harmonization of organizational goals with social objectives.

6.5 Conclusion and Further Research

Literature suggests that organizations can be socially responsible in various ways that bring significant benefits to stakeholders and society as a whole, but can also bring substantial benefits for the organization. To be effective, however, CSR programs must be integrated into the core strategy of the organization, thereby creating a competitive advantage for it. Integration implies the interweaving of CSR programs and targets with company policies and strategies, and the development of a single process to underpin the profitability objectives and accountability to stakeholders. However, organizations still fail to reach maturity in terms of integrating CSR into business strategy. Currently, organizations continue to address CSR in different ways, with different objectives and addressing different needs.

Most theoretical models developed so far do not include practical tools to make them applicable to managers of organizations. In this chapter, based on a review of existing models the authors built a model of integration of CSR programs in organizational strategy. In this model there were used as integration inputs four practical tools (process-based approach, global monitoring system, management by objectives and participative management) to achieve the four major levels of CSR integration into the organization's strategy (compatibility, coordination integration, involvement).

Implementing this model will enable a full integration of social responsibility programs in the organization's strategy. International corporations, such as Microsoft and Apple, will improve their reputation and image among the public if they will work responsibly. If until now social responsibility programs are seen as an ancillary activity, when incorporated into the organization's strategy all actions and activities will be perceived as responsible and in accordance with the principles of business ethics.

According the research the authors can strongly argue that in future CSR focus will be on integration it into current business strategies in order to transform CSR programs into competitive advantages for organizations.

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Chapter 7
Walking the Second Mile before the First: A Corporate Social Responsibility Conundrum?

Nirmala Lee

And whosoever shall compel thee to go a mile, go with him twain

Matthew 5:41 in the Bible, King James Version

7.1 Corporate Social Responsibility as the Second Mile

An ancient Roman mile was a thousand double paces, each double pace comprising one step with each foot, repeated over to comprise about four thousand eight hundred sixty feet. Thus, a mile, derived from the Latin *mila* meaning ‘thousands’, plural of *mille* ‘a thousand’, literally meant thousands of ‘feet’ or paces. This was the distance a Roman soldier could statutorily demand of a person who was not a Roman citizen to carry his load. Roman soldiers did not have jeeps, tanks, warplanes and unmanned drones; they had to walk almost everywhere they went, carrying heavy loads. While Roman law allowed military personnel to command those who were not ‘Roman’ to carry their equipment the prescribed distance of one Roman “mile”, on reaching the milestone, the involuntary porter was discharged of all obligation.

When a non-Roman walked one mile under the orders of a Roman soldier, it was an act of compulsion derived from the authority of law. The offer of a second mile was of one’s own free will, not required but volunteered out of generosity, and likely to have taken the Roman soldier by surprise. The laws of physics dictate that the first mile has to be walked before a second one can be attempted. The act of generosity would not have been possible had the act required by law not been carried out first.

Continuing the Roman theme on another line, the Roman state vested certain collective powers to groups of individuals and these powers and capacities have been seen to be the precursors of the modern corporate entity (Malmendier, 2009). The corporation as it exists today is bound by a number of acts and statutes, and the

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strict observance of laid down rules and regulations is tantamount to walking the first statutory mile. Over and above these laid down requirements is corporate social responsibility (CSR) based on "voluntariness and discretion" (Andrews, 2016) and "ethical business practices" (Kitada & Ölçer, 2016) where companies undertake to give something to society at large by walking a second mile that is not statutorily required.

CSR is thus defined "as the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society" (DTI, 2003). The perception of CSR is that it is a cost incurred by a firm at the expense of its stakeholders. Indeed, some have argued that CSR has no place in a firm dedicated to return for shareholders. On the other hand, a positive correlation has been noted between CSR and financial performance (Lin, Yanga, & Liou, 2009; McGuire, Sundgren, & Schneeweis, 1988; Stanwick & Stanwick, 1998). It would appear that apart from the perceived contribution to society and accompanying reputational advantages, CSR has become a good business strategy (George, 1995; Hardjono & Marrewijk, 2001), and business strategy has been found to play an important role in CSR (Anderson & Bieniaszewska, 2005).

On the face of it, there is nothing wrong if firms improved profitability through CSR while also contributing to the greater good of society. Indeed, it would appear to be a win-win situation where both the firm and society stand to benefit. However, on a deeper level, it could be a more sinister scenario where firms improve profitability not only through their businesses but also by using CSR to persuade consumers to buy products that are not as good value as they are made out to be in their marketing literature. I cite as an example the financial services industry and the efforts of financial services providers to impart financial education to consumers as part of their CSR strategy.

7.2 Financial Literacy Education as Corporate Social Responsibility

Many banks have chosen financial literacy education (FLE) as a part of their strategy for CSR. The choice would appear to be appropriate for organisations that offer financial products and are anxious to ensure that their customers make the right financial decisions. It is reasonable to argue that many people consciously make decisions that are not in their own best interests. In the field of personal finance, the quality of decisions has long-term consequences for financial survival. Inappropriate decisions can have disastrous consequences, and therefore the ability to make appropriate financial decisions is of paramount importance. However, many consumers show limited interest, make little effort to evaluate alternatives and some even purchase financial services which may be detrimental to their long-term interests (Devlin, 2003). How can appropriate financial decision-making be facilitated? This is clearly a question that would merit investigation as part of CSR. Any attempts that help to improve the consumer's financial decision-making process would be worthy of an organisation intent on discharging its social obligations over and above its corporate requirements.

History has recorded many inappropriate financial decisions. Money has often been a cause of the delusion of multitudes. The South Sea Bubble was described as a madness that seized the people of England in the eighteenth century. Another bubble in England related to the English Copper and Brass Company which gave rise to the caricature of "the headlong fool" that may "prove himself an ass" (Mackay, 1852: 2.23). 'Credulous fools' and 'unscrupulous knaves' were condemned for buying and selling respectively. More recently, towards the end of the twentieth century, inappropriate financial transactions were being described as 'financial mis-selling scandals'. In 1998 the 'pension mis-selling' scandal was expected to have cost British insurers an estimated $18 billion in compensation payments to nurses, miners, schoolteachers and other workers who were affected by bad advice (Steckow & Calian, 1998). In 2000 the House of Commons noted that much distress had been caused by the mis-selling of endowment policies linked to mortgages (Cable, 2000). Speaking to the Council of Mortgage Lenders, the Chairman of the Financial Services Authority (FSA),[1] acknowledged that some consumers were sold badly flawed products and often incorporating unjustifiably high charging rates (Davies, 2002). Stories about financial mis-selling scandals were becoming increasingly commonplace. Such scandals usually involved a flawed product bought by a group of people who had been the victims of mis-selling and who were thought to be in line for compensation. Correspondingly, consumer bodies were becoming increasingly vociferous in pointing out unethical practices. Financial brokers were being offered high rates of commission to arrange loans at very high rates for people who were already in financial difficulties. On one occasion brokers had received as much as £1000 to arrange a £5000 loan; on another occasion a secured loan of £2500 had been on offer at an annual percentage rate (APR) of 40 % (Which?, 1992). Mis-selling had also been found to have taken place in regard to Payment Protection Insurance (PPI), credit card default charges and unauthorised overdraft charges.

Reports about mis-selling bring up some important questions. What factors might lead to mis-selling and how can these be avoided? On the one hand, the succession of mis-selling crises might be due to unscrupulous sellers, indicating the need for more effective regulation of the providers of financial services. On the other hand, these crises might be due to financially 'illiterate' buyers, indicating the

[1]With effect from April 2010, the Consumer Financial Education Body (CFEB), established under the Financial Services Act 2010, continued the work of the FSA's Financial Capability Division independently of the FSA, and with effect from April 2011, the CFEB has been relaunched as The Money Advice Service (MAS). With effect from April 2012 the FSA has become a subsidiary of the Bank of England, and split into the Prudential Regulation Authority (PRA) for maintaining financial stability, and the Financial Conduct Authority (FCA) for supervising the conduct of banks.

need for more effective education of the consumers of financial services. The issue could be one of mis-buying rather than mis-selling. Arguably mis-selling takes place only when there are mis-buyers or people who can be mis-sold to. Large volumes of consumer information exist in respect of financial matters, ranging from bank deposits to investments in emerging markets (Lee, 1997). However mis-buying continued to occur with regular frequency.

Consumer ignorance and apathy have been well documented. One survey conducted by Abbey National in 1990 asked a simple question: 'Do you know what you will be charged if you overdrew your account?' Out of a sample of 1938, 62 % said that they had never been told how bank fees or charges were calculated. Of those who did recall being aware of charges, over half did not know what they would be charged if they overdrew on their accounts (Mitchell, 1991). Survey results released by Investments, N. S. a (2002), a Government body, indicated that £9.3 billion was lost to the savings and investments market in 2001 because people were confused by the language used by the financial services industry. Taylor Nelson Sofres, a market information group, interviewed 2000 people for the survey, and one in five acknowledged that they had not saved specific sums of money during the year as they were baffled; 36 % of respondents felt it had become more confusing and complicated compared to the previous year. If the findings of the survey were to be projected across the adult population of the UK, about 8 million consumers were confused. Underutilisation of financial services by the most disadvantaged sections of society was also a recurrent theme (Ewells, Knights, & McLean, 1998).

Being financially literate could be rendered difficult by various factors. The relevance of financial products could differ depending on the individual and depending on the stage in the lifecycle. Further, there was substantial heterogeneity across population groups in, for example, how pensions affected non-pension wealth (Gale, 1998). Financial products were inherently complex, and they had grown in range and complexity. New products were being developed rapidly, and it was almost impossible for anyone to keep up with the pace of change in the financial services industry (NACAB, 2001); in the circumstances, identifying special offersspecial offers which concealed poor value posed a problem. A free economy such as the UK encouraged competition among financial services providers resulting in a greater variety of products. More providers and more choice could lead to more confusion and mis-buying of financial products if financial literacy (FL) was low. It was possible that the regular occurrence of financial mis-selling scandals could be avoided if people were more aware, knowledgeable and discerning. This problem had been acknowledged by policy makers. The FSA had the responsibility not only of ensuring professional standards of financial advisers but also of improving the FL of consumers (FSA, 2004a, 2004b). Policy-makers and regulators identified inadequate FL as a major problem causing concern in the field of financial services.

Clearly, the consumer cannot be held responsible for all inappropriate financial decisions. Social, political and economic factors may be responsible for financial failure (Sandlin, 2000). Inappropriate financial decisions could be made for a variety of reasons: including misfortune due to changed circumstances. For example, investing in financial futures that anticipated a rise in the Japanese Nikkei index would have been considered an astute financial decision prior to the Kobe earthquake which resulted in an unforeseen collapse in derivative prices. A well-researched financial decision might go awry due to unforeseen circumstances through no fault of the consumer. While financial 'illiteracy' on the part of the consumer could contribute to a large number of wrong decisions, there could be other variables that rendered the consumer ill-equipped to take financial decisions. Nevertheless, attempts at improving consumer FL, the lack of inadequacy of which was a major reason for poor financial decisions, would be laudable, and could aid in enabling people to learn how to deal more effectively with financial matters in their lives, as well as in expanding the limits of *caveat emptor* discussed in the Nye Report (1998) so that 'buyers beware' whenever financial decisions are undertaken.

7.3 Corporate Interest in Financial Literacy Education

The early studies on consumer financial literacy were initiated by financial services practitioners. The earliest known use of the term FL appeared to date from 1992, when a report for the National Foundation for Educational Research (NFER) commissioned by NatWest Bank, defined FL as "the ability to make informed judgements and take effective decisions regarding the use and management of money" (Noctor, Stoney, & Stradling, 1992: 4). This definition had since been widely used by a number of organisations researching the subject including the FSA and NIACE in Britain and the ANZ Bank and the Council for Adult Literacy in Australia. Thus the very definition and conceptualisation of financial literacy were the outcome of the efforts of the financial services organisations.

Business, banking, insurance, marketing and other magazines aimed at various types of professionals featured a number of articles drawing the attention of the professions to the lack of consumer FL and suggesting that organisations needed to play a role in promoting it. In the *Financial World* aimed at British bankers, Higney (2002) reported on the limited understanding of financial products displayed by customers. Hoare (2003) was similarly concerned about the low rate of FL in the UK and was of the opinion that the 14–19 generation should be encouraged to take numeracy seriously, and that financial institutions could play a role in the classroom towards promoting FL. Some other examples were: Mitchel's (2003) 'Should you improve consumers' FL?' and Stillwell's (2003) 'Financial Education Partnership: FL should last beyond school years'. In the USA, *Barron*'s-*National Business and Financial Weekly* featured an article with the self explanatory title "Child's Play-The odds are your kids don't know much about money other than how to spend it. Thus, the new buzzwords: 'Financial literacy'" (Blumenthal, 1998). *Management Today* (2003) documented the need for children in Australia to emerge from school with FL. These publications seemed to be aimed at creating awareness of the need for consumer FL, assuming that it was something that was good as well as something that was lacking. These were professional publications and positioned the financial services industry as being concerned about the poor FL of their consumers.

The conclusion by some financial services organisations that FL levels were low was supported by others in as well outside the industry. In Australia, Beal and Delpachitra (2003) documented low FL levels among university students; the most difficult question which tested basic knowledge of compound interest (with no calculation involved) was answered correctly by 52.9 % of respondents. They further contended that knowledge had been declining, and considered the array of choices on offer in western societies as an explanation for increasing FL needs. This view seemed to be reasonable; for example, a consumer located within a strictly controlled economy that stipulated one interest rate for a specified fixed period did not really have to be able to find the best bank rate because all the banks were obliged to pay exactly the same rate. The Commonwealth Bank Foundation (CBF) (2004), Sydney, noted links between poor FL and unemployment, sleeplessness and increased tendency to smoke.

In the UK, NFER research sponsored by NatWest and analysed by Schagen and Lines (1996) found that younger people were more likely to experience financial difficulties. This research was seen in the context of an increase in the number of individuals and households in debt (Mannion, 1992) as well as the growth of debt counselling or money advice (Kempson, 1995), and envisaged FL as something different from basic skills while acknowledging the link between the two: “Basic numeracy and literacy are prerequisites for financial literacy; at the same time, dealing with finance-related topics can provide a useful and realistic context for practising basic skills” (McMeeking, Smith, Lines, Dartnall, & Schaga, 2002: 1). The FSA carried out research into financial information needs of teenagers aged 15–19 year-olds (FSA, 2004a, 2004b), followed by a study of young people aged 18-24, who generally seemed to be having a ‘carefree’ existence. Young people seemed to exhibit ‘hedonist’, ‘conservative’ or a mix of both attitudes in financial matters, with the hedonists intent on spending money and the conservatives more interested in financial matters; there “was a very low level of financial knowledge and extremely low levels of engagement with financial information”(FSA, 2005: 9). The general conclusion reached by the FSA through these and other papers (FSA 2004b, 2005, 2006a) was that young people’s financial capability was very low, a conclusion similar to those arrived at by other studies about young people.

A survey of 2000 randomly selected mutual fund[2] investors provided data on investors’ knowledge of costs and investment risks of mutual funds. Here, as in almost all these types of surveys, FL was assessed by means of a quiz on knowledge levels. The typical quiz score of a mutual fund investor was five out of a possible nine, suggesting that there was room for improvement (Alexander, Jones, & Nigro, 1997, 1998, 2001). The authors found that while the increased focus on disclosure at banks had had a positive effect on investor FL, investor FL still needed

[2]Known as unit trusts in the UK.

improvement. Older adults over 55 were found to lack "even a rudimentary understanding of stock and bond prices, risk diversification, portfolio choice, and investment fees" (Lusardi, Mitchell, & Curto, 2009: 2).

There were a few ambitious studies which attempted to gauge the FL of an entire nation. In the USA as director of the Boettner Institute of Financial Gerontology, University of Pennsylvania, Cutler was involved in a nationwide research project, FL 2000, which found that most people were not well-prepared for the responsibility of financial planning, and lacked key components of FL needed to make crucial decisions required to secure their financial well-being in later life; the conclusion was that when it came to personal financial planning, the country needed more FL (Cutler & Devlin, 1996). A survey of the Australian adult population carried out by Roy Morgan Research on behalf of ANZ Bank (2003), seemed to be the only survey which concluded that FL rates were high. Results of the FSA's survey in the UK indicated low scores in several population groups/domains (FSA, 2006b). An OECD study (2005a, 2006) on financial education across countries indicated that the level of FL was low in most countries, including developed countries such as Japan, USA and Australia. With the single exception of the ANZ Bank survey, there was general consensus that FL was low but important.

FLE was perceived as leading to a more collaborative, less predatory, and vastly more successful relationship between the public and the field of financial services (Freeman & Marcus, 1998). Banks and other financial institutions (FIs) had been accused of making exorbitant profits at the expense of consumers. Adverse publicity and marketing concepts seemed to have combined to produce financial services organisations-led FL initiatives either independently or in collaboration with public bodies. Almost all the bodies involved in the promotion of FL desired to describe their efforts as first of its kind in some way or other.

In the USA, bodies representing auditors and bankers seemed keen to be seen as promoting FL. The American Institute of Certified Public Accountants' (AICPA's) 360 Degrees of FL programme was seen as having provided additional resources to help CPAs and state societies educate the public on financial matters related to couples/marriage, home ownership, life crises and retirement (2005a, 2005b, 2006a, 2006b; Reynolds & Tie, 2004; Snyder, 2005; Tie, 2004) and to promote the community's right to information (Previts, 2005; Price, 2005). There was an example of a CPA collaborating with bodies such as the Chambers of Commerce to offer FL programmes in Florida (2005c). Anthes (2004) called upon financial services professionals to join in efforts to raise the FL of every American. The Capital One Financial Corporation and the San Francisco non-profit Consumer Action started a financial education and money management web site www.money-wise.com containing information about issues such as credit card fraud and establishing good credit. Their FL campaign 'MoneyWise' was described as the first program of its kind to combine free, multilingual financial education materials with community training and seminars for consumers at all income levels (ThomsonMedia, 2004). The American Bankers Association (ABA) described itself as the only national bank trade association with its own education foundation providing leadership and banker resources to help consumers take control of their personal finances (Simmons, 2006). Their foundation sponsored two national programmes: ‘Teach Children to Save’ and ‘Get Smart about Credit’ (Duke, 2005; Simmons, 2006). Keenan (2004) talked about community banks in the USA that were reaching out to customers and the unbanked such as immigrants and students. Some banks were devising their own programmes and others were making use of centrally produced federal programmes such as the Federal Deposit Insurance Corporation’s (FDIC’s) ‘Money Smart’, whose goal was to graduate one million consumers from its programme by 2006. A spot poll of 110 bank executives conducted for America’s Community Bankers’ (ACB’s) annual convention in the autumn of 2003 indicated that about 59 % of member banks sponsored FL efforts. Among those, 54 % supported programmes for elementary and high school students, 17 % backed initiatives for the unbanked and recent immigrants, and 17 % participated in programmes to educate seniors.

Similar data was not readily available for the UK, but initiatives were on the rise. NatWest and Prudential were examples of financial institutions that were active in the area. Natwest’s FL Centre (later changed to the Royal Bank of Scotland/Natwest Financial Capability Centre) and its ‘Face 2 face with finance’ programme was an educational initiative for students aged 11-18 in secondary schools, VI Form and FE Colleges designed to support the development of financial competence in young people (Schagen & MacDonald, 1997b). The Personal Finance Education Group (pfeg) (2003) aimed to bring together teachers, government, consumer bodies, the FSA and financial services industry representatives who shared a belief in the importance of personal finance education, and was formed with the goal of promoting and facilitating the education of all UK school pupils about financial matters.

There were a number of references in practice literature to the work of various bodies that were engaged in producing materials aimed at developing FL. The rapid increase in the number of articles published in the area was an indication of the rising industry interest. There were a few hundred articles in professional publications; in general, these either focused on the lack of FL and the need to develop it among consumers or referred to programmes purporting to develop FL. Many articles referred to money invested by financial services organisations in FL projects. FIs seemed to be undertaking FLE projects as part of their CSR; thereby they would be perceived to be ‘doing the right thing’, and also assist their regulator in achieving its statutory objective. FIs seemed to adopt the approach that FL was something good and lack of it was something bad and FLE was needed to develop FL.

The field of personal finance had been sociologically neglected (Aldridge, 1998). As pointed out in the AdFLAG (2000: 3) Report, “There has been a limited amount of research carried out specifically to address the financial literacy education needs of consumers as opposed to the need for new products or methods of delivery”. Much research has been carried out from the point of view of the providers’ marketing needs; financial services providers had vast resources at their command, and had spent large sums on market research trying to find out what would persuade consumers to part with their money. However, from the point of view of the consumers' needs to understand the products marketed, and consumers' financial education needs, research had been limited. The financial services industry itself seemed to be intent on remedying the situation and addressing the need for offering solutions to the lack of consumer FL. The large amount of 'how to' material produced by banks seemed to have generated some benefits, increasing awareness of FL needs and engendering links between the public and the financial services industry. Banks seem to have thrown themselves into mission of improving consumer financial literacy as part of their CSR.

7.4 Good Corporate Governance as the First Mile

It is known that "some companies follow the letter of the regulatory requirements without making a serious commitment to corporate governance: they depart form best practice and provide an explanation which is totally uninformative" (Arcot, Bruno, & Faure-Grimaud, 2010: 200). Do banks fall under that category? How do they measure up in regard to walking the first mile of good corporate governance?

Some of the more recent examples of mis-selling products to customers indicate that "the already-tattered idea of banks having their customers' best interests at heart has been shredded" (Schumpeter, 2012). The mis-selling scandals discussed earlier in Sect. 1.2 above have been followed by even more damaging stories of large scale and concerted efforts to defraud the customer.

The emails written on 23 January 2007 before financial crisis by Tourre, Vice President/Executive Director in Goldman Sach's Structured Products, Group Trading unit, to his then girlfriend show Tourre to be positively gloating at the expense of the customer and indeed of everyone else other than himself:

– *"More and more leverage in the system, The whole building is about to collapse anytime now … Only potential survivor, the fabulous Fab[rice Tourre] … standing in the middle of all these complex, highly leveraged, exotic trades he created without necessarily understanding all of the implications of those monstruosities!!!"*
– *"Just made it to the country of your favourite clients (Belgians)!!! I have managed to sell a few Abacus bonds to widows and orphans that I ran into at the airport, apparently these Belgians love synthetic ABS CDO2!!!!"*
– *"According to (head of Goldman's subprime business Daniel) Sparks, that business is totally dead, and the poor little subprime borrowers will not last long!!"*

The fact that a Google search for 'vampire squid' results in hits for the bank Goldman Sachs as "a great vampire squid wrapped around the face of humanity, relentlessly jamming its blood funnel into anything that smells like money" (Taibbi, 2010) speaks volumes for the distrust developed by the public for this and other banks.

Banks have had to pay about £13 billion so far in compensation for mis-selling payment protection insurance (PPI) to personal customers. Banks had made considerable profits selling these products to customers many of whom had been unaware of the purchase of the product or who had been given the impression that they would otherwise be unable to obtain a loan, or who were ineligible to able to claim under such insurance. The Financial Ombudsman Service (FOS) is deluged with complaints to such an extent that it is expected to almost double its workforce over the next two years.

Recently, small-business entities, who cannot be deemed to be sophisticated consumers, were sold complex interest-rate swap products without fully ensuring that they understood the risks, which meant that due to the post-crisis fall in interest rates some customers ended up having to pay money to the banks rather than receiving protection against the risk of a rise in rates, or face heavy cancellation penalty charges. Banks have so far paid out about £1 billion for swaps mis-selling, and are reported to have set aside more than £2 billion to cover future settlements and claims.

It has also come to light recently that many banks were involved in actively manipulating an important benchmark rate in order to either make substantial profits or project their industry standing as better than it actually was. The London Interbank Offered Rate (LIBOR) rigging scandal has been described as a situation where "the moral bankruptcy of traders implicated in the rigging" was "matched only by the incompetence with which they covered their tracks" (TheEconomist, 2013). Traders at the Royal Bank of Scotland (RBS), for example, left a detailed audit trail of their activities setting out how they actually manipulated LIBOR. ""We're just not allowed to have those conversations over Bloomberg anymore," said one trader, laughingly, in a call to another who a little earlier had asked in writing for a rigged rate. "Its [sic] just amazing how Libor fixing can make you that much money," was the verdict of another trader" (ibid). Banks have admitted rigging rates and are paying out hefty fines under settlements reached with regulators: so for Barclays has paid £290 million, UBS $1.5 billion and RBS $137 million.

Clearly, in a number of banks the first mile of good corporate governance has not been walked. It would appear that the Roman soldier was not only not supported as required by law, but was also robbed of the property that was required to be borne for the first mile. The situation appears to be one of 'managerial capture' with corporate managers being akin to "princes and ministers." (Berle, 1932: 1049). Certainly, managers as corporate agents seem to be "free from any substantial supervision by stockholders" (Dodd, 1932: 1147) to pursue their own rather than the company's interests even to the extent of committing fraud and malfeasance.

7.5 The Annual Equivalent Rate as an Indicator for Measuring the First and Second Miles

The Annual Equivalent Rate (AER) is an important aspect of finance and financial education, and is identified as relevant to the examination of both corporate governance and corporate social responsibility in relation to banks. The AER is expressed as a percentage and represents the effective rate of interest on a sum of £100 for a period of one year after taking into account any compounding of interest that may take place. For example, the AER of a sum of £100 @ 12 % p.a. for 1 year will be 12 % p.a. if there is no compounding and 12.68 % if interest is applied and compounded monthly. The more frequently interest is applied in a year the higher will be the AER. Thus the *borrower* who is quoted a nominal interest rate of 12 % would need to know whether interest is compounded or not and if so the frequency of compounding, and the time of interest application, in order to be able to recognise that though the nominal interest rate is 12 % p.a., the AER would be 12.68 % p.a. if interest is compounded monthly. Similarly, the *depositor* who is quoted an AER of 12.68 % p.a., would need to know whether interest is compounded or not and if so the frequency of compounding. Without this information the depositor may not recognise that if interest is compounded monthly though the quoted AER is 12.68 % p.a., the true AER would be only 12 % p.a. if the deposit were to be withdrawn after one month (ignoring any early redemption penalties). The AER is thus essential to understanding the true cost/return on a sum of money and for comparing the plethora of interest rates on offer.[3]

Charges and fees may be levied over and above the AER, and the overall total cost is represented as APR which is mandatorily required to be publicised by banks. As the APR includes other charges not directly comparable between banks, and a thorough understanding of APR would require a detailed study of the relevant Office of Fair Trading (OFT) document 2007, it is not very well understood even by many customer-facing bankers, and individuals tend to give APR no more than a cursory glance and focus on the advertised/quoted nominal interest rate. Besides, the APR can be manipulated and decreased by increasing the period of repayment; thus the actual APR for a mortgage sought to be repaid in ten years would be higher than the APR for the same loan if repaid over a period of 20 years, as charges would need to be spread over a shorter period. In order to make accurate cost comparisons, consumers would need to be able to compare respective AERs plus different charges levied by different providers.

For the first mile, how do banks perform in relation to the AER as a measure of corporate governance? Common sense would enable us to recognise that a savings deposit represents a loan by the consumer to the bank, and a mortgage or any other loan represents a loan by the bank to the consumer. Therefore, the AER would be something equally applicable to a deposit as well as to a loan. However, as the AER,

[3]See for example Appendix for a worked example of how an advertised interest rate of 8 % actually works out to an effective interest rate of 14 % due to the method of interest application.

which includes the effect of compounding, will be higher than the quoted nominal interest rate, banks like to show this in relation to deposits in order show the interest rate as more attractive. With the exception of some overdrafts, banks do not show the AER for loans as the AER would show the interest rate as less attractive/more expensive, and as they are not legally required to do so. This is considered as deliberately representing interest rates in a manner that is advantageous to the banks, causing price opacity and consumer misunderstanding, and thus not to be in the best traditions of good corporate governance.

For the second mile, how do banks perform in relation to the AER as a measure of CSR? How do banks represent AER in financial literacy interventions as part of their CSR strategies? The ability to calculate the AER or at least understand the implications of this rate correctly is a vital requirement for consumers in order to be able to compare and evaluate financial products. While the AER (also known as the effective annual rate or EAR) is widely used in financial literacy interventions in countries such as the USA, it is notably absent in such interventions in the UK, and sometimes even misrepresented to the advantage of the banks.

There were inaccuracies and misrepresentations to be found in the FLE material that was put forward by banks to the general public. For example, in the guide to delivering FL (RBS&TH-SAFE)[4] sponsored by the Royal Bank of Scotland and launched in the premises of the FSA with much fanfare, the AER was described as the "interest you get from a *savings* account expressed in a standard way that takes into account not just how much you get but when you get it." As mentioned earlier, the AER is equally applicable to loans, but banks in the UK never show AER for loans as that would expose the true interest cost of borrowing; banks only show it for savings as that made interest rates look more attractive than in their non-compounded form[5]. This guide, which was sponsored by a bank, conveniently reinforced the perception that AER was something only applicable to savings and not to loans. In fact, so successful have banks been in projecting the AER as applicable only to deposits that many press articles and other papers echo this view. Publishing AER for loans would instantly facilitate comparison of the effective interest rate across differently structured loans, but this does not happen as it is not a legal requirement.

Many publications, like the guide above that had been sponsored by a bank, did not indicate the year of publication, rendering difficult any future detection of material that had been out of date at the time of publication.

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[4]The guide did not record the year of its publication.

[5]A common trick used by financial institutions is to omit the per annum (p.a.) after an interest rate, thereby reducing the apparent cost of a loan or increasing the apparent return from an investment. For example, a loan misleadingly advertised as having an interest rate of 'only 1 %' could actually mean 1 % per day which is 365 % per annum; if this is compounded every day the AER will work out to a phenomenal 3678 % p.a. The formula for calculating AER is $[1 \times (1+r)^n]-1$, where $r =$ rate of interest, and $n =$ number of compounding periods. Thus $[1 \times (1+.01)^{365}] - 1$ would work out to an AER of 3678 % where the quoted interest rate was "just 1 %" compounded daily over 365 days.

Vested interests are such that attempts to remedy the situation are ignored or resisted. In an event organised by Westminster Briefing[6] in association with *The House Magazine* which is a business publication for the Houses of Parliament and all those with an interest in policy and legislation, opportunity was given to attendees to upload proposals on which all the attendees would be required to vote on the day of the event, and the results of which would be used to inform public policy. I submitted proposals that the publication of the simple rate of interest as a percentage per annum, the frequency of compounding, and AER be made mandatory for loans in addition to the APR, which is not well understood by both consumers and many financial literacy practitioners; and conversely, for savings deposits, that the publication of the simple interest rate as a percentage per annum and the frequency of compounding should be made mandatory in addition to the AER. I also proposed that all material produced with a view to promoting financial capability be compelled to show the date of production/publication. I submitted the suggestions above via the web as proposals to be voted on at the *'Westminster Briefing'* held on 24 March 2010, but the organisers did not choose to upload the motion in the form that I had submitted to enable voting to take place. Instead, they uploaded a watered down version that did not require banks to do anything specific. See Appendix 2 for the exact proposal uploaded by me. It appears that even relevant public consultancy bodies, not to mention regulatory bodies, are unwilling to even look at these two proposals.

To sum up, consumer education needs to be supplemented by consumer protection. Banking companies and the regulator should do more to make financial information more transparent. At present it is virtually impossible to find the AER published for loans or the simple interest rate published for deposits. Currently, FIs provide AERs for deposits but not for loans because the compounded rates are higher and more attractive as deposit rates, but less attractive as loan rates, and they provide the simple interest rates for loans but not for deposits as that is more attractive as loan rates, but less attractive as deposit rates. I propose that the publication of the simple rate of interest per annum, the time of interest application, the frequency of compounding and AER be made mandatory for loans in addition to the APR, which is not well understood by financial literacy practitioners and consumers and even some bankers; conversely, for savings deposits, the publication of the simple interest rate and the frequency of compounding should be made mandatory in addition to the AER. This single measure would go a long way towards furthering public understanding of interest rates, which currently assume more shapes and sizes and guises than those encountered in more regulated economies.

[6]See http://www.westminster-briefing.com

7.6 Recommendations

It is important for banking and other corporations to walk the first mile before making any meaningful attempt to walk the second. Banks need to get their corporate governance right first. As regards the second mile, at the outset it would appear that banks and other financial institutions are to be commended for spending millions of pounds promoting financial literacy education among the public as part of their CSR. However, a closer examination of some of the educational interventions sponsored by banks indicates that the very educational interventions designed to improve financial literacy among consumers entrench consumers in erroneous cognitive perceptions (Lee, 2010). Many consumers may look to banks as a trusted source of financial information and education, but the extent to which such material is acceptable as useful FLE is in doubt. Efforts at assuming the position of friend and mentor to the consumer appear to be facilitating further mis-selling through gaining the consumer's trust. When financial services providers, frequently in the press for reasons of exploiting the consumer, are also providing consumer education, there is need for some suspicion as to whether such education can be truly unbiased. The strategy could be to generate a consumer-friendly banking image that helps to shift the public focus from irresponsible bankers to irresponsible consumers, and the regulatory focus from consumer protection to consumer education.

Misrepresentation on the part of the provider, aided by misunderstanding on the part of the consumer that has increased rather than decreased by banks' CSR strategies of FLE, have worsened the problem of asymmetric information that has an impact on the consumer decision-making process (Leyshon, Thrift, & Pratt, 1998). Financial institutions often offer inaccurate and misleading information not only on the products that they sell but also in the financial education that they provide, necessitating greater regulation of the financial services industry.

How should banking companies go about developing corporate plans for CSR? If good CSR is to truly become the extra second mile walked by companies to promote social welfare, the mile of good corporate governance has to be walked first. Two simple recommendations are put forward which, if adopted, would go a long way towards both consumer protection and consumer education.

Currently, accurate interest rate comparisons are difficult to make as interest rates are expressed in different ways without clearly revealing a number of important factors such as the time of interest application and the frequency of compounding. Currently, banks show the annual equivalent rate (AER) only for deposits, as this makes the interest rate appear more attractive.

Recommendation 1

Banking companies should show, for both loans received from depositors and given to borrowers, (1) the simple/nominal interest rate applicable for one year without any compounding (2) the time and periodicity of interest application and compounding and (3) the AER. These details will be in addition to already existing mandatory requirement to show the APR[7] (which includes the AER plus fees) in order make bank pricing of products more transparent. There should be fiduciary obligation on the part of banks to avoid any form of misrepresentation increase transparency in relation to product pricing, whether they are walking the first mile of corporate governance, or the second mile of promoting FLE as their CSR strategy. This measure will contribute towards reducing the opacity of the current business model that relies on small print for its success, and considerably simplify the ways in which consumers can compare the true value of different financial products. To refer to the examples cited elsewhere in this paper, this measure would enable a borrower to note that the loan for which an interest rate of 8 % is quoted has a much higher AER of 14 % because interest is applied upfront without taking periodic repayments into consideration, and a saver to note that a deposit for which an AER of 12.68 % is quoted may actually have a lower AER of 12 % depending on when withdrawals are made.

Recommendation 2

All publicised material, whether for product promotion or product knowledge or product education, should bear the date of publication. This will facilitate the detection of ill-prepared, out-of-date material, and also compel financial institutions to become more accountable for the currency and accuracy of the material being offered to the public.

It is submitted that these proposals, if implemented, would be effective in promoting the corporate image of financial institutions as well the financial literacy levels of the general public, thereby achieving the aims of both good corporate governance and good corporate responsibility. The regulator would then find it easier to enforce the practices as a statutory requirements for banks.

Ideally, banks should not be engaging in educational interventions to promote financial literacy as there is an inherent conflict of interest between their role as providers of financial services and their role as providers of financial education. However, FLE as a CSR strategy has become established in the case of a number of banks, and vested interests would make it extremely difficult to put an end to the practice altogether. In the circumstances, the regulator needs to at least ensure that where banks do engage in FLE interventions, an independent body such as the Money Advice Service vets materials to ensure that important concepts such as the AER are not misrepresented by banks for their own benefit.

7.7 Conclusion

Financial education has huge benefits for consumers and to the economy as a whole (OECD, 2005b). "Wealth ownership and accumulation matter for everyone. Wealth can buffer economic crises, break the cycle of intergenerational poverty, and build

[7]Note that the term 'APR' carries different meanings in different countries.

capabilities of individuals and communities to live better in the long term" (Han & Sherraden, 2009: 475). Financial literacy education (FLE) can facilitate wealth accumulation, and continuing research in the area of efficacy in financial education is therefore very important (Anderson, Zhan, & Scott, 2007).

The OECD-IEFP Symposium on Financial Education assembled high-ranking officials and decision-makers from around the world to discuss and elevate international policy dialogue on the importance of FLE as one of the possible global long-term responses to the recent financial crisis (OECD-IEFP, 2009). Ultimately, effective FLE that leads to a reduction in inequalities will benefit nations as well as individuals; it has been found that the diversity of human capital induced by income inequality lowers the GDP of the next period, while the diversity of human capital induced by heterogeneous ability can increase GDP (Takii & Tanaka, 2009).

Is FLE appropriate as part of the CSR strategies of banks? Banks engaging in financial literacy education have been likened to McDonalds' providing nutrition education to meat eaters who have just realised that they have been unwittingly consuming unknown and undesirable ingredients. FLE should not be left to the judgement or jurisdiction of banks who have vested interests in both projecting consumers as being educated and therefore more competent to take responsibility for their decisions without providers having to take the blame, and also of 'educating' customers in such a manner as to facilitate their own selling and even mis-selling of financial products.

FLE appears to have become a gesture of charity sponsored by many banks as part of their CSR which is "nothing but a mask, made up of glossy brochures, beguiling speeches, and media-savvy 'partnership initiatives', crafted to hide the fact that corporations deny economic justice and sustainable environments to those who need them" (Schwarzkopf, 2009: 118). It also appears that the concept of *caveat emptor* needs to be applied not only to financial services products but also to financial literacy education interventions undertaken by banks, and that buyers need to beware not only of company business practices but also of their activities undertaken as part of their corporate social responsibility. Greater regulatory support is needed, particularly for those who might have become "second-class citizens" (Green & Hulme, 2005: 870; Temko, 2006) in the brave new world dominated by financial services companies.

Appendix 1: Calculation of Annual Equivalent Rate (AER)

How an advertised interest rate of 8 % actually works out to an AER of 14 % due to the method of interest application
Loan amount: £1200

Interest @8 % per annum for 1200 for one year: £96

Interest application method: Added on to the principal at the outset (not calculated on reducing balance of loan)

Average loan balance during the year: £686 (not £1200)

Therefore the effective rate of interest works out to: 14 % per annum (not 8 %)

Date	Particulars	Debit	Credit	Bank balance	Actual loan balance
1 January	To loan	1200		−1200	
1 January	To interest	96		−1296	−1200
31 January	By installment		108	−1188	−1092
28 February	By installment		108	−1080	−1080
31 March	By installment		108	−972	−972
30 April	By installment		108	−864	−864
31 May	By installment		108	−756	−756
30 June	By installment		108	−648	−648
31 July	By installment		108	−540	−540
31 August	By installment		108	−432	−432
30 September	By installment		108	−324	−324
31 October	By installment		108	−216	−216
30 November	By installment		108	−108	−108
31 December	By installment		108	0	0
		1296	**1296**		
Average balance					**−686**
Stated rate of interest					**8 % pa**
Interest (i) =	Principal (P) × period (n) × rate of interest (r)/100	1200 × 1 × 8/100			96.00
Annual Equivalent Rate (AER)					
r =	i/P/n × 100	96/686/1 × 100			**14 % pa**

Source: Hempel and Simonson (1999: 480)

A more accurate calculation can be made using the Excel spreadsheet function for the internal rate of return (IRR) and arrive at the figure of **14.4521 %** pa as the actual cost to the borrower.

[This was the method of interest calculation adopted by Leeds and Holbeck Building Society for its fixed rate mortgage.]

Appendix 2: Interactive Voting Proposals to 'Westminster Briefing' for Being Put Forward for Parliamentary Debate

I propose a measure that could go a long way toward furthering public understanding of interest rates, which currently assume more shapes and sizes and guises than those encountered in more regulated economies.

At present it is virtually impossible to find the annual equivalent rate (AER) published for loans or the simple interest rate published for deposits. Currently, financial institutions provide AERs for deposits but not for loans because the compounded rates are higher (and more attractive as deposit rates, but less attractive as loan rates), and they provide the simple interest rates for loans but not for deposits as that is more attractive as loan rates, but less attractive as deposit rates. Further, interest rates are frequently published in a misleading manner as they are not expressed as a percentage per annum.

I propose that the publication of the simple rate of interest as a percentage per annum, the frequency of compounding, and AER be made mandatory for loans in addition to the APR, which is not well understood by both consumers and many financial literacy practitioners; conversely, for savings deposits, the publication of the simple interest rate as a percentage per annum and the frequency of compounding should be made mandatory in addition to the AER.

Do you believe that this proposal will improve public understanding of interest rates?

I propose that all material produced with a view to promoting financial capability be compelled to show the date of production/publication.

This will facilitate the identification of poorly produced material that is inaccurate or out of date on date of publication.

Do you believe that this proposal will lead to the production of more up-to-date material?

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Part III
Strategic Corporate Social Responsibility

Organisational Design
Stakeholder Dialogue
Animal Welfare
Stakeholder Relations

Chapter 8
Balancing Organisational Design Principles: A Pragmatic Scandinavian Approach to CSR

Hans Christian Garmann Johnsen, Richard Ennals, and Halvor Holtskog

8.1 Introduction

This chapter considers Corporate Social Responsibility in terms of what has been called a triple bottom line; that sustainability and responsibility in business has to balance economic, social and environmental challenges (Elkington, 1998). Based on the same argument, we locate CSR as an integral component of Scandinavian organisations. In particular we focus on the Norwegian Model, using three company cases, with a focus on participation and dialogue. We argue that continuous improvement provides the basis for a process approach to CSR. Scandinavian countries have much of the essence of CSR incorporated in their culture and society, with respect for work, concern for social equity, and a consensus approach which starts in the workplace. These ideas frame the working of business, and the stages by which it develops.

We present the Scandinavian experience, with Norway as an example, by starting with the development of work life since the 50s. There are challenges to the Scandinavian and Norwegian models, such as innovation, which should be socially responsible (Ekman, Gustavsen, Asheim, & Pålshaugen, 2011). The model can promote stability, so people and companies become risk averse. Tripartite co-operation in Norway exemplifies this, as does close collaboration between political authorities and companies. In such societies CSR will not be that easily explored, and the popularity of the separate CSR concept is not easily spread. The main theme of the chapter is how these overall social and cultural dimensions are

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implemented at company level, as ways of organising in a socially responsible way, and the challenges that this meets.

We investigate how companies and society can be involved in a more sustainable way, and what challenges they face. Values and social foundations of Nordic societies are the basis of the discussion. Society values have an equivalent in Scandinavian organisations, through broad participation and democratic election of worker representation for the board of directors. At the same time, these values meet the competitive demands of a globalised world, where innovation is central.

We argue that Scandinavian manufacturing companies have been successfully focusing on continuous improvement, involving employees. Many of them have adopted business development ideas, inspired by Lean, but in a pragmatic way. In the continuous improvement process, results include cleaner processes, more sustainable work places and increased dialogue and compliance with local environment needs. The core of the Norwegian "story" is a pragmatic balancing of different development concepts.

8.2 The Workplace Development Discourses in Norway

Even though the field of organisational studies and work life research in Norway has been fragmented, and involved both paradigmatic differences and ideological disagreements, one can argue that there is a particular work place research tradition in Norway, based on democracy projects in the early 1960s (Emery & Thorsrud, 1976). The democracy project came as a result of co-operation from the 1950s between the social partners and government, establishing a research milieu for workplace development in Norway. There was co-operation with the Tavistock institute in London. Both Fred Emery and Eric Trist, from Tavistock, favoured the socio-technical approach (Emery & Trist, 1960). The organisation was seen as a system consisting of two main sub systems; the technical sub-system and the human-sub system. They wanted to include technological change in their theory, but to avoid technological determinism. They wanted to have a participatory perspective, but to avoid the type of social psychology found in the Human Relations movement (Trist, 1981). They wanted to avoid making a managerial theory.

Their systems approach implied that one could discuss organisational development, without addressing leadership directly. This avoided confrontation in the ideological battle over democracy and capitalist interests in Norway. It was possible in the 1970s to develop workplace legislation that opened up participatory arrangements in companies, without there being a deep and dividing conflict as seen in Sweden and France. Participatory work systems and self-steering groups were seen as smart ways of organising businesses. The model was seen as the Norwegian or Nordic approach to democratic capitalism (Byrkjeflot, Myklebust, Myrvang, & Sejersted, 2001).

In Norwegian work life in the beginning of the 1990s, most of the ideas of the democracy movement in the 1960s had been integrated into managerial practice. Decentralised solutions and participatory processes were absorbed into managerial recipes like Total Quality Management (TQM), management by objectives (Drucker, 1971) or Quality Circles (Deming, 1982; Ishikawa, 1980). In Burrell and Morgan (1982) terms, there were underlying differences in understanding participatory and democratic processes; a divide between structural and functional arguments, and humanist and interpretive arguments. In fact, all four paradigmatic positions identified by Burrell and Morgan (1982) are represented in the Norwegian discourse (Nylehn, 2011; Pålshaugen, 2002). We find radical humanist arguments (Eikeland, 2008), structuralist arguments (Emery & Trist, 1960), interpretive sociology (Johnsen, 2001) and functionalist sociology (Claussen, 2001) arguments.

Bjørn Gustavsen, with his communicative perspective on workplace development in the 1990s in Norway (Gustavsen, 1992, Toulmin & Gustavsen, 1996), followed the Norwegian workplace democracy tradition, with a core of development through dialogue. Dialogical is key to development and to our understanding and interpretation of development. Gustavsen initiated a nationwide research programme in Norway, Enterprise Development 2000, from 1994 to 2001. The core of this programme was to see dialogue and participation beyond the workplace, also involving the local community and region.

The multitude of dialogical arenas changed the discourse among people, in management, in the union and in the region, and led to them to see new solutions to their challenges. It enabled them to see areas where they had common interests in developing common solutions. In their process of constructing this new platform for development, there were changes at different levels; both inside the company but also in the companies relation to its environment. Thus the work life discourse includes organisational, managerial and sociological perspectives, and also geographical perspectives, related to how businesses are integrated in networks and regional innovation systems (Ekman et al., 2011).

We therefore argue that there is a pluralism of organisational design ideas in the Scandinavian discourse; however, there seems to be a meta level agreement that these should be based on some core democratic, dialogical and participatory principles. Below we present three cases where we have focused on how this is played out in practice.

8.2.1 Case 1

Our Case 1 is a large company listed on the stock exchange. It has four different production sites in Norway and several others around the world. The number of employees varies from 170 to 900. In 2007 our case company introduced a business system based on general principles for Lean production (Liker, 2004). Our case is located at Raufoss, in the east part of Norway. Central in the introduction of Lean were four persons, who had worked with Lean at Raufoss for years; new roles in the organisation were introduced. The supervisor role was replaced with more autonomous teams, with one person having a responsibility to act if something extraordinary occurred. Another new role was technical responsibility, dealing with advanced technical questions that surfaced during a shift. Together with one area manager, with the overall responsibility of an area (40–90 persons), this replaced the supervisor role. Huge effort was put into describing production procedures, and to make hazardous workplace-environments safe. These procedures, standard operating procedures (SOP), were written down: everybody had to know them. The SOPs resulted from a democratic process, where everyone could input.

Going from tacit knowledge and production procedures to a formalised explicit system, telling people what to do in detail, was relatively easy. Workers saw the benefit of making the workplace safer for everyone. New support staff were in place to help the different areas to maintain and continuously improve operations and the SOPs. Many of the staff members were union leaders or Health, environment, safety (HES) managers. They knew many of the workers personally, and knew the operation in detail.

The case company had abandoned its hierarchical organisation, with replacing it with supervisors knowing how to conduct operations. This knowledge was passed on tacitly from worker to worker. Now they tried to formalise operational knowledge, for HES reasons; they needed to improve their operation procedures on a continuous basis. The answer was critical process groups (CP-groups). The members were picked from the most knowledgeable workers in each team, with annual circulation of representation.

The CP-groups met regularly with guidance from the support staff, looking at improvement suggestions and incidents, changing the SOPs. The priority was to have control over human behaviour in a hazardous environment, where there is no room for experimenting with work procedures. Such experiments can be fatal. Having a group with expert knowledge of the procedures meet and discuss suggestions meant that experimentation was avoided: the changed SOPs were safe at all times, and improved operations.

One event, that earned the CP-group the internal improvement award, and saved the company huge costs, was a simple attachment to the overhead crane, making the shuffling of impurities away from the melted metal much safer. The idea came from a team. The CP-group refined the idea and made a suggestion and a request for investment. The management got an engineering company to look at it and come up with an offer. Instead of terminating the suggestion when the offer turned out to be very expensive, the CP-group involved the initiative takers in rethinking, and through trial and error (not in actual production), a new improved solution was found. The technical solution was safe and worked well in tests. The CP-group established a new SOP for usage of the new solution. This SOP has been revised many times, making the solution work faster and safer. People in operations claim an increased understanding of the production and value creation process. They are responsible for the amount of output during their shift.

8.2.2 Case 2

Case 2 is part of a larger industrial group, with their main office at Kongsberg. At Raufoss they produce brake couplings for trucks and busses in fully automated production lines. The product and production are results of several research and development projects, some funded by the Norwegian Research Council. The product is of composite material, and therefore gives them competitive advantage over competitors which make brass couplings. In production, there are several innovations: trying to make tool shifts just in one tack-time, and robots with pick-vision systems. They are both competitive and innovative. They received the Norwegian Lean award for 2012. Team work and learning in teams are a natural way of working.

The case is one of a set of companies on a journey from defence to civil production, reorganised around teams and shift groups, which appear to work well. They set detailed improvement agendas, relocating machines to increase efficiency, and focusing on reducing weight and waste. The R&D department is located close to Production. Through the company history and current staff, there are links to other companies in the Industrial Park.

Case 2 is a major international manufacturer of automotive parts, especially in Europe, supplying the leading truck companies. They have competitors, but are confident that their track record of innovation makes them hard to beat. There is a focus on learning. A supervisor in assembly has worked there since the age of 16. He is now 28. He has worked in all of the departments, completed his engineering apprenticeship, and is completing a Bachelor's degree. The research department includes several PhDs and many Masters.

The company has a tradition of partnership between managers and unions. Teams in departments are divided into shift groups of about 8. There is no separate system of Quality Circles, but team members are empowered to initiate improvements. When they introduced Lean, as a response to the financial crisis in 2008, co-operation was crucial. They tell the story differently: the work leader and the union representative argued that it had started earlier. The middle manager argued that it happened mainly internally, while the work leader and the union representative argued that there was extensive co-operation with other companies at Raufoss. There had been delegations from and to other companies. The role of the Lean Lab and Lean Forum conferences are emphasised.

The criteria for splitting the original Raufoss company into many different companies in the 1990s were based on customers and products. Many of these companies had competencies in brass, aluminium and composite material in common, and links to automotive industries. The Norwegian research institute SINTEF in Trondheim delivered expertise on materials, and was involved in developing and testing new applications. Middle management argue that there is good internal interaction between company development and research. Production, development and research are now in the same building. Development is involved in Production. These were changes that came with Lean and after the crisis in 2008.

The introduction of Lean started with 5S, and motivated managers. The union leader argues that they were very positive to Lean, because they had seen it introduced in other companies at Raufoss. The introduction of Lean happened without conflict, management acted as support, but the process was driven at operator level.

The process began with weekly revisions. Lots It produced many suggestions for improvement. All employees were placed in teams, and discussions happened at team level. It was generally seen as representing decentralisation and more power down the system. Some rivalry happened between shifts, and there had to be negotiations between the teams about standards. One machine operator had a bucket of tools that was not according to standards. The other team had to suggest a new order. This was accepted and created a good new praxis. In order to create team spirit, leadership is important. The revision and control system is positive. It is important that improvements are assessed.

This emphasis on team, not individual, created less rivalry on the floor, but the transition to the team has created new challenges. Different functional teams have created tensions. It takes time to create a common standard. Procedure amendment has to be adopted by the leader. How this happens depends on the nature of the case. Tension can happen if not everyone is made aware of amendments. Communication is crucial. The middle manager and the union representative both argue that that co-operation between union and management has improved. Co-management with the union is good. As regards incremental innovations and radical change, all agree that radical innovation is the responsibility of the R&D department.

Successive restructuring processes at Raufoss have been conducted in partnership with local educational institutions. The process of change has not always been smooth. Lean was introduced at a time of crisis: both management and union, who had previously worked together well, saw Lean as offering an acceptable structured way forward. Lean priorities could be seen as consistent with those of Norwegian unions. More experienced trade unionists were more critical. There was consultation over the introduction of Lean, and in the early years of implementation. They suggest that recent managers have been less consultative, and some standards may have declined, as the structured reporting system highlights problems and warnings.

8.2.3 Case 3

Case 3 is a process industry company located in the south of Norway and has some 250 employees. Our case company has recently introduced Lean. It comes at a time when the company has changed owner. It is no longer Norwegian owned, but part of a large, multinational group. This group has adopted Lean as their main management recipe, and a platform for organisational development.

The company is in the process industry, and produces very traditional products; unusual in a high cost country like Norway. The company is doing very well, because of high efficiency. This is due to a considerable increase in productivity over the last years (a 50 % increase over the last 10 years). They have about the same number of employees as 13 years ago.

When the company explain their work with Lean over the last 3–4 years, they argue that the process started at the top. They needed to have the management group committed to the Lean philosophy and a common vision. After running the process for 1 year among top management, they did the same with middle management, and the third year involved the rest of the organisation. They developed a pamphlet called "LEAN in our factory", to promote this philosophy. They presented the five Lean principles, and their history, highlighting the importance of engagement and participation.

The company is now into a "pilot" in Lean. Their focus has been avoiding waste, commitment to comprehensive solutions, making the process impersonal, being transparent, having management present, creating a common vision, and having a comprehensive focus. The task is to avoid finding solutions in one part of the process which then create problems at another stage. They have introduced tables at key points in the factory, where they have short morning meetings reporting status in the process and tasks ahead.

Leaders encourage questions so that employees reflect and come up with their view of the situation, what might become a problem, and how to define it. All inputs are mapped on the table. The focus is on what the operator can influence and change, instead of waiting to react to problems. The responsibility is moving down the organisation, with the intention of reducing the level of conflict. It is interesting to observe that 3/4 years into the process, there is still an extensive debate going on in the company about this Lean approach. The company have sent middle managers to courses organised by the University of Agder, where some of their coursework is to challenge the understanding of Lean implementation in the company.

8.3 Discussion: Dialogue and Rationality in Organisations

What sense can we make of these three cases? We think they all illustrate how organisational design principles are contextualised and extensively discussed in its implementation. The following interview with one of the managers, illustrates this.

How Do the Workers Become Involved in Innovation Processes?
There is high involvement in continuous improvement, and there lots of small innovations suggestions surface. The foundation for this is openness, no hidden agenda from the management or the union. Long-term plans are presented to everyone and they participate by expressing their opinions through the union. In this way, the union plays an important part, there are regular meetings between union representatives and the management at all levels in the company. This makes the plan, strategies and market situation transparent for everyone working in the company. To illustrate such transparency, the downsizing some years ago went very

smooth. The process followed the rules and regulations and was a collaborative effort between the union and the management.

Due to chaotic parking of private cars, some got their permission for driving into the industrial park cancelled, resulting that some needed to walk 5 min from the main parking lot outside the part in order to get to the factory. This turned out to cause much more discussions than the downsizing. It illustrates agreement and collaboration on the big issues and people then turn to more small issues. Alternatively, they working life is good. When new production tools, machines, etc. are introduced to the line a group of operators, maintenance personnel and engineers have discussed this before the introduction. They also meet for discussion during the implementation period.

How Have New Patterns of Collaborative Working Developed?
Since the company relies on two different technologies, composite and brass, it created barriers between people working with the one or the other. These barriers turned out to be difficult to break down. The managerial agenda is to make people think in terms of the whole company rather than just their own lines. However, the management realized that these barriers started with themselves. If they could not collaborate across technological barriers, why should operators collaborate? After the two bosses for production started to collaborate intimately, the operators had little or no difficulty in seeing the "whole picture". People are now more eager to lend a hand to whatever process or task that needs extra help. Even when it comes to sort out failures, others have caused. For example, a series of products turned out to have some quality fault, just some few, due to wrong input values set by a team of operators. Another team then took on the manual sorting job, because they had some spare time.

What Is the Importance of Skill?
The answer to this is very important. The company have an internal education programme with several steps. Further, 10 % of the operators are apprentices. The company have a motivation programme for operators to start an apprenticeship. It is a result of difficulty with recruitment of good multi-skilled operators. They have also insourced the engineering and production of the production machine, realising that the best skills for producing these machines was in-house. Another side is that better skilled employees then to be more true to the working method by realising the benefits it has on production as a whole. This is about balancing the lines and not making components for storage, a more customer orientation.

What Aspects of Their Working Lives Provide Particular Benefits?
Now the company is visited by an occupational health practitioner once a week. All the employees get this service for free. They also have free health insurance (common in Norway). But the tax legislation prevents other benefits. The union in the industrial park have a fund, which is voluntary to pay to. People can apply for contribution to unexpected events, like funerals, etc. Other benefits are cut due to income tax.

To What Extent Are KA Workers Part of a Wider Community in Raufoss and Gjovik?
The park provides a possibility to get work at other companies inside the park. The workforce is highly mobile, and lots of them live far away, and have 1 h or more drive to work every day. The company exports every product they make. Recently they have sponsored a local football club just to be more visible in the local community. It is believed to be important in order to get the best workers. A newly established Lean forum at Raufoss provides a meeting place for informal discussion. And there are some other initiatives like YPM (young professionals in manufacturing) that provide some network.

The practice of leading people, when you have little to do and others have lots, is not working well anymore. With fully automated production lines, the time invested in external education in order to function properly, is too high. The belief is then it is better to solve this internally.

How Has the Role of Trade Unions Changed?
The industrial companies are not now union controlled anymore. There is still a broad and intense collaboration with openness as a mantra, but the unformulated "rules" are gone. Formal rules and guidelines are now replacing the old unformulated ones, thereby limited the unions' power and dual leadership at the shop floor.

What Are the Current External Threats to KA?
The main threat is the currency situation, but also technological shifts such as that the lead content of the brass is something that they are working on, increasing the use of substitutes. We are governed by external trading conditions that have resulted in downsizing from 250 to 70–80 employees. This has also led to many improvements, and long-term thinking in the management group, in order to better be prepared for such events in the future.

The interview brings us into the everyday considerations in the company and illustrates how change is going on in a dialogical way of both observing theological and economic challenges, but also mediating these in the cultural context in which the companies are embedded.

8.4 Continuoues Improvement and CSR

How do we link these discussions to CSR? As we noted in the introduction, our approach to CSR is inspired by triple bottom line thinking (Elkington, 1998); CSR is about balancing economic, social and environmental sustainability. Furthermore we argue that there is no fixed answer to the question; what is sustainability? Sustainability is a concept that gives our thinking a certain direction. It represents certain principles, like taking care, thinking in a long term perspective, being aware of what is good for mankind, respecting the earth that we are part of. However, when it comes to giving these ideas a more concrete content, it has to be considered in relation to the context that one is part of. This context is to a large extent socially defined.

The process of defining both responsibility and sustainability is part of the political and social debate that continuously evolves in society. It is defined both by ethics and sentiments, but also by what is economically and technologically possible. Business can play different roles in this process. They can come up with new, more sustainable solutions. They can develop new technology. They can set new standards both ethically and physically. We observed, for instance, that the three case companies had much higher health and safety standards than what is common in everyday life. In example, you are not allowed to work anywhere without proper equipment. Still, for some companies there are pollution issues to be solved, and probably finding ways to consume less energy. The issue of what these improved standards should be, is a social and political issue. In fact, in a survey done by a business network that organise one of the case companies, a majority of business managers said that they would prefer more public regulations in environmental matters. Our argument is therefore that it is in the close dialogue, both within the company and between company and society, and on the basis of continuous improvement, that what is sustainable and responsible is resolved.

How can we link these reflections and arguments to the discussion we started with, on how Scandinavian and Norwegian companies practice design principles? We considered the history of workplace development in Norway, and discussed cases based on both a dialogical and communicative philosophy, in relation to international management recipes. We argue that management driven organisational recipes in the Nordic interpretation reconcile the tension between organisational layers, and has led to renewed perspectives on management/employee collaboration. We can for instance consider case 3 in the perspective of Gustavsen's theory on dialogical development. The Lean-programme was top-down, management initiated, solution orientated, highly structured and with few leading actors. This contrasts with what Gustavsen labelled dialogue oriented, which is interactive, based on theory of participative democracy, involving many in the process, ongoing and minimally structured. Both processes are stepwise.

The Lean approach is targeted at identifying specific problems. It is related to daily routines, and task oriented at a level that the employee can influence. It integrates action and thinking, with an emphasis on action. It can be measured, controlled and supervised, and so it resonates with more economically oriented management thinking. On the other hand, it is transparent, impersonal, and creates a common commitment from top to bottom. It has the effect of redefining roles and power relations in the company. Everybody becomes subordinate to the Lean "system". The case 3 company is part of an industrial network at Agder, the Eyde network, which has put sustainable development issues on the agenda. In order to enhance these issues, they have initiated a broad dialogue, and involved the university to facilitate a new, long term programme to develop the agenda for a sustainable process industry.

All three cases illustrate how autonomous work groups work in matrix organisations, and how they develop understanding of quality systems and deal with expert knowledge. They also show how management adjusts to autonomous workgroups. This restructuring has contributed to innovation: simplification and continuous improvement. Case 2 illustrates different perspectives on Sustainable Work Systems. It shows modern efficient production, in a young civil manufacturing sector built on the legacy of defence manufacturing, and within the same set of buildings, with continuity of culture. There is a concern to minimise waste and inappropriate use of natural resources. Simplification and new materials are not innovations in the sense of radical new products. Innovation is more than radical new products: having a business model for your organisation that only looks at simplification of existing products makes you vulnerable. The best thing you can hope for is a time-monopoly, where the competitors try to catch up.

With learning dialogue, employees communicate with people in other companies and beyond the companies. Their learning experience is then translated to suggestions to the rest of the organisation. When it meets critique, or even defensive actions, customer demand and quality demand are used to win the discussion. Even if only a small part of the company workforce learns and reflects, they can teach the solution to the rest of the company. The union represents the history and continuity of the companies, but also plays an important part in translation of information vertically in the organisation and across the local community. The board representation makes sure that critical issues reach the owners in a proper manner, important decisions or information are communicated to every worker so that they understand the consequences. People in both case 1 and 2, pointing out the importance of communication and translation, are a key to having a functional collaborative model inside the organisation.

All three cases, although located at different places, are taking part in government led initiatives and programmes for innovation and improvement. There is a continued national government presence, through support for the National Centre of Excellence in Raufoss, and a similar programme with the Eyde network in the south of Norway, and funding for research projects which are intended to support commercial competitiveness. These programmes put pressure on the companies, thus their work systems becomes ‘sustainable’ in a number of senses. There is a concern to reduce waste and the use of physical resources. By maintaining a technical lead, the company can sustain its business, supplying current and new products to industry leaders. The experienced workforce circulates locally, and new workers have support from educational institutions. Case 2 is tied in to particular products and supply chains. Innovation is focused on simplification and new materials.

The former strategic role of the union has been reduced through fragmentation of the individual companies. In Raufoss, factory management still appeared to be based on defence-style top down approaches. It was not obvious that teams and groups of workers are always sources of significant flows of bottom up continuous improvement. There was no system of Quality Circles driven by workers. However, there was acknowledgement of the importance of participation.

There may be problems ahead in Norwegian industry. Many companies are now foreign owned, reducing strategic co-ordination potential at local and regional level. Norway is a high wage high cost economy: and production can be relocated. Norwegian industries, facing the challenge of global competition, need to emphasise the experience, skill and tacit knowledge of their workers. If their focus is on ever-increasing automation, jobs may not stay in Norway.

8.5 Beyond Dualism

We argue that the practice we see in Norwegian manufacturing can be discussed in terms of workplace innovation. We do not consider workplace innovation as in conflict with CSR. Both, as we see it, are based on participation, and continuous improvement. Workplace innovation is important both for sustainability and for economic development (Black & Lynch, 2004; Pot, 2011). But what kind of concept is workplace innovation?

Launching organisational development concepts is not a new phenomenon. Organisational concepts or recipes are often discussed as management fads, introducing foreign management practices in companies (Huczynskia, 1993; Gibson & Tesone, 2001; Newell, Robertson, & Swan, 2001). Some of these views are in conflict: Nordic countries have often emphasised participatory concepts, rather than management driven concepts (Ekman et al., 2011). Some argue that organisational recipes are contrary to more contextually based processes, or an obstacle for real engagement in work processes. As we see it, workplace innovation might contribute to a more rational, internal communication in the company, and thereby to incremental innovation. This is in line with David Hutchins' account of *Hoshin Kanri* in Japan (Hutchins, 2008). Gustavsen makes frequent reference to Japan (Gustavsen, Finne, & Oscarsson, 2001). Organisational recipes reconcile tension between different organisational layers, and renew perspectives on management/employee collaboration. However, we argue that this requires that we are able to move beyond the type of dualism that is often used when arguing for one concept in contrast to another.

This dualism is already visible in the discussion of the Hawthorne experiments. Dualism between *Scientific Management* versus Human Relations, theory X versus theory Y), management versus entrepreneurship), leadership versus administration, mechanistic management versus organic management, or model 1 versus model 2 type of learning (Argyris & Schön, 1996) are thus only a few classical examples of this phenomenon.

This dualism between a static, hierarchical and bureaucratic vision of the organisation, and a more flexible, dialogical, open and innovative organisational vision are often portrayed as two ideal types: at one extreme the analytical thinking related to model I learning, implemented through the use of authority, and at the other, intuitive tasks, related to creative learning and theory-building in practice by means of dialogue. They presuppose two very different kinds of personal qualities: analytical problems presuppose loyalty, predictability, obedience, and non-individuality, while intuitive tasks presuppose creativity, individuality, vision, commitment, and other qualities such as variety of experience, intimacy of communication and responsiveness.

We believe that this dualistic thinking is not very constructive. It is a form of thinking where the one side is somewhat demonised, and the other idealised. We argue that there is a need to move beyond this dualism, and to take a more pragmatic approach to organisation design issues.

8.6 Combining Organisational Design Principles

Chick, Huchzermeier, and Netessine (2014) argue that the reindustrialisation of Europe is due to companies integrating in value chains, and helping develop value throughout the chain. This requires competences of communication, dialogue and innovation. Companies in high cost countries, in order to meet global competition, combine management concepts and methods with specific contextual, historical and cultural patterns. In the Norwegian case, this means combining insights from both dialogical and structuring organisational processes, but also the Norwegian case extends this dialogue beyond a narrow definition of the value chain. Still the core of this process is dialogue at the workplace. How is tension between different concepts and traditions mediated in a concrete work situation at the workplace, creating a new practice?

In matrix organisations, organisational roles are ambiguous. We find this in the sectors of maritime and oil and gas, where engineering is a crucial part of delivering the right product, at the right quality, and on time. Projects are organised as autonomous work groups, given a mandate, time horizon, and a brief specification of the expected output. Project groups can be autonomous, creating a multitude of sub-cultures in an organisation, constructing demands for new ways of managing and developing organisations. Managers need to utilise this capacity: between project teams, and to enhance new and competitive services and products.

A person can be a leader and an employee in the same company; one can have many leaders related to the same task. The dichotomy of management versus employees now makes little sense. Rather than retaining dual roles of employee and management, there can be flat and informal organisations, where employees significantly contribute to everyday and strategy decisions.

Manufacturing companies today combine expert knowledge and knowledge derived from praxis. Awareness of responsibility and sustainability issues has to be comprehensive. Future co-workers, given the future degree of automation, and knowledge intensive processes and systems, require the role of the expert and the ‘blue-collar worker’ to merge. The learning perspective, with knowledge transferred from the expert to the others, becomes increasingly important.

There is a pivotal role for dialogue, linking bottom-up improvement processes and top-down strategy. Management and organisational structures support and facilitate learning and knowledge creation at all levels of the organisation. Technological advances in production and automated processes have led to more educated and specialised operators or experts, who are vital to successful production (Holtskog, 2013). Keeping operations and routines up to date with experts is a challenge; seeing the value of their suggestions and ideas (Ringen, Holtskog, & Martinsen, 2012). Securing high quality cannot simply be taken care of in a system. It starts with every process in the internal value chain (Ringen & Holtskog, 2011). It is important to develop understanding of Quality systems in autonomous work groups (Fricke & Totterdill, 2004), and Quality Circles (Ennals & Hutchins, 2012).

Applying Learning Circles is related to Quality systems, and Lean production. This recognises the systems perspective; organisations learn within the framework of 'popular' manufacturing systems such as Lean, TQM, Quality, and Six Sigma. These systems are becoming more widespread in Norwegian companies, especially in global companies. Which actors trigger the implementation of such a system: global customers, foreign owners or regulations at industry or country level? Lean is now familiar in most companies, even in the service sector, often as a comprehensive manufacturing system including everything from procedures at operational level, quality, Health, environment and safety (HES), customer orientation, business development and management practices. In terms of sustainability, these systems should encourage environmental and corporate responsibility in the organisation, affecting teams' degree of autonomy, co-operation, performance, understanding, and learning capability.

8.7 Conclusion

The essential features of successful knowledge distribution derive from participation and engagement of the workforce. Their experience, skill and tacit knowledge provide key foundations. Industry needs to maintain close awareness of the leading edge in science and technology, but must recognise that management decisions result from interventions by managers, engaged with the company and in dialogue with the workforce. The key knowledge and expertise is often held by workers, rather than managers.

Management fads, like Lean, used for arguing short term profit, have helped the companies to become more sustainable. The core of these companies' sustainability lay in the context and collaborative nature of their internal and external environment, including support from R&D institutions. Thus, concepts like Lean are adopted in a pragmatic way, and are balanced with other features of the Norwegian work life tradition, such as participation and union involvement. This resonates with the industrial democracy tradition within work life, including the collaborative nature of union participation. There is a value chain, not only in time, but across time. Unions and local community are culture carriers. Evaluating the relative importance of key features of sustainability, we must resist the pressure to regard them as separate. Learning is central to organisations in the Knowledge Society and Knowledge Economy. Workers need to be empowered to use their own experience, skill and tacit knowledge, as engaged actors. Such an approach will encourage workplace innovation. The whole process can be considered in systems terms, but the organisation fuses individuals into coherent collective action.

We have argued that Norwegian practice has balanced organisational design principles: bottom up and top down, with a focus on efficiency and innovation. These approaches to continuous improvement imply engagement and involvement: presupposing dialogue with employees and communities. Transparency in the company exposes issues such as pollution, negative externalities or unacceptable behaviour. This is a how Norwegian CSR works, without using that term.

We have considered ideas and impacts in terms of values of CSR. These values have been inherent to the Scandinavian and Norwegian models, and as we see it, and as is illustrated in the cases we have presented, implemented in practical business terms. We have recognised the impact of changes in the external environment. Thus we see incremental, transparent and dialogue based change processes as key to sustainable business development.

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Chapter 9
Authentic CSR and Leadership: Towards a Virtues-Based Model of Stakeholder Dialogue and Engagement. The Loccioni Group Experience

Mara Del Baldo

9.1 Introduction

Several studies—which are part of the theoretical framework of CSR and are placed within ethical theories (Garriga & Melé, 2004)—underline how entrepreneurial behaviors and values lie at the base of Corporate Social Responsibility (CSR)-oriented strategies and actions (Revell & Blackburn, 2007; Spence, 1999; Spence & Lozano, 2000; Vyakarnam, Bailey, Myers, & Burnett, 1997). The business ethics literature emphasises the values dimension of entrepreneurial and managerial activity and has introduced concepts such as management integrity, authenticity and virtues, which are becoming widespread in the corporate context, giving rise to the model of good governance aimed at constructing a more civil economy (Argandoña, 2003, 2011; Brown, 2005; Carroll, 2000; Cortright & Naughton, 2002; Del Baldo, 2013a, 2014; Driscoll & Hoffman, 2000; Gui & Sugden, 2005; Hemingway & Maclagan, 2004; Ketola, 2008; Malloch, 2009; Pruzan, 2001; Ruisi, 2009; Ruisi, Fasone, & Paternostro, 2009; Solomon, 1992a; Zadek, 2006; Zamagni, 1995).

Recently, within the leadership literature, some contributions have focused on the personal virtues held by leaders (Riggio, Zhu, Reina, & Maroosis, 2010). Leadership ethics tend to emphasize the leaders' behavior and the values and virtues on which it depends. Leadership is essential to the success of implementing an ethics model within the organization (Kaptein, 2009; Kaptein & Wempe; 2002; Lloyd & Mey, 2010; Martin & Cullen, 2006) and the benefits of adopting ethical practices have been demonstrated underling the importance of entrepreneurial leader virtues (Brown, 2011; Davis & Rothstein, 2006; Dutta & Banerjee, 2011; Flores & Green, 2013; Martin & Cullen, 2006; O'Fallon & Butterfield, 2005;

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Riggio et al., 2010). However, at present the relationship between CSR-oriented SMEs and virtues has not been adequately investigated.

Starting from these premises, the works focuses on entrepreneurial and managerial leadership and on its attributes and role in developing an authentic CSR-oriented strategy. Can a business become a laboratory capable of orienting and educating stakeholders' "minds and hearts"? Can a business be a good place to live a good professional, relational and personal life? How does leadership affect the dissemination of a CSR orientation at all levels of the organization? What are the attributes of an authentic leadership? In which values and guidelines is it translated? Is it connected to virtues? And how can virtues be used to trigger stakeholder engagement, with particular reference to internal stakeholders, like employees?

These research questions are the thread from which the study has been developed, focusing on the factors affecting leadership that put social responsibility as the foundation of behaviors, actions and strategies to be disseminated and shared inside and outside the company. The analysis also addresses attention to the balance among the conditions under which actions and programs are carried out (models of work organization, corporate governance and business atmosphere, intra and extra-corporate relationships and leadership).

First, the work offers an analysis of the theoretical framework paying specific attention to values and virtues-based models of leadership. Secondly, the paper presents the first results of an empirical analysis, centered on an exemplary case study (Eisenhardt & Graebner, 2007; Naumes & Naumes, 2006; Yin, 2003). The selected case is relative to an Italian, company, the Loccioni Group, which is included among the Italian best performing companies (Marchegian excellent companies—Istao, 2014). The company has been awarded as "best place to work" and "top employers company" 2014 by the CFR Institute and by the Great Place to Work Institute. The Loccioni Group (a family-based company) founder is the first internal agent for the diffusion of a strong ethical culture oriented to CSR and sustainability.

This company has for years built the CSR-orientation into its mission and governance model and, recently, has been implementing a project aimed to assess virtues among its stakeholders, departing initially from its employees. Using different research tools (interview, participant observation) and following the action research approach (Contrafatto, 2011) the empirical study focuses on the project aimed to operationalize virtues and to insert virtues in the values chart of the company to improve professional and personal growth.

The results of the study have both scientific and managerial implications and they underline the need for developing a methodology that allows further empirical research on the relationship between ethical values, humanistic education, family and social structures and the development of an authentic CSR-oriented model of entrepreneurial leadership.

9.2 Leadership and Ethical-Based Leadership

Leadership is a process which involves influencing others, within a group context, directed toward goal attainment (Olsen, 2010). Accordingly, leadership could be defined as "articulating visions, embodying values, and creating the environment within which things can be accomplished" (Hetland, 2004; Richards & Engle, 1986: 206).

There are several theoretical frameworks that posit leadership: trait theories (that are concerned with identifying the leader's personal characteristics; functional theories (which focus on what leaders do); style theories (which concentrate on the manner of leadership adopted), as well as situational approach and contingency theories (that view differing leadership styles as being appropriate in different situations) (Cambridge, 2015: 296).

Leadership theories and approaches include: transitional leadership; passive-avoidant leadership; servant leadership; transformational/transforming leadership; ethical leadership; spiritual leadership and moral leadership.

Transitional leadership has been portrayed as an exchange of rewards for compliance which involves the motivation of followers by appealing to their self-interest and their demands and needs (Bass & Bass, 2008; Burns, 1978).

Passive-avoidant leadership has been conceived as an absence of leadership, which is a form of dysfunctional leadership behavior, when the leader avoids responsibility, fails to explicate goals and visions, and leaves problems (Bass & Riggio, 2006).

Servant leadership (Greenleaf, 1977, 1991) and transforming leadership (Burns, 1978) rests on the normative assumption that there is an innate moral relationship between leaders and followers that rests on shared values.

During the last decades an increased number of writings have focused on the topic of moral leadership, and contemporary leadership literature emphasizes morality as a prerequisite for effective leadership (Bass & Bass, 2008; Brown et al., 2005). Moreover, many efforts have been devoted to identifying the function and importance of morals in leadership (Rhode, 2006), as well as its content and antecedents (Brown & Treviño, 2006).

Specifically, the transformational leadership approach (initially portrayed as value-neutral leadership; Bass, 1998) represents "an alternative research approach which investigates the moral content of already established normative leadership theories that have been shown to produce positive organizational outcomes" (Olsen, 2010: 14). Transformational leadership has been described as a process in which "leaders and followers raise one another to higher levels of morality and motivation" (Burns, 1978: 20), thus stimulating the consciousness of followers by appealing to higher ideals and moral values such as justice and equality (Burns, 2004). Transformational leaders develop followers' values into a community commitment by personal example. Transformational leadership "becomes moral in that it raises the level of human conduct and ethical aspiration of both leader and led, and thus it has a transforming effect on both" (Burns, 1978: 20). A number of studies show a clear relationship between transformational leadership and positive organizational outcomes, trust, commitment, task and creative performance, and profit (Bass & Riggio, 2006; Lowe, Kroeck, & Sivasubramaniam, 1996; Olsen, 2010: 17–18). Behavioral integrity (e.g., commitment in action to a morally justifiable set of principles and values; Becker, 1998) is positively related to transformational leadership (Parry & Proctor-Thomson, 2002). Leaders' activation of mature/moral justice schemas has an impact on followers' level of justice reasoning (Hoivik von Weltzien, 2014) and organizational justice (Greenberg & Colquitt, 2005) according to which people's perception of something being fair and just stimulates commitment and trust, which impact on cooperation and outcomes. Being a transformational leader in small to mid-sized organization is more valuable than in larger organizations (Flores & Green, 2013: 252). Unlike large companies, in small organizations employees have opportunities to interact with "upper management" as there are typically few hierarchical levels between the small business CEO and all of the workers. In SMEs leaders are observed on a daily basis by employees who want (and need) a leader who is transparent and authentic. Developing a strong community in an organization is a key component in keeping employees satisfied and motivated" (Flores & Green, 2013: 258).

9.3 Moral Leadership

In the ethical leadership construct (Brown et al., 2005) a good leader is portrayed as a moral person (e.g., fair, honest, behaving morally both in personal and professional life) and a moral manager (e.g., makes a proactive effort to influence followers' ethical behavior) who influences followers' moral conduct.

When linked to spirituality moral leadership has been viewed as the means by which religious beliefs impact leaders, the workplace and the society (Hoivik von Weltzien, 2014). The strand of research on "spiritual leadership" assumes that leaders create a sense of spiritual meaning in followers through values such as honesty and humility, motivated by leaders with a calling to serve God or humanity (Capaldi, 2013; Fry, 2003; Pruzan, 2011). Malloch (2008) provides several examples of "spiritual enterprises" in which virtues are daily applied in the operative, organizational and strategic management. These companies—also called visionary companies—posses a high level of social and spiritual capital, are characterized by different religious faiths and are diffused both in developed and emerging countries.

In the Western world the link to religion has often placed morality and wisdom into the private sphere, excluding it from being discussed openly as relevant to management and business altogether (Collier & Esteban, 2000; Hoivik von Weltzien, 2014: 3; Painter-Morland, 2008; Pruzan, 2011) since "a world of business or at business schools where rationality, efficiency and the pursuit of material goals have dominated economic thinking both in theory and practice" (Hoivik von Weltzien, 2014: 9).

Ethical standards in business setting, levels of corporate responsibility and the role of religion in business ethics are the interrelated concepts that Sauser Jr. (2005) addressed in his work developing the idea of business as a calling in a religious sense which leads to a particular attention paid by business leaders in creating an ethical organizational culture, developing CSR and providing servant leadership.

In fact there are leaders who freely admit that they are driven by a more intrinsic and contagious commitment to values (Bouckaert, 2011). “Leadership is not possible without ethics and one cannot separate them”, as “being a moral leader and doing, acting with moral leadership are one” (Hoivik von Weltzien, 2014: 3).

Moral behavior[1] and leadership are interrelated (Bass & Bass, 2008): on the one hand moral behavior is influenced by situational factors such as role modeling, diffusion of responsibility, conformity, etc.; on the other hand individual differences (i.e., personality and values) act as antecedent of moral behavior (Brown & Treviño, 2006; Rest & Narvaez, 1994). The organizational culture imbued with moral leadership enjoys several benefits: understanding of the interdependence with stakeholders; learning environment; respect and trust; cooperation; responsibility and accountability (Gottlieb & Sanzgiri, 1996; Simons, 1999). As we can see in the following sections, this is not an idealistic approach and is possible to find examples (i.e., the Norvegian company *Stormberg A/S*; see Hoivik von Weltzien & Melé, 2009) of organizations that apply it and where moral leadership is inspired by constitutive moral elements: innovation, intuition, imagination and attention (Hoivik von Weltzien, 2014). The moral imperative of innovation requires seeing the whole and understanding how human action impacts on others, including the environment (Bruni, 2012; Bruni & Sena, 2013).

Moral leadership and moral creativity have become ever more important for businesses and for the development of CSR which requires moral creativity. A challenging approach suggested by Visser (2011) rests on the notion that business survival depends on a continuous striving for sustainability and that; moral leadership is a key driver to implementing authentically CSR and sustainability-driven strategies.

Running a company that is genuinely oriented toward CSR and sustainability requires exercise leadership based on values (such as caring, people-centredness and integrity), in directing the corporation so as to ensure its prosperity based on transparency, accountability and responsibility (Von Ahsen, 2015; Oreg & Berson, 2011). Literature distinguishes between authentic and pseudo-transformational leaders (Bass & Steidlmeier, 1999) and focuses on “authentic leadership” as a “root-construct” and a vital component of all good leadership (Luthans & Avolio, 2003).

Burns’ transformational leadership (1978 and 2004) is similar to the charismatic leadership style proposed by Weber (1978) who defines charismatic leadership as resting on devotion to the exceptional sanctity, heroism or exemplary character of

[1]Moral behavior is defined as the ability to implement justice requirements derived from a fair distribution of rights and duties in a demanding operational context (Greenberg & Colquitt, 2005).

an individual person, and of the normative patterns or order revealed or ordained by him". Charismatic leaders turned problems into opportunities and resources thanks to their different ability "to see the world" and are characterized for specific attributes and behaviors: personal responsibility, vision, moral virtues, integrity, and faith in personal commitment, shared social responsibility, and solidarity (Becker, 1998; Del Baldo, 2015). They inspire people to do their very best (Jacobsen, 2001) and orient the company toward the common good.

Moreover, an interpretative key of authentic and moral leadership is provided by the construct of virtues-based leadership, described in the following section.

9.4 Virtues-Based Leadership

In the context of leadership theories the role of virtue ethics is becoming increasingly relevant. Flores and Green (2013) verified that leader assessments on the Leadership Virtues Questionnaire—used to measure four leader virtues: prudence, fortitude, temperance and justice—were positively related to assessments of authentic leadership, ethical leadership and transformational leadership.[2]

Among the leadership dimensions identified in the Globe research program (2008)—global leadership and organizational behaviour effectiveness—aimed to understand the cultural characteristics that positively or negatively influence the leader effectiveness are placed: charisma and ability to motivate members of the organization by leveraging the transmission of corporate values; the ability to create and manage working groups and orient them toward common goals; the level of members involvement in the decision-making process; the level of compassion, generosity and the human support to the members of the organization; the level of autonomy and independence of the leadership; and the tendency of leaders to protect him/herself. It can be noted that some of these dimensions include aspects such as compassion, generosity and charisma, which can be traced back to the transcendental virtues.

A stakeholder dialogue and engagement based on virtue ethics will take a long term view (Alford & Signori, 2014: 6) and is concerned about the development of a virtuous corporate culture. In line with this interpretation Bruni (2012) wondering on the need for new virtues of the market states that the answer may come from a renewed faith in the man and his virtues, which determines the effectiveness of the leadership and the company sustainability.

Virtue ethics represents a developing approach within business, following on the "recovery" of the idea of virtue in mainstream philosophical ethics in the second half of the twentieth century (Battaly, 2010; MacIntyre, 1985) (Alford & Signori, 2014: 5).

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[2]The Leadership Virtues Questionnaire (LVQ) was developed through successive pilot tests representing over 1000 managers.

Virtue ethics attempts to ground ethics on the basis of character rather than rules (Bertland, 2009) and emphasizes integrity by suggesting that a person's character needs to be ordered and whole, bringing together home and work life and that community is important for fostering virtue. Among the "virtue ethics" is a Neo-Aristotelian approach applied to business ethics by Solomon (1992a, 1992b), Hartman (1998) and Nussbaum (2000) (See Melé, 2009). "When one thinks of a good managerial leader, one thinks about a person who can get the most out of others. Such a leader can then find a way to motivate others to excel and to provide the resources to allow people to develop their capabilities in a way that coheres with the greater community" (Bertland, 2009: 145).

By focusing on the ethical explanation of human behavior habits and virtues in the Aristotelian and Thomist Ethics Bastons (2008) underlines the role of virtues in the framing of decisions and in particular the habits and virtues in classical Ethics, the so-called cardinal virtues. These virtues are cardinal because they are related to the human faculties that determine the structure from which decisions are made. In this sense, fortitude is competence for operating decisions; prudence is competence for predicting; temperance (the habit of self-control) is competence for evaluation and justice is integrity for action. Cardinal virtues are relevant in the business context both at the individual and organizational level (Pieper, 1966; Del Baldo, 2013a; Ruisi, 2010; Ruisi et al., 2009).

Virtue ethics contributes to an environment for business that fosters best practice (Flynn, 2008). Therefore this approach allows us to understand the authentic "roots" of CSR.

Virtues (from the Latin *virtus*, i.e., strength) are the realization of the potential of human beings to be able to achieve what is good for them and for others (the so called "good life"). Virtues are acquired and can be recognized as traits or qualities that are part of a character. They develop gradually and in relationship with others and help us act in excellent ways.

In Aristotle's view, a fulfilled life is a life lived in accordance with virtue. Aristotle discusses several virtues, including courage, temperance, generosity, magnificence, wittiness, mildness, and friendliness. He distinguishes between virtues of character (moral virtues) and virtues of mind (intellectual virtues). The moral virtues, such as courage and generosity, arise through habit (Aristotle, Book II, Chapter 6, 1106b–1107a; Aristotle, 1980) and involve rational choice. By intellectual virtues (skill, scientific knowledge, practical wisdom, wisdom and intellect) a person may achieve excellence in reasoning and truth. They are acquired primarily through teaching (Aristotle, Book VI, Chapter 3, 1139b). Practical wisdom is as a bridge between the intellectual and moral virtues.

Finally, virtues are conceived as spiritual values and include both the aforementioned four cardinal virtues and the three theological virtues (Faith, Hope and Charity). A synthesis is provided in the following table (Table 9.1) which will be used to analyze the experience of Loccioni Group (Italy).

Table 9.1 Virtues in the classical and Christian though

Cardinal virtues (Plato)	**Temperance**: ability to moderate sentiments **Courage**: strength of spirit to carry out virtuous behavior **Wisdom/Strength**: control of passion **Justice**: equilibrium
Ethical/Moral virtues (Aristotle)	**Courage**: balance between cowardice and boldness **Temperance**: balance between intemperance and insensitivity **Generosity**: balance between avarice and prodigality **Magnanimity**: balance between vanity and humility **Mildness**: balance between quick temperedness and idleness **Justice**: balance between conferment of honours, wealth and goods
Intellectual virtues (Aristotle)	**Arts**: technical abilities **Science, Wisdom, Intellect**: ability to think clearly **Practical wisdom, Prudence**: ability to know the right way to achieve an objective
Theological Christian virtues (St. Paul)	**Faith**: belief in God and His revelations **Hope**: eternal life as the achievement of happiness **Charity**: loving God above all else and loving others as one loves oneself
Transcendental cardinal values (S. Tomas Aquinas)	**Fortitude (Courage)**: persevering or pursuing what is good in spite of obstacles **Prudence (Practical wisdom)**: aids practical rationality in identifying the right thing to do in each situation. It supports the suitable means for the attainment of purposes, ultimately self-realization. **Temperance (Moderation)**: ability to control one's emotions by accepting her/his deficiencies. **Justice (Friendship)**: regulates the relationships with others (commutative/reciprocal, regulative and legal justice). In a broad sense justice refers to benevolence and care for the good of others and thus it is close to *caritas*, communion and friendship. It comprises all of the virtues regarding human relations including: honesty, loyalty, gratitude, generosity and solidarity

Source: Our elaboration

9.5 Loccioni Group: Toward the Virtues-Based Company

9.5.1 Methodology

The empirical study was developed according to a qualitative approach and a case study methodology (Eisenhardt, 1989; Yin, 1994). The work is placed in a body of research which involves both academics as well as consulting groups and professionals (i.e., entrepreneurs and managers), making ample use of case-studies to critically evaluating challenging leadership model at the bases of CSR authentic-driven strategies. Recently, scholars have called for a return to in-depth methods, such as narrative and case studies (Gartner, 2007) that are valuable for generating theoretical propositions (Eisenhardt & Graebner, 2007) and for actively contributing to face challenges through the direct involvement of managers, entrepreneurs and scholars (action-research approach) (Contrafatto, 2011).

The study focuses on the Loccioni Group (single case study) which is medium-sized, not listed on the stock market and family run. The company is authentically CSR and sustainability-oriented (Del Baldo, 2013b, 2014) and is representative of the entrepreneurial fabric of the Marches. In this region the development of SMEs mainly established in small centres, without disrupting the pre-existent agricultural and artisan vocations and preserving the socio-economic fabric of relationships anchored in the territory. The provinces within the Marches regions come top in the national list forbalancing economic development with social cohesion and for the diffusion of "best practices" companies listed by ISVI (the Institute for Business Values) and recognized at the national and international levels (Unioncamere, 2003; Marchegian excellent companies—Istao, 2014).

The analysis was based on information collected over 2 years (from 2013 and still in progress) through a triangulation of sources: in-depth semi-structured interviews, informal conversation with the founder, his entrepreneurial family and to other collaborators inside the organization as well as local partners; participant observation during companies' visits and workshops, conferences and focus groups; and documentary analysis. In total, more than ten visits and meetings (during which interviews, workshops and focus groups were carried out) have been performed. All information gathered through interviews were recorded and then validated by submitting the reports to the respondents during focus groups. This action research approach has been established in particular to contributing to implement challenges through the direct involvement in the Loccioni Group's Virtues-driven project. Subsequently some summaries of interviews—mainly relative to the founders, the general manager and other key-subjects involved in the project—will be included in the presentation of data and the discussion of results.

9.5.2 Company Profile

The Loccioni Group was created in 1968 in a small town near Ancona (Italy) by Enrico Loccioni (the current president) who founded six other businesses in the next 40 years. The Group counts 355 Employees and total sales (mainly international) of more than 64,000,000 (2012).

Ownership is primarily familial. Loccioni Group's activities are based on distinctive "core competencies" applied to diverse markets: environment, home, automotive, industrial, community, health.[3] The Group proposes itself as a

[3]The activities include: integrated technologies for environmental monitoring; measurement and quality control; biomedicine and medical equipments; telecommunication and environmental control; green energy; training and consultancy for businesses technical and managerial education.

"technological tailor" owing to its capacity to custom-design innovative technological solutions for its clients.

The Loccioni Group adopts processes of social and environmental certification. Moreover, among the tools for implementing and communicating CSR and sustainability the companies adopt: the List of company values (since 1969); the Code of ethics (since 1996); the Social report (since 1997); Intangibles impact (since 1997); Cause related marketing (since 1999).

Three are the distinctive traits of the Group: (1) the solid ethical base of the entrepreneur—that is influenced by shared religious principles, personal and family values inherited from his agricultural forefathers; (2) the outstanding capacity for communicating and for nurturing relationships, as well as the centrality of the person which lead to an organizational model founded on partnerships and on an intense activity of stakeholders management and stakeholders dialogue; (3) the strong sense of community membership and the sincere love for its own Marchegian "land", as well as a true desire to "attract" and to "permeate" the environment, beginning with the local level.

In particular the Loccioni Group's network model includes: U-net (multidisciplinary network of universities and research centres for the development of scientific competence and applied research); Crossworlds (network of international groups that aim to stimulate the transfer of automotive technology toward other sectors); "Bluzone", an educational laboratory accredited since 2002 by the Marches Region that partners with 28 schools, 20 universities, and 5 master programs (every year more than 1000 students are hosted); Nexus (plural-sector network of more than 30 local businesses and 550 collaborators), created in 1994 by Enrico Loccioni's idea to facilitate integration between SMEs in the Province of Ancona and to increase territorial growth and local companies opportunities through sharing information and experiences (monthly meetings, virtual board, training courses, collaborations with schools, scholarships, providing data for students' thesis, training, polytechnic visits, European projects). Numerous are the awards attributed both for the excellent level of innovation and for the attention to CSR and sustainability. Among these one can cite the Sodalitas Social Award (2005 Finalist, for the category "Internal Processes of CSR and network enterprise model" "Metalmezzadro" project in the knowledge-based business; 2008 and 2009 Finalist "Sustainability Projects" category); the "Business and Culture" Award 2003 (for the project "Bluzone"); Legambiente (for the Leaf Community Project: Leaf Energy and Future (partner of the European Commission in the "Sustainable Energy Europe Campaign"); Great Place to Work.

9.5.3 Loccioni Group's Values and Virtues

This section presents the Loccioni Group's values system and discusses how these values are spread from the leadership model adopted by the founder and the management and shared by the entire organization. Particularly, reflections point out the origins of values and their anchor to virtues.

The mission of the Group is "With curiosity and openness we integrate ideas, people and technologies to animate and give value to the business". Values guide the decision-making process in adherence to the authentic CSR-oriented vision and create an entrepreneurial vocation that makes the Loccioni Group's excellence.

> *"Without values one cannot go far. Values sustain actions and are the identity of the group; they provide a common language, they give strength to our businesses and guide them as they adapt to the market. Large business "look to the quarterly reports" and are not disposed to sow the seed for the long term, to live on trust. There are some values that are inherited from the farming culture that every day I meet and I try to share them with my collaborators: the perseverance (the desire to succeed and never give up); the will, the thrift, the sense of proportion, appreciating the work itself as a value, savings, and attention to waste. These are all values that in the agrarian life were shared by the whole community, such as the sense of family, solidarity and responsibility. We love to define ourselves as 'metalmezzadri', that is a synthesis of farmer and industrial. From the agrarian culture we have learned: the importance of traditional values, the transmission of trust with a handshake; the habit of working in seasonal uncertainty; the diversification of cultivation to reduce risk, just like in sharecropping."* (Enrico Loccioni, founder, entrepreneur of the year 2007, Ernst & Young Award for Quality of life) E1.

> *"Take care of this piece of land where the company is located, to stay here where our roots are, trying to add value to people and the environment is my (and our) great enterprise. To network with the territory, with its institutions, its cultural and economic community is essential for me and for us. The company lives and thrives if the territory that it inhabits is viable and prosperous*". (E. Loccioni). E4.

The afore-stated values and principles have driven the Loccioni Group to take care of the "Esino" river that twice in the past damaged the company when it flooded. A specific investment project "Flumen" (which involves five towns and the Marches public institution) has been implemented to reinstate the river course to its original position, to drain and clean up the dunes, preserve the fauna and flora biodiversity. At the present time the 2 km of "river auction" are a fluvial laboratory for the measurement and prevention of ecological disasters. It is an example of good practice in social innovation or, as defined by the Group, in social imagination which refers to the love of the territory and the fusion of innovation and tradition (Varvelli & Varvelli, 2014).

> "*Why spend money on something that is not mine? I saw an opportunity in the river, not only a threat. With the biomass (hydropower) energy we will repay our investments and the benefits will be shared by the entire community. And, most importantly, I returned the territory to its history and its beauty of 50 years ago*" (E. Loccioni, E10).

From such words the charismatic personality of the leader (E. Loccioni) emerges, as well as his vision, his ability to interpret reality through a different outlook and to transform problems into opportunities for the community and for business (Bruni & Sena, 2013).

The business model envisioned by the founder (Enrico Loccioni) is the result of a leadership model inspired by E. Mattei (the founder of ENI), W. Von Siemens, and Camillo and Adriano Olivetti (Del Baldo, 2013b). The Loccioni Group is conceived and lived as a "play factory", that is in an enthusiastic and creative living and working context (Bartocci, 2011). It is a knowledge enterprise in which there are not employees, but collaborators, where projects are developed, and not products. The business is experienced as a continuous adventure (from the Latin *ad-venire*), that is a company that creates what will take place (Varvelli & Varvelli, 2014).

"*We want to spread a new work culture based on passion, enjoyment and beauty because it is through playing that the most intelligence is expressed. Play is at the basis of charisma. Our young people are passionate about doing their job well. Seeing them with a smile in their eyes, seeing their respect and sense of fair play in the work place is something which fills my heart with joy and affection. There must be a passion for continuous improvement because as a friend of mine, a village priest, said: we are all users of this land and the best thing we can do is leave things in a better way than how we found them as we have received more than we have given*".

"*I had and I have the dream to create a model of a company aware of its social role, of its future in the territory and the world; to be the creators of the future we want rather than just mere spectators. To nurture that dream, people must understand the future they want for themselves and for their group. They must find their vision and the managers must help them in this process*". (E. Loccioni, E11).

From these statement an emerging key concepts is the visionary leadership style, like in the mystic religion tradition which has transcendental values (virtues). Nevertheless, the founder's leadership style cannot be considered idealistic, because he is a down-to-earth man, like his son, whose motto is: "*Look toward the sky, but have your feet planted firmly on the ground*." (C. Loccioni, Enrico's son, S1).

Another distinctive aspect of the leadership and business model is the centrality attributed to people. All Loccioni Group's actions and strategies are not based on (and addressed to) employees, but on collaborators, that is on persons who work together, share knowledge competences and capabilities to improve themselves and the company, which is conceived as a common good. Relationships are not based on hierarchies which "imprison" knowledge and intelligence but on trust. The refrain that runs through Loccioni's entire speech is the importance of 'earning trust' from every single person the company interacts with.

"*Here there are no leaders and we do not even like the word leader. Here the leaders are called responsible people: they must have the ability to listen, communicate, motivate people and give them a chance to rejoice and meaning to their work every day. No one—myself included—is the head of anyone. In the Loccioni Group there are the leaders, able to pull the others with enthusiasm to face difficult challenges. There are the teachers, who, through their experience can teach both young, and vice versa. There are coaches, who are willing to take responsibility to raise a team. There are explorers, who jump with a passion for innovative projects involving the team. There are visionaries, those who have the ability to imagine the Loccioni Group as different and better and are committed to transfer, share, and to fall in love others with this dream*" (E. Loccioni, E16).

Key concepts that emerge from the analysis are the peculiarities of the business model, centred on human capital, the capacity and the will to develop the talents through a transformational leadership that is geared to creating a supportive environment and renders possible the maximization of creativity. The Loccioni Group is distinguished by its innovative tension, the strong entrepreneurial orientation of all employees as well as the ability to recognize and create business opportunities. All these qualities contribute to increasing the competitive success over the years developed on an international scale.

> "*Here talented people are knowledge players and power players of intrapreneurship. The intrapreneur-manager is a person who disseminates culture and civilization. In contrast there is the butler. (...) We believe in people and in their desire to do because in their hands the possibility resides to gain a success that is a common heritage for all*" (E. Loccion, E14).

Optimism, passion, enthusiasm are the winning qualities. In the Loccioni Group that can be a problem which is experienced with obstinacy, humility and the joy that accompanies the act of creation. This approach is a constructive habit for one's own good and the common good that as one can appreciate in the following section has its strength in its anchorage to virtues. The "social grammar"—intended as a language games' used by this corporate leader—seems to be sending all the right tacit messages.

> "*The work ethics is based on the enthusiasm that opens a virtuous circle. The enthusiastic person is strong, positive, and produces on those around him the impact of a natural leader*" (R. Libenzi, General Manager, M1).

The virtue of foresight, the spirit of sacrifice, and enthusiasm are flanked by the organizational well-being of employees considered as a priority and who can be associated with the virtue of justice. The Loccioni Group has in fact for years been one of the few Italian companies included among the Great Place to Work Award (Best Workplaces 2014). The first application of the analysis of the organizational climate, then called welfare organization, dated back to 1987. In early 2000, the analysis was carried out by an external body (Great Place to Work Institute) in order to objectively and subjectively evaluates the organizational climate of the company and to cancel the distance between being and seeming to be (Table 9.2).

9.5.4 From Values to Virtues

The most distinctive trait of Loccioni is the will to develop a path "from values to the virtues" which is the title of a project, initiated in 2014 by the founder, and currently underway. It involves a group of collaborators (including a Ph.D. candidate—head of Identity Lab & People; the Head of People & Organization and of Corporate Communication at the Loccioni Group and the General Manager). The idea behind the project is to grow in Loccioni, to live and to experience the beauty of a virtuous path, to develop valuable people and virtuous collaborators and to

Table 9.2 The organizational climate and well-being in the workplace in the Loccioni Group

		Assessment made by the employees		GRAM sample consisting of 183 Italian companies
Code number	Factor	Numerical score	Qualitative score	
1	Interest to work	4.6	Excellent	3.1
2	Physical working environment	4.8	Excellent	3.4
3	Flux and fluidity of work	2.3	Scarse	2.9
4	Information about and for the work	3.8	Good	2.5
5	Functional relationships	2.8	Scarse	2.2
6	Interpersonal relationships	4.1	Excellent	4.0
7	Relations with the hierarchy	4.5	Excellent	2.6
8	Company's image	4.9	Excellent	3.7
Total		31.8		24.4

Source: GPTW (2013)
1:5 Scale Minimum value/score = 1 and Maximum value/score = 5
Classes of judgment: 1–1, 9 Insufficient; 2:2, 9 Scarce; 3:3, 9 Good; 4:5 Excellent

identify the vices of the organization, and treat them in order to prevent those (Varvelli & Varvelli, 2014).

"*Values are not enough to achieve perfection; virtues are needed. The values are used to select collaborators, virtues to confirm them; vices to change*" (E. Loccioni, E15).

This project starts from afar: after the first list of company values (introduced in 1969) the charter of values was adopted by the Loccioni Group in 1992 and included 9 values, some of which are combined (Table 9.3): initiative and intelligence; energy and will; flexibility and adaptability; innovate to innovate; transparency in communication; listen to anticipate.

In 2005 the Group set itself higher principles that integrate the values stated in 1992 (Table 9.3).

The Loccioni Group's values are not only related to individuals but to the entire organization.

"*With these values every day we try to create value for customers, for the company, for the people and the community. We look for people who share our values and ideals consistent with our way of imagining the future and the world around us. It will be the daily approach to work to confirm the people who have the habit of virtues and to distinguish them from those who simply 'wear the dress'*" (E. Loccioni, E20).

The shift from values to virtues is the guiding principle of the Group, which in 2014 mapped the virtues diffused in the organization (Table 9.4) and in 2015 tried to associate them to cardinal and ethical virtues (Tables 9.5 and 9.6).

Table 9.3 The new charter of values

List of the Loccioni Group's values	Content
Energy: Much of it is needed to dream and to realize one's dreams	It means putting in all things that we do our enthusiasm, the passion, courage and the motivation. It is the smile, kindness, joy, tenacity
Responsibility: For the air that we breathe, the land that we walk, the resources that we utilize, the trust that we obtain	It means taking charge of the future, being aware that every action and project has consequences. It is the answer to the trust offered to us by customers, suppliers and collaborators
Imagination: To be capable of imagining means being capable of creating	It is the ability to dream, "to look with open eyes", to see the invisible and to fulfil the envisioned dream. It is the desire to participate in building the future
Tradition and innovation ("Tradinnovation"): To learn from the past to give form to the future	It means not to forget where we come from to be able to recognize our dreams and achieve them: "to pull behind the arrow to throw farther"

Table 9.4 Loccioni Group's organizational principles and related company's watchwords

Organization's key principles	Motto
Confidence in the team, proxy and accountability	
Fault tolerance, available to the exercise, continuous improvement	"The virtuous man is the one who improves on all fronts"
Ideas, intangibile knowledge	
International dimension, travel, trips	
Willingness to change	"The virtuous man is the one who changes"
Keep your head up to look over the "own garden"	
Proactiveness, initiative	
Sobriety (not excessive behaviours)	
Enthusiasm, passion distributed and shared	
Networks	"Virtuous people are looking at each other"
The undertaking to sow beauty	"It is the aesthetic of virtues: the virtue is beautiful, shining, it creates beauty"
Projects are always different; there is no mass production	"Virtue is always varied"
Going beyond the pure business, not forgetting the territory	"Virtue is appreciated only by those who can "see" it, that is, people used to perceive it"
Do, knowing how to do, doing and letting others know	
Courage, initiative, resourcefulness to be intrapreneurs	

Table 9.5 Loccioni Group's values and related virtues

Initiative and intelligence	The initiative and intelligence can be associated with **prudence** that is to be intrapreneurs: be able to choose the opportunity, internalize corporate values, by acting quickly and taking responsibility for their/our own actions Prudence allows to carefully evaluate each situation, consider the appropriate means to achieve the end, and therefore consists in having the intelligence to choose the opportunities as a result of a comprehensive analysis of the whole context
Energy and will	Anything is possible if every daily action is based on commitment, sacrifice, tenacity and perseverance Energy and will can be respectively associated to **strength and justice**: justice is the will of giving to each his right; strength results from a constant practice of knowing how to direct energies toward solving problems, understanding the situation, without being discouraged by the possible obstacles to face
Flexibility and adaptability	It is the orientation to change, which does not impose solutions, rather searches for solutions together with those present a problem Flexibility and adaptability are associated to **strength or fortitude**. It is derived from a high propensity to change and the capacity to constantly look for new solutions. Fortitude is the ability to accept one's own limits, the possible falls and vulnerability and to face adversity
Innovate to innovate	To find new solutions needed to change their own beliefs, attitudes and behaviours Innovate to innovate is associated with **fortitude and temperance**: it involves constantly questioning situations. To grasp entrepreneurial opportunities over time generates temperance, i.e., ability to stay balanced in times of change, without exceeding enthusiasms, discomforts or insecurities
Transparency in communication	Enter into relationship frankly with everyone, at all levels, devoting/spending time and energy to understand and be understood Transparency in communication is associated **to justice**: it implies honesty and openness of the people, and cultivate over time guarantees justice in their work
Listen to anticipate	Listen to the "weak noises" which, if not heard in time, can become destructive discordance Listen to anticipate is associated with the virtues of **temperance and prudence**. The moderation of instincts requires attention and listening is the necessary practice. Listening spurs human beings waiting for their turn to speak, to the analysis of the situation and the interlocutor, thus generating even prudence

In the Loccioni Group values and virtues are fundamental in the stages of placement and the professional and human growth of collaborators (employees). A virtues-based leadership is present and is characterized by a strong moral foundation (Brown, 2011; Flores & Green, 2013; Hoivik von Weltzien, 2014; Ruisi, 2009). This approach will materialize in the ongoing project aiming to match and anchor the existing shared values to the identified virtues (ethical, cardinal, intellectual and theological virtues).

Table 9.6 Anchoring virtues to values and company's projects and actions

Ethical and cardinal virtues	
Courage	Intrapreneurship, constant search for new projects and new fields in which to try to improve
Temperance	
Fortitude	
Justice	Triangle cost–time-quality Balance with nature: the Flumen project, coexistence with the river; nature as an opportunity Project Lov—Land of Value (to evaluate Marchegian's excellences) Project energy and environment (Leaf Community)
Generosity/ Liberality	Possibility of each employee bringing ideas for improvement regardless of the position held
Magnanimity	Possibility of offering the country the park, the benches, the bike path, of making more human and humble the relationship between the company and the territory
Mildness	
Aritstotle's intellectual virtues	
Art	The enterprise to sow beauty; the company conceived as a technological tailoring
Science, wisdom, intellect	Knowledge worker, competences, know-how of the group, planning, continuous learning
Practical wisdom, prudence	The first solution is never the best but often the most obvious
Theological virtues of Christianity (St. Paul)—(Catechism of the Catholic Church)	
Faith With faith a person freely and fully abandons himself to God to do His will	Trust in people, in the projects and strategy outlined by the Group Innovate to innovate: challenge ourselves to change our beliefs leads to developing the virtue of faith, that is, the trust towards the unknown aspect of reality Initiative and intelligence: to act quickly, preserving our values, seizing opportunities and effectively evaluating situations involves the development of faith in our abilities and in our personal path
Hope It is the virtue by which we place our trust in Christ's promises	Passion placed in new projects Energy and will, effort, perseverance and tenacity can be reconnected to hope as this creates that confidence in the success that only through effort, perseverance and tenacity can be powered
Charity It is the virtue by which we love God above all things and our neighbour as ourselves. Charity is the bond of all the other virtues	Love for our work, for the territory and for environment Flexibility and adaptability: looking for solutions in harmony with those who put the problem requires the development of charity, or love, and the encounter with others Transparency in communication: relating to

(continued)

Table 9.6 (continued)

Theological virtues of Christianity (St. Paul)—(Catechism of the Catholic Church)	
	everyone with honesty and frankness leads to the development of charity that is the feeling that makes us act towards others as if we were acting for ourselves Listen to anticipate: listen to others, understand their needs, rushing to their aid/is the practice of charity

Source: Our elaboration of the Loccioni Group internal documents

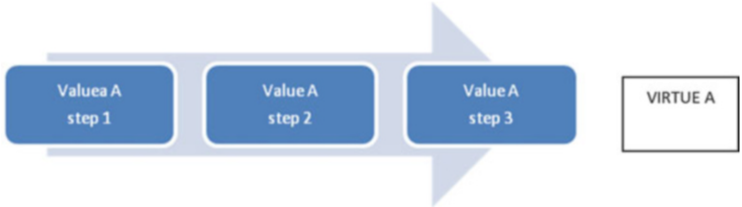

Fig. 9.1 The shift from values to virtues

The first step of this project (mapping of the virtues and matching between Loccioni Group's values and virtues) will be followed by the insertion of virtues in the tools used for selecting and evaluating collaborators through the identification of individual behaviours and the adoption of indicators for values and virtues. The idea is to develop a scale to measure the process of consolidation values and acquiring virtues as shown in the following process diagram (Fig. 9.1) of values that starts from the daily practice of a value and is aimed to acquire the corresponding virtue, identifying virtue micro objectives for each values.

Example

Value A: transparency in communication.

STEP 1: relate to everyone with frankness and honesty.

STEP 2: be able to devote time and energy to listening to people (collaborators, clients, supplier, etc.) in an attitude of constructive criticism and to devote time and energy to understand the other's point of view (to train effective and clear communication).

STEP 3: being able to establish a priority list (always with an ethical view) of their own work and always respect it, even when the choice becomes difficult (to focus in achieving the goal and learn to be consistent and transparent with themselves with their own goals and values). (. . .)

GOAL: Justice.

For each identified path of growth (virtuous behaviour associated with a particular value they bring to a precise virtues) the potential problem, the arrest of growth and the corresponding vices, will be identified, in order to have a future outlook of the possible variations in the individual growth of values when people begin working in the company.

The growth pattern for each corporate value could be implemented through several tools, such as: training activities on virtues based on cycles of seminars involving collaborators (in focus groups and laboratories) aimed to develop awareness on the level of application of their virtues; involvement of collaborators through personal examples arising from their personal or professional career. The monitoring process could take place through valuation models that should take into consideration both the Loccioni Group's performances and the behaviour of the collaborator (punctuality, flexibility, willingness to change his mind, etc.). The monitoring is aimed at to assess if there is a development, a stall or a regression in the process of acquisition of the virtues (Fig. 9.2) and to identify the right tools to redirect the collaborator towards the pursuit of virtue. The tool used in the selection process of collaborators is then supported by a tool aimed to monitor the values/virtues evolutionary path during the working period in the Loccioni Group, through performance and behaviour indicators.

From its very beginning E. Loccioni had a clearly formulated value based mission statement: to want to make the world a better place. Consistently, Loccioni Group is a company engaged in a training experience, in a sort of continuous adventure. This shared awareness has therefore a link with courage (courage of the decisions and the consequent responsibility), patience (to face events and unexpected behaviour and capability of waiting unforeseen events and good results) and fortitude. The principles of innovation, intuition, imagination and attention (Hoivik von Weltzien, 2014) are the key drivers of every choice, action and politics.

Talking with the founder, one arrives at the conclusion that he sincerely believes in people and in their ability to contribute with their own unique resources if only given the opportunity. The sense of caring, as well as having the courage to do things in a simple yet different way is fundamental to his notion of understanding ethical leadership and social responsibility (Hoivik von Weltzien & Melé, 2009).

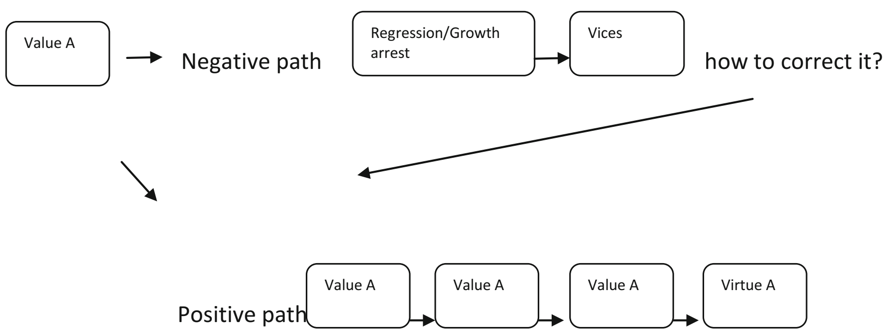

Fig. 9.2 Monitoring the path toward virtues

The moral and charismatic leadership approach is therefore evident: the founder has been (and he is) able to pass on his passion and motivation to his collaborators by creating an organizational values and virtues-driven identity.

9.6 Final Remarks

This works focuses on entrepreneurial and managerial leadership and on its attributes and role in developing an authentic CSR oriented strategy. With reference to the research questions mentioned in the introduction—Can a business become a laboratory capable of orienting and educating stakeholders' "minds and hearts"? How does leadership affect the dissemination of a CSR authentic orientation at all levels of the organization? On which values and virtues is an authentic leadership based?—The leadership and entrepreneurial model that emerge from the case analysis is that of a company which offer itself as a laboratory where "both minds and hearts" of collaborators and stakeholders have aroused and a good place in which to live a good life. To this end it is necessary that companies have "cultured" man, intended as people able to developed both knowledge, know-how and values (which explain the sunken reasons for action) and virtues. Entrepreneurs and manager are then required to exercise virtues through the repetition of good acts, which are essential for the long-term success of the company founded on a multidimensional development (ethical, economic, environmental and social development). Attention then shift on a renewed entrepreneurial ethos in which transcendental virtues are the key driver of a virtues-based leadership which can be considered in a holistic way both transformational, servant and moral leadership, nurtured by spiritual values and thus oriented to the true and the good, interested in the beautiful, and oriented to respect people and environment. What is needed to transform a radically atomized and ruthlessly competitive environment is in fact a change of mindset to view CSR as processes which deeply interlink the corporate and community.

This shift is therefore necessary to avoid the separation of CSR as a distinct set of ideas (even if stated in a code of ethics or in formal programs) and its isolations within detached organizations programs and rigid departmental boundaries. For CSR processes affecting and transforming the business decision-making and becoming more extensive—thus avoiding fragmentation in the way that an organization manages its various business relationships, as well as the lack of congruence between its statements and actual business practice—an authentic CSR orientation needs to be implemented and diffused, beginning from the entrepreneur and the top management and incorporating the entire organization (McIntosh, Thomas, Leipziger, & Coleman, 2003). The authentic CSR orientation depends on shared values and virtues that can act a "social grammar"—i.e., as a network of socially constructed meanings that inform one another—that emphasizes interrelatedness, interdependency and integrity in all business operations. Integrating sound principles governing safety, business conduct, social, environmental and economic activities into business practice is both good for society and good for business. A pragmatist ethics is one that fosters engagement, negotiation and contestation (Wicks & Freeman, 1998) and finds its expression in a truly democratic process, which allows all stakeholders to participate in forging agreements that sustain a shared sense of community (Dewey, 1994).

The active participation of the entire community (beginning from the company internal community) in identifying the values and principles that should guide the decisions and actions of individuals or institutions that form part of it—requires an acknowledgement of the interrelatedness of business, its stakeholders and the community within which it functions. It also requires that the values that are identified should reflect that which is of value to the community as a whole.

The only way to get employees and, more generally the stakeholders, to espouse values and principles is to help them understand it, and then to empower them to live the values as well the related virtues. A leadership example (like that of Loccioni) is extremely important in this regard, as people learn more from "watching" their leaders than from policy documents. It is at the basis of the organizational integrity (Paine, 1994), which requires an alignment and an ongoing interaction among organization's stated values, tacit beliefs and CSR programs as well as between its ethics management processes and every day practices, decisions and activities. In turn, organizational integrity can only exist where there is mutual trust between the organization and its stakeholders, that depends on the manner in which the organization succeeds in living according to its stated values and on the way principles affect daily people and company's conduct.

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Chapter 10
Corporate Social Responsibility and Farm Animal Welfare: Towards Sustainable Development in the Food Industry?

John Lever and Adrian Evans

10.1 Introduction

The growth of corporate social responsibility (CSR) over the last two decades can be linked to the perceived failure and limitations of government regulation. As international economic actors have taken on a more central governance role in the market under neoliberal conditions, CSR has become an integral part of the strategic management of corporate actors attempting to convince consumers of their responsible business practices (Beal, 2014; Utting & Marques, 2009; Visser, 2011). This is particularly evident in the food industry, where the growth of CSR activities can be aligned with animal farming epidemics (e.g., Foot and Mouth Disease, BSE/CJD) and growing public anxiety about food safety (Hartman, 2011; Miele & Lever, 2013, 2014). As consumer 'trust in food' declined significantly (Kjaernes et al., 2007), farm animal welfare (FAW) thus emerged as a central feature of the CSR activities of large supermarkets and corporate retailers seeking to address the ethical challenges posed by the expansion of industrial animal agriculture (Buller, 2010; Fox & Vorely, 2004; Hartman, 2011).

While there is no consistent definition of CSR (Hartman, 2011; Visser, 2011) links are often made between CSR and the triple bottom line of economic, social, and environmental performance, with sustainable development often being linked to the expansion of CSR (Busch et al., 2005; Maloni & Brown, 2006). Large economic actors in the food industry now engage in CSR activities to communicate with a wide range of stakeholders on the ethical and responsible ways they source and produce food. Many companies claim that their size is important and that the

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more profit they make the greater the impact on their responsible business practices (Elder & Dauvergne, 2015). However, while supermarkets and large corporate retailers are now seen to be socially and ethically accountable to diverse stakeholder groups (Ransom, 2007), FAW is not necessarily linked to wider sustainability issues within their CSR material (Amos & Sullivan, 2015).

In this chapter we argue that this situation is a direct result of: (1) the failure of supermarkets and corporate retailers to account for the consequences of poor FAW in their supply chains, and because: (2) the business case for FAW takes precedence over and above the moral case for sustainable development in corporate discourses. In making this argument we draw on data from the Business Benchmark on Farm Animal Welfare (BBFAW) (www.bbfaw.com). Set up in 2012 to meet the needs and concerns of investors, companies, NGOs and other interested stakeholders, BBFAW focuses specifically on the business case for improving FAW. Supported by the charity Compassion in World Farming (www.ciwf.org.uk), a central feature of the BBFAW methodology is a review of the CSR materials produced by global food companies.

Our analysis operationalizes the notion of sustainable development on the understanding that successful social and economic development depends on environmental protection, and that successful environmental protection depends on social and economic development (Morgan & Sonnino, 2008). In general, sustainable development upholds an anthropocentric rather than an ecocentric worldview (Bonnett, 2002). Proponents usually focus on social equity issues over and above solutions to environmental problems, thus ignoring concerns about non-human species and the welfare of billions of farmed animals consumed by humans every year (Kopina & Blewitt, 2015). Although there are 'weak' and 'strong' versions of sustainable development, Meadowcroft (2007, p. 307) argues that it is best viewed as '*a normative standard that serves as a meta-objective for policy*'. Theoretically we argue that it is thus best understood in terms of what it symbolizes (Morgan & Sonnino, 2008)—in our case, solutions to the social, economic and environmental problems created by the rapid expansion of industrial animal agriculture over the last 50 years (Akhtar, 2012; Gunderson, 2015; Hunt, 2015; Kemmerer, 2015).

While FAW is now widely recognized as a source of competitive advantage for large food companies (Miele & Lever, 2014; Ransom, 2007), Amos and Sullivan (2015) found that it remains a systemic risk that is not effectively managed or reported on. Their research for BBFAW found that FAW is largely ignored in sustainability reporting and that business sustainability often trumps wider concerns about environmental sustainability (see also Elder & Dauvergne, 2015). Although there is mounting evidence that improvements in FAW and animal agriculture can make important contributions to sustainable development (Akhtar, 2012; Gunderson, 2015; Hunt, 2015; Kemmerer, 2015), they also found that many companies report less on FAW than they do on more entrenched sustainability issues such as climate change and food sustainability. When it comes to FAW, we thus conclude that CSR remains reactive, unfocussed and separate from the core business agendas of large corporate retailers and global food companies (Elder & Dauvergne, 2015; Porter & Kramer, 2006).

The chapter proceeds as follows. In the next section we briefly review the emergence and development of the business case for CSR, which is followed by a short history of FAW. We then examine the growth of consumer concern for FAW and the rise of business case for FAW though a range of academic and policy oriented studies. This is followed by an examination of BBFAW and the business case for FAW *vis-à-vis* the moral case for sustainable development.

10.2 The Business Case for Corporate Social Responsibility

There is a long history of claims and counter claims about the merits of corporate social responsibility (CSR) (Carroll, 1999; Friedman, 1970; Visser, 2011). In the neo-classical approach to the firm the only social responsibility within a given legal framework is for companies to increase profits and expand shareholder wealth. From a principle-agent perspective, Friedman (1970) equates CSR with the managerial misuse of resources and with moral hazard for shareholders.

As the search for an economic justification of CSR intensified on the back of this argument over the last 50 years, the exact nature of the 'business case' for CSR has been the subject of a plethora of empirical studies. A number of meta-analyses have found a positive link between the use of CSR and corporate financial performance (Frooman, 1997; Margolis, Elfenbein, & Walsh, 2007). Frooman's (1997) analysis, for example, which focused on stock market reaction to illegal or socially irresponsible behavior, revealed a direct negative impact on the wealth of shareholders. While the effect of irresponsibility to some extent depends on whether the focus of CSR is on social or environmental impacts, it is clear that such action can be costly for companies (Hartman, 2011; Visser, 2011).

As engagement with different stakeholder groups has become a central aspect of business practice on the back of these developments (Peterson, 2004), the socially responsible investments industry (SRIs) has grown significantly (Hartman, 2011; Visser, 2011). We can see this in the development of BBFAW, which was set up to provide information to a range of stakeholders, including investors, to enable better understanding of the relative performance of food companies against widely accepted FAW criteria (Amos & Sullivan, 2013, 2014, 2015).

Over the last 20 years research has also examined the impact of CSR on consumers (Hartman, 2011). It is clear from these studies that responsible company behavior and conduct *'has the potential to influence a number of consumer related outcomes such as customer loyalty, product consideration, company and product evaluation, purchase intention and willingness to pay'* (Hartman, 2011, p. 302). While some studies highlight links between lifestyle, consumer values and CSR (Lee, Park, Rapert, & Newman, 2011), others emphasize the role of mediating factors such as ethical behaviour (Creyer & Ross, 1996), demographics (Auger, Burke, Devinnes, & Louviere, 2003) and culture (Maignan, 2001). Even so, while public concern has been central to the continuing rise of FAW as a business issue (Miele & Lever, 2013, 2014), Amos and Sullivan (2015) argue that many global food companies have little understanding of why they engage with FAW in the first place. Arguably they focus on FAW to draw a veil over wider concerns about sustainability and the impact of industrial animal agriculture (Weis, 2013). However, before we look at this issue in more detail, we now take a brief look at the history of farm animal welfare (FAW).

10.3 A Short History of Farm Animal Welfare

During the late nineteenth and early twentieth century, agricultural production in industrialised countries (mainly Europe and USA) facilitated the conditions under which farm animals could be institutionalized for industrial production in ever-larger numbers (Swabe, 1999). These processes intensified in the post war period as advances in technology allowed animals to be kept in ever-greater numbers in ever-smaller spaces (Miele & Lever, 2014). Concerns about these developments emerged in earnest after the publication of Ruth Harrison's book *Animal Machines* in 1964. Building on concerns about industrial agriculture that had surfaced in *Silent Spring* (Carson, 2011 [1962]), Harrison (1964) outlined a number of themes that were to influence debate on FAW up to the present day.

Harrison's primary concern was animal suffering. However, she did not align animal suffering with deliberate acts of cruelty as animal protection organisations had done previously, but with the 'intensive' systems of livestock production that had emerged to increase profit and efficiency; Harrison's claim that these developments had emerged at the expense of animal welfare thus came as a shock people who had come to view animal suffering and cruelty as deliberate acts. A second theme focussed on the 'unnaturalness' of production systems, highlighting the way in which hens, for example, were kept in production systems where they were unable to practice their normal behaviours. A third theme focussed on the change from a prevailing 'agrarian' mode of production to an 'industrial' mode and it was here that Harrison coined the phrase 'factory farming', which again shocked and disturbed many people. A final theme revolved around food safety and concerns about eating products that came from animals reared under intensive conditions (Fraser, 2008).

Harrison's work is generally seen as the motivation for the development of the Bramble Committee and the influential Brambell Report (Brambell, 1965). Although they were never recognized in law, the 'five freedoms' that emerged from the report have formed the basic principles for animal welfare legislation up to the present day, giving legitimacy to a wide range of production systems and their associated welfare claims, especially in the UK. As outlined below in Fig. 10.1, the 'FIVE freedoms' focus on the physical and psychological well-being of animals and set out to measure behaviour, physiology, longevity and reproduction.

In the UK, the 'five freedoms' have been adopted as guidelines and FAW is now often interpreted in terms of particular resource requirements in specific systems of production. As we discuss in the following section, these systems have added

1 . Freedom from hunger and thirst
- by providing animals with enough fresh water and the right type/amount of food

2. Freedom from discomfort
- by making sure that animals have the right type of comfortable environment and shelter to rest.

3. Freedom from pain, injury and disease
- preventing illness or injury and making sure animals are diagnosed and treated rapidly.

4. Freedom to behave normally
- by making sure animals have enough space, proper facilities and animals of their own kind for company

4. Freedom from fear and distress
- by making sure that their conditions and treatment prevent mental suffering

Fig. 10.1 The five freedoms

complexity to the public understanding of what FAW actually is. They have done this by proposing different aspects of the 'lives of animals' as indicators or proxies for higher welfare, for example, in terms of space, access to a range, or organic feed, as is the case in the free-range and organic production systems made popular in the UK by the growing consumer concern for FAW (see Miele & Evans, 2010).

10.4 The Growth of Consumer Concern for Farm Animal Welfare

If we look at developments in the industrial food sector over the last century the differences between the US and the EU are minimal (Johnson, 2015). Compelled by the need to reduce costs and respond to rising global demand for animal products (Weis, 2013), intensive animal production systems have expanded rapidly in both regions. Nevertheless, while the European Union has identified the well-being of farm animals as a priority in legislation over recent decades, and has achieved world leadership in this area (Blokhuis, Miele, Veissier, & Jones, 2013), public concerns over the 'quality of life' of farm animals has continued to grow as a result of the persistence of animal farming epidemics and concerns over food safety (European Commission, 2007; Miele & Lever, 2014).

Several recent surveys and academic as well as policy-oriented studies highlight the growth of consumer concern for farm animal welfare, both in Europe and beyond (see for example, European Commission, 2005; Harper & Henson, 2001; Kjaernes & Lavik, 2008; Roex & Miele, 2005; Vanhonacker, Verbeke, Van Poucke, & Tuyttens, 2007). Furthermore, these studies point to important differences in the level of consumer awareness and concern about FAW across different study countries and in relation to different animal species. Some studies also examine consumers' willingness to pay for improvements in FAW (Mayfield, Bennett, Tranter, & Wooldridge, 2007), while other studies explore in great detail the types of knowledge and concerns that different consumers have in relation to the rearing of farm animals (Evans & Miele, 2008, 2012; Miele & Evans, 2010).

The Eurobarometer Special Report 229 (European Commission, 2005) on consumer attitudes to FAW recorded relatively high levels of consumer concern across 25 EU member states. In response to the question *'when you purchase meat do you think about farm animal welfare'* 17 % responded 'yes most of the time' and a further 26 % responded 'yes some of the time'. However, the report also notes significantly lower levels of FAW concern amongst consumers in the newer member states than in the older member states, which it attributes to differences in production systems and in the purchasing power of consumers (see also Miele et al., 2013). The report also concludes that laying hens are generally perceived to experience worse welfare conditions than either pigs or dairy cows and that consumers believed that it was more urgent to improve the welfare conditions of broiler chickens than of other farm animals. Interestingly, the report also notes that three quarters of EU citizens believe that they can influence FAW through their purchasing behaviour.

A more recent quantitative study by Kjaernes and Lavik (2008) confirms many of the results from the Eurobarometer study but casts some doubt over whether high levels of consumer concern about FAW actually translate into animal welfare friendly shopping behaviours. Results from their research indicated that throughout all the study countries the majority of people questioned considered FAW issues to be either 'important' or 'very important' (Italy 87 %, Norway 84 %, Hungary 83 %, Sweden 83 %, Great Britain 73 %, The Netherlands 69 %, and France 65 %, see Kjaernes & Lavik, 2008). However, the survey also indicated that far fewer respondents believed that animal welfare was important in the specific context of shopping for food, for example only 24 % of Hungarian consumers claimed to *always* consider FAW when purchasing meat; 41 % in Italy; 23 % in France; 23 % in Great Britain; 13 % in The Netherlands; 12 % in Norway; and 25 % in Sweden.

An earlier in-depth, mixed methods, investigation into European consumer concerns about farm animal welfare by Harper and Henson (2001) highlights evidence for consumers in Italy, Ireland, Germany, Britain and France avoiding certain meat products on account of FAW concerns and actively purchasing welfare friendly foods. However, the report also highlights the 'attitude behaviour gap' between high levels of consumer concern and lower levels of animal welfare friendly purchasing behaviour (see also Padel & Foster, 2005; Harper & Makatouni, 2002). Furthermore, the report also contends that although consumers are concerned about FAW, this concern is not a priority in food choice. Rather, they believe that consumers use animal welfare as an indicator of other, usually more important, product attributes such as food safety, quality and healthiness.

As a useful supplement to these studies, economists, such as Bennett (1995, 1996; see also Mayfield et al., 2007) have attempted to quantify the 'value of farm animal welfare' both to citizens (in the form of the amount of tax they would be prepared to pay to improve farm animal welfare) and to consumers (in terms of how much more they would be prepared to pay to ensure the animal welfare friendliness of certain products). In a study of 140 American students, Bennett employed the contingent valuation technique to discover that 58 % of respondents expressed a positive willingness to pay for improved animal welfare legislation via tax increases. Furthermore, the mean WTP was $5.11 (from a possible range of $1–$40 extra). Similarly, the same students were willing to pay on average $0.35 more for a dozen eggs to ensure improved levels of FAW for layers (from a possible range of $0.10–$0.80 extra).

Other studies, such as that by Evans and Miele (2008), Miele and Evans (2010) and Evans and Miele (2012) have used qualitative methods, such as focus group research, to yield more in-depth insights into the nature of consumer concerns for FAW and into the two-way interconnections between consumer concerns regarding FAW and the availability and visibility of different animal welfare friendly products in different national markets. Evans and Miele (2008) claim that many members of the European public are 'closer to the fork than to the farm' and that this in turn shapes their view of FAW, especially in relation to how notions of it becomes deeply interwoven with concerns for personal health and wellbeing and for the safety/quality of food products. Despite this, they also contend that many European consumers have strong views about what constitutes a good life for farm animals. In particular, these views often involve a rejection of high-intensity, 'industrial' farming systems and a belief that these systems do not offer the same level of animal welfare as low intensity systems (e.g., organic or traditional) with an emphasis on natural environments where farm animals can live '*as close to a natural life as possible'*.

In connection with these consumer/citizen concerns there are now a plethora of FAW standards across Europe linked to the institutional settings (and CSR literatures) in which FAW issues are addressed (Miele & Lever, 2014). Kjærnes, Bock, and Miele (2009) identify three models: the *(super)market model* evident in the UK and the Netherlands; the *welfare state model* in Norway and Sweden*,* which is linked to dominant policy discourses; and the *terroir* model in Italy and France, which is linked to local food qualities. To this, Miele and Lever (2014) added a fourth, the '*no issue*' model, which exemplifies the situation in several EU countries (Hungary, for example) where there is little debate about animal welfare beyond compliance with the EU regulations. Under *(super)market* conditions in the UK, market initiatives and public regulation of animal farming exist side-by-side. Although the regulation of animal welfare is higher than European legislative requirements in some cases, attention has been increasingly directed towards market initiatives, often in partnership with NGOs (Miele & Lever, 2014).

10.5 The Business Case for FAW

Over the last 25 years, the FAW agenda has been pushed by NGOs campaigning for supermarket reform on a range of single issues linked to the development of a greener and fairer food system (Freidberg, 2004; Lang, 1997). Freidberg (2004) argues that these developments have been directly influenced by the rise of the 'ethical complex'—networks through which NGOs, media, retailers and other economic and political actors have collaborated to create a specific market for 'quality' and 'ethically' branded products (Roe, Murdoch, & Marsden, 2005). As Freidberg (2004) notes:

> *[S]upermarkets efforts to appear socially responsible have depended on certain NGOs for information, advice, and public displays of approval, whether in the form of press releases, labels, or participation in the supermarkets' own reform initiatives* (2004, p. 521).

Within this market, Freidberg argues that the 'naturalness' of food products—for example, those specified as "free-range' and/or "organic"—is presented in a way that brings a diverse range of actors together for mutually beneficial purposes.

These developments are evident in the major UK assurance schemes listed below:

- Assured Food Standards (AFS) (an umbrella industry standard for the species-specific schemes).
- Freedom Food (welfare specific assurance scheme from the RSPCA).
- Soil Association organic standard.
- Organic Farmers and Growers Standard.

Large retailers use these schemes in two interlinked ways—to protect their brand by ensuring the integrity of their products and communicating this to consumers, and to differentiate product ranges. AFS is now an industry standard: it guarantees market access rather than securing a market premium. Retailers generally use the AFS logo (a red tractor against a British flag) on all products that meet the standards. This is reflected in producers' motivations for working with organic standards, which include added premiums. Freedom Food has occupied a position between the organic and the industry standard, while large retailers, pioneered by Waitrose and Marks & Spencer, have started looking beyond 'generic' assurance schemes to more 'bespoke' production systems (especially for 'added value' tiers) that reflect their brand and its ethical integrity (Miele, Murdoch, & Roe, 2005; Roe & Murdoch, 2006).

In order to add value to animal products, UK retailers sometimes use animal welfare claims on packaging to 'attract' rather than 'educate' consumers (Miele & Lever, 2014). Such practice is seen to endorse 'folk notions' of FAW and evoke 'naturalistic' pictures of farmed animals associated with wider notions of quality linked to tradition, taste and environment (see Roe & Murdoch, 2006). Large retailers now use brands as shorthand for a whole host of ethical considerations that are backed up by detailed information on websites, NGO audits and CSR reports. There is a general distrust of generic standards and this practice allows large economic actors the flexibility to define FAW and differentiate their own particular brand with a range of quality attributes; supermarkets also recognize that it is difficult to communicate improvements in FAW to consumers (Buller & Roe, 2012).

As the business case for FAW has grown, and CSR has become central aspect of corporate communication, new ways of benchmarking the progress of supermarkets have emerged. Between 2000 and 2002, the Institute for International Environment and Development's 'Race to the Top' (RTTT) (www.racetothetop.org) initiative set out to track the progress of UK supermarkets on a range of sustainability issues linked to public health, trade with farmers and animal welfare. As Fox and Vorely (2004) pointed out at the time, this was a positive development that had the potential to overcome some of the tensions that exists between supermarkets and their opponents:

> *Many of the UK supermarkets are considered to be among the leaders of the corporate social responsibility (CSR) movement, and they point to numerous examples of good practice. What often gets overlooked in the war of words between supermarkets and their detractors is the lack of comparable and credible benchmarks for measuring progress towards greater sustainability across the sector (2004, p. V).*

Working with academics and activists, and drawing on foundation and government funding, RTTT thus started to develop benchmarks to grade supermarkets on their performance.

By the middle of 2003, the Co-op, Iceland, Marks and Spencer, Safeway, Sainsbury's and Somerfield had agreed to participate and others were considering it (Freidberg, 2004). However, the project finished abruptly in a controversial manner before it was completed. Some partners claimed that there was not enough criticism of supermarkets, while others suggested that more threat was needed from public policy. Fox and Vorely (2004, p. V) argued that while the '*project demonstrated that it is possible to develop methodologies that allow the benchmarking of supermarkets across a range of sustainability issues*,' conflict between business practices and notions of sustainable development were highly problematic. Although RTTT set out to benchmark supermarkets in line with their supply chain impacts on society and the environment (see also Gwilliam & Voisine, 2012), some supermarkets were unwilling to go down this path. They argued that their primary responsibility was to their customers rather than to the broader notion of stakeholder accountability symbolized by sustainable development. Given the fragmented consumer understanding of FAW outlined above, this strategy arguably provides corporate actors with the space to conceal, or at least overlook wider concerns about industrial animal agriculture (see Hunt, 2015; Kemmerer, 2015; Weis, 2013).

In the intervening years, the business case for FAW has grown considerably. As Amos and Sullivan (2012) state:

> *Farm animal welfare is an increasingly important issue for companies across all sectors of the food industry—be they retailers, service companies, manufacturers, processors or producers. This has been driven by a range of factors, including regulation, consumer concern, pressure from animal welfare organisations on food business companies and their investors, retailers expecting their suppliers to comply with corporate responsibility policies, and the brand and market opportunities for companies that adopt higher farm animal welfare standards (2012, p. 1).*

The latest manifestation of the benchmarking process was the emergence of the Business Benchmark on Farm Animal Welfare (BBFAW) in 2012 (www.bbfaw.com). Much is made in the benchmark about the business case for FAW, yet a number of reoccurring themes within consecutive benchmark reports (Amos & Sullivan, 2013, 2014, 2015) indicate that FAW is still not effectively linked to wider sustainability issues. While this new benchmarking process has the potential to engage companies throughout the supply chain and address a range of problems linked to industrial animal agriculture (Akhtar, 2012; Gunderson, 2015; Gwilliam & Voisine, 2012; Hunt, 2015), we argue that the single focus on improvements in FAW over and above the impact and environmental consequences of industrial animal agriculture continues to undermine the moral case for sustainable development.

10.6 The Business Benchmark on Farm Animal Welfare

The BBFAW was designed to drive higher FAW standards in the world's leading food companies. The overarching aims are to provide investors and other interested stakeholders with information that can help them to understand the implications of FAW for these companies through the provision of independent, impartial, reliable information and guidance. The 2014 benchmark used material available in CSR reports and on company websites to evaluate the performance of 80 global food companies against a set of FAW criteria/questions related to management practice, governance, leadership and innovation. The benchmark sample was comprised of 26 food retailers and wholesalers, 24 restaurants and bars, and 30 food producers, with the majority coming from Europe (56) and the rest from the USA (20), Brazil (3) and China (1).

The 2015 BBFAW report raises some important issues about the links between FAW and broader sustainability issues (Amos & Sullivan, 2015). Significantly it found that companies report randomly on FAW and that many do not have an understanding of why they are engaging with FAW in the first place. As Amos and Sullivan (2015) state:

> *In practice, information tends to be scattered through CSR reports, press releases and wider discussions about issues such as food and sustainability. This creates the impression that the company itself does not have a clear understanding of its approach or of the outcomes that it is trying to achieve* (2015, p. 71).

Amos and Sullivan suggest that this situation can lead to perceptions of corporate 'green wash.'

The lack of importance given to FAW by companies is enhanced by the fact that many companies fail to recognize or make public in their CSR literature FAW awards they have won or received from organisations such as Compassion in World Farming. To some extent, this supports the argument of Porter and Kramer (2006) that CSR is reactive, unfocussed and separate from core business agendas (see also Elder & Dauvergne, 2015).

Between 2012 and 2014 the proportion of assessed companies publishing a FAW policy increased from 46 to 64 %. However, Amos and Sullivan (2014) also found that many companies still do not provide regular updates on their practice and performance against FAW in the same way that they do for other sustainability issues:

> *While companies often provide a good account of their activities and actions for well-established issues such as climate change and health and safety, farm animal welfare is more selectively reported and is often not reported year-on-year in the way that these other, more entrenched, sustainability issues are* (Amos & Sullivan, 2014, p. 71).

There is also an issue over the quality of the information provided. While the amount of FAW information provided by companies has increased significantly over recent years, the quality of this information is often poor. Although companies discuss issues such as 'food sustainability', Amos and Sullivan (2015, p. 71) argue that many of such companies are not clear *'about whether or how farm animal welfare fits into this'* wider discourse.

The 2013 and 2014 benchmarks also found that FAW is largely absent from the 'big picture research' conducted by food companies *'on issues such as food sustainability, food security and the structure of the food system'* (Amos & Sullivan, 2015, p. 54). Many of the companies assessed in 2014 were involved in the Sustainable Agriculture Initiative Platform (www.saiplatform.org), a major initiative to develop and implement sustainable agriculture practices in the food and drink industry, including health and animal welfare considerations. However, most of these companies do not report on FAW under the sustainable agriculture theme.

These findings stand in stark contrast to the findings highlighted in the FAW research outlined above. While BBFAW highlights the growth of consumer concerns as a motivating factor in the growth of the business case for FAW, the fact that consumers often view animal welfare not only as an important issue in itself but also as an indicator of a range of other product attributes is not widely recognized by the assessed companies. It seems clear that many companies use FAW simply to communicate brand awareness to consumers through differentiated product ranges that add value to animal products (Miele & Lever, 2014). Whilst many consumers view FAW as an important part of a broader range of ethical, environmental and sustainable goals, it is clear that many businesses treat FAW as a more isolated issue and, in so doing, miss the opportunity to make links between animal friendly farming and broader sustainability goals.

10.7 The Moral Case for Sustainable Development

If we take it as given that that successful social and economic development depends on environmental protection, and that successful environmental protection depends on social and economic development (Morgan & Sonnino, 2008) we start to see the implications of prioritizing the business case for FAW over and above the moral case for sustainable development. Space does not permit an in depth analysis of the latest benchmarking exercise. What is clear, however, is that while the BBFAW asks many relevant questions about critical FAW issues, it does not provide a platform to explore their wider significance for sustainable development.

A key example is the use of antibiotics. It is well known that antibiotics are used on factory farms and on Concentrated Animal Feeding Operations (CAFOs) to prevent rather than treat disease and maintain the health and welfare of animals kept under intensive conditions. It is also well known that the over-use of antibiotics is a major reason for the increase in antibiotic resistance (see Akhtar, 2012), yet only a small number of companies assessed in the benchmark have made their position on the reduction or avoidance of antibiotic use for prophylactic (preventative) use public (Amos & Sullivan, 2015). Arguably the questions asked in the benchmark—and the answers received—do not do the issue justice. As the Pew Commission (2008) concluded when examining factors that have contributed to the rise of antimicrobial resistance: '*there is considerable evidence associating antimicrobial use in agriculture with resistant pathogens in the food supply, on the farm, and in the environment'* (cited in Akhtar, 2012, p. 100).

Another key point worth focusing on, both within the benchmarking process and the CSR literature, is transportation. As with antibiotic use, the benchmark asks key questions about the implications of transport for lowering levels of welfare. However, the questions again fail to unpack the wider significance of the issue, not only for FAW and the susceptibility of animals to disease, but also for human and environmental health (see Akhtar, 2012; Steinfeld et al., 2006). Numerous studies have demonstrated that transportation severely stresses animals and that this can lead to the shedding of more pathogens. Increases in the volume faecal matter at the time of slaughter, for example, after long and stressful journeys to the slaughterhouse, can significantly increase the likelihood of *E. coli* and *Salmonella* entering the food supply chain (see Akhtar, 2012). When asked about slaughter practice many of the assessed companies simply refer to national legislation and this is rarely discussed in their CSR material (Lever & Evans, 2015). The benchmark asks similar questions about routine mutilations such as beak trimming (chickens), castration and tail docking (pigs) and dehorning (adult cattle), but again fails to unpack the direct association of such practice with stress and vulnerability to disease (Akhtar, 2012; Hunt, 2015; Weis, 2013). While European citizens increasingly align FAW with food safety and quality, environmental protection and with wider claims about sustainability (Gavinelli, Rhein, & Ferrara, 2007), it appears that many global food companies do not recognize the significance of these issues, preferring instead to draw the corporate veil.

Amos and Sullivan (2015) conclude that while FAW is now widely recognized as a source of competitive advantage for large food companies, it remains a systemic risk that is not effectively managed or reported on, and they therefore call for better leadership. We would add to this that FAW remains a systematic risk that is not properly understood in terms of the threats it poses to the achievement of sustainable development—and wider threats to animal, human and environmental health (Akhtar, 2012; Hunt, 2015; Kemmerer, 2015). Indeed while almost 90 % of the companies assessed by the ratings agency Vigeo in a CSR review of the European food sector disclosed a commitment to local social and economic development, none had identified the potential damaging community impacts of industrial animal agriculture. Nor was there recognition that *'by damaging the environment, disrupting ecosystems and threatening biodiversity'* these companies are also *'degrading their own capacity to produce and sell goods in the long term'* (Gwilliam & Voisine, 2012, p. 4).

Thus one can see that the failure to make connections between FAW and broader sustainability goals is a double problem. On one side, when FAW issues are considered, their full health and environmental implications are often neglected, and on the other side, when broader sustainability goals are developed and measured, FAW is often conspicuously absent. Arguably this situation is a direct result of the failure of supermarkets and corporate retailers to account for the consequences of poor FAW in their supply chains, and secondly because the business case for FAW takes precedence in corporate discourses over and above the moral case for sustainable development.

There is mounting evidence that improvements in FAW can be linked to the three pillars of sustainable development—*environment, society* and *economy* (Akhtar, 2012; EGfA, 2010; Emel & Neo, 2015; Hunt, 2015; Kemmerer, 2015). Environmentally animal agriculture has a significant impact on climate change and it has been estimated that in total it generates 18 % of all greenhouse gases (GHG)—a higher percentage of GHG emissions than global transport (Steinfeld et al., 2006). Animal agriculture is also in direct competition with humans for water, food, space and other scarce resources and it therefore has a significant impact on food security (Brown, 2001). Other types of pollution and are also significant and there are knock on effects for water sanitation, ecosystems and ecological conservation (Hunt, 2015)—a large pig farm, for example, can create as much fecal waste as a small city (Weis, 2013). Keeping animals under less intensive conditions, with better welfare, can clearly have an impact in these areas by reducing stress, pollution and environmental damage. On the societal level, the poor treatment of animals can impact human health through the spread of pathogens with the potential to spread infectious disease (Akhtar, 2012; EGfA, 2010). Improving FAW also has the potential to enhance the quality of life in rural communities (Blokhuis et al., 2013; Gavinelli et al., 2007) through greater community involvement, reductions in inequality and improvements in the welfare of workers (Lever & Milbourne, 2015; Weis, 2013). Finally, on the economic front, better animal welfare has the potential for greater efficiencies of production, sustainable procurement and consumption practices, and enhanced food safety, all of which can contribute towards sustainable development (EGfA, 2010) (Fig. 10.2).

Reading Irvine's (2009) post-Katrina apocalyptic account of millions of displaced factory farm chickens being buried alive across Mississippi, Georgia, Alabama, Louisiana and Florida in the US, with unknown implications for animal, human and environmental health, the possible consequences of inaction become clear. From a business perspective farmed animals are either seen as “meat” when they are slaughtered, or alternatively, as “units” and “losses” in a disaster (Irvine, 2009). It is this situation, more than anything, we contend, that undermines the moral case for sustainable development.

Land
- magnified monoculture area
- islands of concentrated contaminants

Water
- over consumption and diversions
- magnified pollution

Atmosphere
- magnified GHG emissions
- reduced carbon sequestration capacity
- localized airborne pollutants

Public Health
- magnified diet related chronic illness
- increased long term eco-health risk
- magnified infectious disease risk

Fig. 10.2 The ecological hoofprint of industrial animal production (adopted from Weis, 2013)

10.8 Concluding Discussion

Although welfare innovations have undoubtedly enhanced the 'quality of life' (Miele & Lever, 2013) of some farmed animals in recent decades, Weis (2013) argues that the physical distance between people and the animals farmed in industrial production systems has continued to expand. While the number of animals confined to slightly less miserable lives may have increased in some cases to bolster public opinion, he argues that overall the impact has been negligible. This argument is given weight by meat production figures for the 50 years since FAW became a public concern. Between 1961 and 2011, total global meat production increased from around 70 million tonnes to almost 300 million tonnes. Today approximately 70 billion animals are farmed for meat, milk and eggs every year and the vast majority are raised under intensive conditions (Weis, 2013). Almost one third of global GDP is directly or indirectly connected to retail, and almost 40 %—US$ 5.6 trillion—of global retail revenue comes from food sales (Elder & Dauvergne, 2015).

Despite what the CSR material of global food companies may lead us to believe about FAW in industrial production systems, it is also important to recognize that there is no such thing as a 'happy animal' within these systems (Emel & Neo, 2015). 'Happiness', in this context, as Miele (2011, p. 2076) brilliantly illustrates in her work on free-range chickens, can be viewed in a technical sense as '*part of an overall welfare score'* associated with better tasting, better quality food. While supermarkets support the development of new markets for animal welfare friendly products (Miele & Lever, 2013) in partnership with NGOs in some instances (Miele and Lever, 2014), their power is such that they continue to exploit nature and the workers producing such products (Gouveia & Juska, 2002; Lawrence, 2012; Lever & Milbourne, 2015). Although there are alternatives to the *(super)market* model in some parts of Europe (Miele & Lever, 2014) the power of corporate retailers is arguably based on the use of CSR as a governance tool, which, in partnership *with*

NGOs serves to enhance their legitimacy significantly in the global economy (Elder & Dauvergne, 2015).

As this chapter has demonstrated, CSR remains reactive, unfocussed and separate from the core business agendas of large supermarkets and corporate retailers (Elder & Dauvergne, 2015; Porter & Kramer, 2006). Paraphrasing Fox and Vorely (2004), we could say that highly entrenched conflicts between the business practices of corporate retailers and sustainable development remain highly problematic. There is no pressure on supermarkets from policy makers and criticism of supermarkets is often overshadowed by the their CSR activities. As we have argued, by damaging the environment and undermining social and economic development, supermarkets and corporate retailers are hindering their own ability and capacity to produce and sell food in the future. This key point should be a central element of new CSR strategies that emphasize the moral case for sustainable development (and the crucial part that FAW plays within this) over and above the narrow and disconnected business case for FAW.

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Chapter 11
The Implementation of CSR Management and Stakeholder Relations in Japan

Kanji Tanimoto

11.1 Introduction

This chapter seeks to clarify how the relationship between a corporation and its stakeholders is redefined in the process of that corporation embedding CSR into its management process. CSR management has been the focus of increasing attention in management research literature, particularly over the last decade. Taking a step further, we need to begin to take account of the practical difficulties and challenges of reconsidering the relation a corporation has with its stakeholders once it has entered a new phase, in which it is both incorporating and implementing CSR into its management process. Since the emergence of the CSR movement, the relationship between a corporation and its stakeholders has been subject to revision and restructuring. Japanese companies (JCs) have experienced the transmutation of their relations with stakeholders as a consequence of introducing CSR perspectives into management practices, but to what impact? This chapter explores how CSR management and stakeholder relations in JCs have been changed through enhanced stakeholder engagement, by examining the results of interviews carried out across 20 major companies.

In this chapter, CSR is defined from the following two standpoints. The first defines CSR as the phase of incorporating social and environmental concerns into management process. The second defines CSR as the phase of tackling social and environmental issues through business activities. In both phases, companies must incorporate external engagement with stakeholders into their business operations. However, in general, JCs have focused just on the introduction of CSR management institutions at the initial stage of CSR movement in Japan, in the 2000s, and critical CSR issues were mostly left off the strategic mainstream agenda. JCs discretely

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managed external stakeholders as individuals, such as the investor, the customer, the NGO, the government, and the community, rather than as component parts of a broader management structure. Over the course of a decade of experiencing CSR activities and stakeholder dialogues, however, JCs have come to recognize the significance of building good relationships with stakeholders. Now, greater expectation is placed on JCs to ensure that their communication and engagement with stakeholders extends beyond tokenism, to understand the importance of relations with the external world, and to make use of those relationships to develop new ideas and innovate in both domestic and international markets.

11.2 Rapid Institutionalization in JCs

From around 2000 onwards, neither JCs nor Western multi-national corporations could continue to ignore the pressure to respond to needs of CSR, as a result of the increasing presure of the global CSR movement. CSR has been recognized as a hot topic by JCs since the Keizai-Doyukai (Japan Association of Corporate Executives) published a Corporate White Paper focusing on the importance of CSR management (Keizai-Doyukai, 2013). Consulting firms were passively involved in sparking the CSR boom and quickly launched business services designed to support CSR management in response to this new demand among JCs, while media companies began to report on CSR trends and rankings. However, most managers within JCs remained uncertain as to what actually constituted a good CSR management system and how companies should demonstrate commitment to such systems. There was no common understanding which CSR polices might be best to implement. Equally, the national government showed no interest in formulating policies to promote CSR in Japan, not least because the business sector had made known its objections to CSR issues being regulated by the government.

A manager who is one of the people interviewed, looking back on that time, said, "*honestly speaking, we thought CSR was not necessarily a must in management and were not willing to do anything unnecessary at that time. We were also not able to estimate the risks of failing to respond to it*". However, most JCs had an intuitive awareness that CSR represented an inevitable global challenge, one that even they would have to tackle eventually. As a result, most JCs responded passively, seeking to take action only to the extent that other companies did and keeping their CSR efforts to the minimum required at that time. This general attitude led to stronger mimicry at the initial stage: institutional isomorphism resulted in similarities across CSR management systems in JCs (in what can be described as the mimetic isomorphism of institutions). This homeotypical reaction to CSR originated in an intrinsic quality in Japanese corporate society; specifically, the tendency to do what other companies do or to follow the style of the "lead" company. Most JCs have fallen into this trend.

In time, many JCs began to establish new CSR charters and codes of conduct, as well as to revise mission statements and set up CSR sections. This sort of

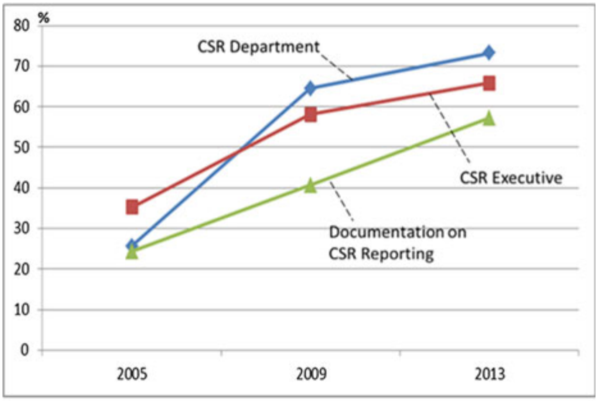

Fig. 11.1 CSR management systems in JCs. *Source*: Toyo Keizai (2006, 2009, 2013)

institutionalization of CSR management developed rapidly in Japan from the mid-2000s onwards. Data from Toyo Keizai (2006, 2009, 2013), which covers the top 1210 listed companies in Japan, tracks the rapid development of CSR institutions, including the rise in the proportion of companies with an established CSR Department (2006: 25.6 %; 2009: 64.5 %; 2013: 73.2 %), the proportion of companies with a CSR. Executive (35.2 %; 58.1 %; 65.8 %), and the proportion of companies making available documentation on CSR reporting (24.3 %; 40.7 %; 57.2 %) (Fig. 11.1). Ricart, Rodriguez, and Sánchez (2005) argue, based on data from 18 leading companies in DJSI World, that companies addressing CSR are stakeholder-oriented, in contrast with *shareholder*-oriented companies. Can the same be said of JCs? Does the rapid institutionalization of CSR within JCs turn them into stakeholder-oriented companies? In order to answer these questions, we need to examine the relation between a corporation and its stakeholders in greater depth than is afforded by the sort of simple survey referenced above.

11.3 Challenges in JCs

It has been noted above how many JCs were pressured into establishing CSR systems and therefore the institutionalization of CSR developed rapidly in Japan. Many of these JCs, however, were satisfied with the installation of self-led, self-designed CSR institutions. In general, however, it can be said that any newly established institution, especially if it is related to CSR management, will not function automatically in the organization. CSR issues are not just a matter for a CSR department alone but rather span across multiple sectors of the corporate organization. Unless CSR is embedded into the whole management process, CSR systems will not function in the company as they are intended to. In other words, coordination among sectors and incorporation into business activities are required if the CSR systems are to function successfully (Jones & Wicks, 1999; Lindgreen, Swaen, & Maon, 2009; Maon, Lindgreen, & Swaen, 2009; Porter & Kramer, 2006; Tanimoto, 2013).

CSR reporting presents a typical case with which to demonstrate the importance of adequate embedding. JCs have seen a striking rise in the extent of CSR reporting in the 2000s. Japan and the UK both report near-unanimous adherence to CSR reporting (KPMG, 2008), and more than 1000 JCs publish CSR reports. However, these reports are issued in each JC's own way, albeit formally based on the guidelines of the Global Reporting Initiative, and edited to cover each item of concern to stakeholders. Most of them can be described as bundles of assorted information, comprising that which each respective JC is willing and able to disclose on each relevant activity. The reports are neither exact reflections of management nor are their contents fed back actively to each department. The ad hoc nature of these reports results in low comparability among the CSR reports issued by JCs. The end result is that reports do not necessarily contribute to greater market transparency or fairness.

Another case of relevance is stakeholder engagement. Data from Toyo Keizai (2013) shows that 32.4 % of JCs conduct "Stakeholder Engagement", often referred to as "Stakeholder Meetings" or "Stakeholder Dialogue" in Japan. This means that one third of JCs are already actively pursuing stakeholder engagement in some way. However, the question remains as to whether such engagement functions strategically within the management process? Most of the companies adopt a mimetic style in their stakeholder engagement activities, rendering the process little more than formality and failing to ensure that a feedback system is embedded in the organization, as noted in more detail below.

Critical issues of CSR were not necessarily built in and left off the mainstream agenda in JC management. Further, the focus of CSR tended to be somewhat narrow, concentrating on aspects of development related to more visible forms (Utting & Marques, 2010). As such, there has been a gap between what we might call the "expected CSR management system" and the "conventional management system". Consequently, although CSR reports are published, the fact remains that CSR is not actually embedded into the management process and strategy of JCs. Management itself has not been significantly changed. So why are JCs showing such reluctance to embrace or to enhance the processes of embedding CSR into management and engaging stakeholders?

In general, there is a conflict between the short-term financial expectations of investors and the long-term social expectations of civil society organizations (Burke & Logsdon, 1996; Jensen, 2000; Juholin, 2004; Mahoney & Thorne, 2005; Windsor, 2006). In Japan, another historical reason works to prevent the promotion of the development of CSR and stakeholder relations. The next section will briefly discuss this historical background to the current relationships between JCs and their stakeholders.

11.4 The Japanese Model: A "Stakeholder Model"?

There is a common understanding that, as generally claimed, JCs have established a "stakeholder model". JCs have been characterized by relational trading between group companies, relational banking within Keiretsu, and long-term employment for employees (Dore, 2000; Jacoby, 2005). According to a 1990 survey of JCs on the concept of the corporation, in response to the question "in whose interests should the firm be managed?", 97.1 % of middle managers in JCs answered that a company exists for the interest of all stakeholders, while only 2.9 % responded in favor of shareholders only (Yoshimori, 1995). The approach taken by JCs can therefore be assumed to be pluralistic, as the firm belongs to all the stakeholders. Yoshimori (1995) states that this concept is specific to Japan, and manifests itself as long-term employment for employees and long-term trading relations among various other stakeholders (the main bank, major suppliers, subcontractors, distributors). Most JCs seem to have understood that they were already stakeholder-oriented and have therefore responded to the expectations placed upon them in market society.

However, the situation of the relationship between JCs and stakeholders differs quite considerably according to CSR model. Looking at the relationship between JCs and stakeholders from a historical perspective, it is clear that JCs have been actively including and territorializing their core stakeholders—meaning major corporate shareholders, permanent workers, and primary subcontractors—since the end of WWII. Corporations and their core stakeholders have formed a "closed network" system in market society. These stakeholders have shared values and hold common goals in terms of economic development. The corporation and its stakeholders have cooperated with each other in order to maximize economic and social benefits and to share them as equally as possible among themselves (Tanimoto, 2002, 2009, 2014). As a result, JCs cultivated a stable, lasting, and closed relationship with core stakeholders. On the other hand, peripheral stakeholders—including individual shareholders, non-permanent, disabled and female workers, and lower-level subcontractors—have been excluded from that same system. They have not entirely shared the benefits of the economic growth. In the face of economic downturn, JCs have shown a tendency to terminate contracts with non-permanent workers and lower-tier subcontractors, as if such contracts could function as sort of valve adjustment to compensate for the effects of economic fluctuation. The Japanese model has been described a "stakeholder model", but not one based on CSR principles. JCs have traditionally displayed low levels of diversity in their organizations. One indication of this is that JCs have traditionally been opposed to consumer groups and civil society organizations (CSOs) and have, until recently, never sought to engage with such groups.

Equally, in Japan, civil society organizations have been slow to mature and instead people have depended on government functions when seeking to engage with public issues (Tanimoto, 2002). JCs have never been demanded urgent accountability from CSOs and this has meant, in turn, that JCs have never felt the need to focus on stakeholder engagement. This is one factor explaining why JCs did not adopt a CSR model. Instead, the predominant model among JCs can be defined as an “exclusive/control model”, as opposed to an “inclusive/collaborative model”. For instance, the Keidanren (Japan Federation of Economic Organizations) has never held formal discussions with consumer organizations, and until recently individual JCs have not communicated with NGOs.

However, in the 1990s, this “stakeholder model” underwent gradual transformation. There were two factors behind this change. The first was a domestic factor. The relationship with core stakeholders had begun to change, as indicated below, and the conventional stakeholder relationship was becoming increasingly difficult to maintain in the wake of the collapse of the bubble economy.

– Corporate shareholders: <disruption of mutual shareholding> Main bank, which used to be a nexus of mutual shareholding were burdened with bad debt and eliminated the mutual shareholding.
– Permanent employees: <difficulty in maintaining their positions in the previously universal lifelong employment system> Major JCs have gradually changed their employment systems in a move away from lifelong employment.
– Primary subcontractors: <globalization of production> This prompted the breakdown of closed networks of subcontractors and the transformation of the Keiretsu system.
– Civil society organizations: <development of CSOs since the mid-1990s> After the NPO Law, which made the certification of new juridical persons legal, came into effect in 1998, Japan has seen an advance in non-profit activities to go about tackling social issues.

In response to these developments, the conventional relationship between JCs and stakeholders has changed, albeit little by little (Wokutch, 2014). However, such change does not automatically mean that stakeholders have been obtained greater power to negotiate with companies or been granted legitimacy in market society.

The second factor is concerned with pressure from overseas. The global movement for CSR began to emerge and has placed increasing demand on JCs to focus on CSR issues since around 2000. The movement has essentially forced JCs to focus their attention on stakeholders, from social and environmental perspectives as well as in terms of economic interest. JCs were aware that they could not ignore this trend, yet were in an uncomfortable position of not knowing how to react or to forge new relationships with stakeholders. Since that point, however, some JCs have used this growing awareness of CSR to gradually redefine and reconstruct relationships with stakeholders. By the mid-2000s, a growing number of JCs had started to conduct stakeholder meetings or stakeholder dialogues.

11.5 Research Method

The questions we need to address, then, are: "what is the reality of the current situation of stakeholder engagement in JCs today?" and "what do JCs learn through engagement and how does it enable them to rebuild their relationships with stakeholders?" To this end, I conducted in-depth interviews during 2012–2014 with CSR managers of major 20 listed companies (national/multi-national), working across diverse industry sectors including finance, trading, construction, electronics, communications, food, and automobiles. I conducted to triangulate both interview data and company internal and released data to reduce the misinterpretation by achieving redundancy of data using multiple perceptions (Stake, 2000). The interviews did not follow a rigidly structured questionnaire and were open-ended. The names of individuals and companies cannot be revealed because of arrangements. A guarantee of confidence about the content of the interview was also a crucial factor in the success of the interviews.

The interview was designed to clarify such questions as: how have JCs understood CSR; how have JCs been responding to stakeholder engagement as a CSR issue and revisiting their relations with stakeholders in the process of embedding CSR into management; and were any such changes made strategically in order to build more trusting relations?

11.6 Stakeholder Engagement

In recent years, "stakeholder engagement" has become increasingly popular within the global business community. It is not simply a process of talking with each other, but indicates that both parties share a commitment to and involvement with each other. Stakeholder engagement can be defined as a process by which a company can have constructive dialogue with stakeholders, which can affect or may be affected by that company's activities. It has been argued that a variety of internal and external stakeholders should be involved in deliberations on business strategy and policy (Romme & Barrett, 2010). What is most important in engagement is to reflect the proposals offered by stakeholders for the management policies and activities, and to change management behavior.

There are a number of methods of stakeholder engagement; for example, dialogue, advice, and participation in the decision-making process; the board of directors, CSR committee, joint management stakeholder committee (Spitzeck & Hansen, 2010; Spitzeck, Hansen, & Gayson, 2011). What is vital in each case is the inclusion of an adequate feedback system to management. The effect of stakeholder engagement is understood as follows; to obtain a license to operations, to build a relationship of mutual trust, to reduce transaction costs, to learn new trends and stakeholders' expectations, and to obtain hints for innovation (Henriques, 2010; Tanimoto, 2013; Lawrence & Weber, 2014).

We should reconfirm here that there is a difference between stakeholder engagement and stakeholder management. The objectives to stakeholder management are to forge good relationship with stakeholders, to reduce risks, and to establish a strategic management approach based on a managerial point of view (Freeman, 1984). Stakeholder engagement goes beyond stakeholder management. Stakeholder relations can be categorized into three types; Stakeholder Management: unilateral communication, Stakeholder Engagement: bilateral communication, Partnership: value creation with partnership (AccountAbility, 2005; Roper, 2011). The partnership stlye of engagement produces collaborations and alliances among sectors, alongside mutual benefit and value creation (Kuhn & Deetz, 2008).

Sloan (2009) posits that effective stakeholder engagement can open up opportunities and lead to learning, innovation and fundamental corporate transformation—to effect fundamental change in the company's internal operations—beyond conventional risk management. Thus, building positive relationships with stakeholders contributes to business success. A good relationship between a corporation and its stakeholders is an asset that adds value to business (Lawrence & Weber, 2014).

In recent years, JC managers have come to understand the necessities of nurturing good relations with stakeholders. But the concept of stakeholder engagement has not been popular or common in Japanese corporate society except in conventional union–management relations; industrial relations regulated by labor laws, and in investor–management relations (IR), in response to the growing power of foreign institutional investors in the 1990s. JCs have been listening attentively to the needs and preferences of consumers and customers in the market as an exercise in marketing research, but have never engaged with them in relation to social and environmental issues in business activities. Most JCs have hesitated to meet with consumer groups and NGOs until the early 2000s, because NGOs were less represented and not well recognized in Japan's business sector. In the process of embedding CSR into management, however, JCs have recognized the need to formulate CSR policy not in order to control stakeholders but rather to forge a good relationship with stakeholders based on an understanding of their expectations and interests.

11.7 Results

The interviews with managers of major JCs explore how JCs conducted stakeholder engagement and revisited their relationships with stakeholders during the initial stage of CSR introduction in Japan, namely from the middle of 2000s to the beginning of 2010.

11.7.1 With Whom and What About

One of the most surprising findings is that there was no explicit or common idea of what constitutes stakeholder engagement in JCs; in other words, with whom they should talk and what they should talk about at the time. In Japanese business society, it was traditionally very uncommon for JCs to engage with stakeholders on social or environmental issues. Consequently, they had little to no idea about who their engagement counterparts should be in the initial period. One CSR manager stated,

> *In making a CSR report, we thought we would be better off holding stakeholder dialogue. We searched for a way to tackle composing the CSR report by referring to other companies with more developed systems in place. We had no idea with whom we should have a dialogue and what we should talk about. We were not very sure where we might be able to identify appropriate stakeholders at the time.*

Thus, JCs had no clear idea about how to build good relations with stakeholders. Many companies depended on report production companies to draw up their CSR reports and hold a stakeholder dialogue, due to the lack of both experience and resources at the initial stage. What has developed widely within JCs is a reporting style based on the concerns of each relevant stakeholder group; this has been popular throughout JCs. However, such a style was not an accurate reflection of the reporting company's actual management, but rather an imitation of the style of existing reports published by companies with strong reputations in the CSR reporting field, or the result of commissioning report production to a specialist report production company. The outcome was a high level of mimicry in the reporting style among JCs.

11.7.2 How and Where

Most JCs opted to talk about general topics of environmental and social concern at roundtables with stakeholders. Both companies and stakeholders, however, were inexperienced in such dialogue. Consequently, they just talked about and listened to their respective opinions, without necessarily discussing any specific themes concerning the company's activities, except in cases of engagement with labor unions and institutional investors.

More specifically, adequate information was not given to stakeholders in order to make the dialogue significant. Most JCs did not provide enough internal information to stakeholders and stakeholders, in turn, rarely requested it. Participants of the dialogue were only able, therefore, to give general comments. The dialogue was not necessarily conducted in a well-informed way. The same can be said for the third party opinions sought by JCs on their CSR reports. Most third party reviewers simply read a manuscript of the report and provided their impressions on the content. As a result, some comments were superficial and failed to question management in any meaningful way.

Furthermore, most dialogue was conducted among exclusively Japanese stakeholders at the headquarters of the company in Japan. As an example, one multinational company conducted stakeholder dialogue on their global code of conduct, which had been newly established. Despite the necessarily global nature of this conversation, in fact all the participants were Japanese and the dialogue was held at the head office in Japan. This suggests a very introspective mindset and such dialogue can clearly not be expected to produce a diverse and globally informed points of view. It would have to be said that the company lacked a sense of being a part of a global company. As one manager explained,

The stakeholders strongly argued that foreign [non-Japanese] people should be included in the dialogue, since our discussion had only been among Japanese people at that point. So we were able to understand this. This is an urgent issue that should be dealt with quickly.

One point for reflection is the fact that, in most cases, almost all the members of the board of directors in JCs are Japanese. The ratio of foreign directors in the TOPIX Core 30 is around 2–3 %. The ratio of even outside directors of the 1415 listed companies in the first section of the Tokyo Stock Exchange remained at just 9.6 % in 2010. The majority of board members in major JCs are internal, Japanese, elderly, and male. Some companies have understood the limitations of this and the need for greater diversity among the board members. But this understanding is not yet advanced enough to prompt JCs to take immediate practical steps to realize such diversity (Morikawa, 2014).

There is another problem: the immaturity of civil society organizations in Japan. CSOs have a lack of experience and knowledge about business management issues. Furthermore, JC management also demonstrates a lack of experience in engaging and forging relationships with CSOs. In these circumstances, stakeholder meetings have become something of a ritual conducted for show, rather than a driver to improve corporate management systems.

11.7.3 For What

As noted above, most JCs started to conduct stakeholder dialogue as part of their CSR activities during the early 2000s. This was neither a response to stakeholders' requirements nor was it prompted by the needs of corporate business strategy. Instead, stakeholder dialogue was conducted as JCs sought to just "do as the other companies do". It is fair to say that the JCs had no clear intentions in holding stakeholder dialogue. Firstly, most JCs thought stakeholder dialogue was just one activity required in order to meet requirements on CSR reporting, as well as being a part of corporate PR activity. Various CSR managers stated,

We understood the dialogue as a tool for letting people know about our environmental approach.

By publishing a CSR report and holding a stakeholder dialogue, we were able to emphasize how much effort we were making in CSR activities.

These managers considered stakeholder dialogue as a good opportunity to show their companies' approaches to CSR, in other words functioning as part of corporate PR activity. They will have failed, therefore, to identify and target those stakeholders with the most pressing needs or demands, and to have negotiated with them strategically.

Secondly, JCs have made use of stakeholder engagement for in-company training or to introduce external information into their organizations. Various managers stated,

Attending the stakeholder meeting is a good way for employees in related departments to understand our new environmental policies.

If people from an NGO explain the reality of global human rights issue at the stakeholder meeting, they may convince conservative people in the HR department to understand the importance and the depth of the problem. They are far more compelling than us in explaining the same things.

In 2011, the Network for Sustainability Communication conducted a survey on the topic of "for whom are CSR Reports by JCs issued?" 242 companies publishing CSR/environmental reports responded to the question with multiple answers (NSC, 2012). The results show that the most common answer, at 62.8 %, was "for employees" (75.2 % in 2008 survey), followed by "for investors" at 50.0 % (43.3 %), "for business partners" at 49.6 % (53.1 %), and "for consumers" at 40.5 % (44 %). This trend is gradually changing, but even now the primary intent of many JCs seems to be to issue CSR reports in order to communicate their own CSR polices to their employees.

11.7.4 New Movements

Recently, since around 2010, a number of JCs have adopted new approaches to stakeholder engagement. Here, cases from four unique companies (A–D) are presented as examples.

Electronics Company "A": This company has ever been criticized the labour condition and human-rights issues by NGOs at the one of their local supplier in Malaysia. They did not have detail information on the local suppliers at the time. Company A has formulated the human-rights policy since then and established an international management system for collecting information and monitoring the activities of overseas subsidiaries in terms of problems relating to CSR as well as human-rights issues. The company appointed a person to be in charge of CSR in every main overseas base, and held an annual meeting with those representatives at the Japanese head office. One manager stated,

The scope of, understanding of, and approach to CSR differ by country and area. As our subsidiaries engage in communications with stakeholders in each regional base, we are able to grasp what the most important issues are for local people and which social challenges are considered the most significant.

We seek out the opinions of local people in order to understand the present situation in terms of human rights issues and the practical tasks faced.

This sort of management response is not unique in leading global companies in Europe and the US, but it is a new for JCs after around 2010.

Electronics Company “B”: This company has learned the significance of the third party opinions and been active in taking third party opinion of their CSR activities into account since 2004. Since 2011, they have conducted stakeholder engagement activities in order to review their annual CSR Report. The company commissions an independent review of the report from a ‘stakeholder team’; comprising members of NGOs, consumer organizations, and labor organizations, in an exercise organized by a consultant. Company B’s CSR manager said that it is useful for the company to obtain positive or negative comments on their CSR activities from various sector perspectives. They established a review process in cooperation with the stakeholder team, as follows; (1) share the objectives of the review, (2) conduct a third party review and hold a dialogue, (3) identify challenges, (4) prioritize challenges, (5) disclose stakeholders’ comments and any relevant remediation plan. In response to the question of what the results allow management to accomplish, the manager answered as follows: that the results could help the company to (1) clarify its CSR challenges, (2) firmly establish a PDCA cycle for CSR management, and (3) promote awareness among all department heads with regard to CSR issues. Company B has consolidated this review system in order to enhance its credibility and improve transparency in management. However, limitations remain: all the members of the dialogue are Japanese, dialogue is held in the Japanese headquarters, and stakeholders are not well informed about the CSR management of the company at home and overseas.

Construction Company “C”: This company established a unique platform with stakeholders. After the Great East Japan Earthquake in northeast Japan in 2011, the company organized an open forum to discuss how to mitigate the damage caused by disaster, strengthen resilience of the organization and society, and generate new ideas among the related companies, NGOs, and academic bodies. Each actor necessarily has a different awareness of risk. One leader of the platform stated that it is essential that all platform participants share their understanding of risk, visualize it, and communicate with each other in order to build up a society with strong resilience to disaster: one which is autonomous, decentralized, and cooperative. The company regularly holds workshops for all stakeholders in order to generate innovative ideas about how best to construct sustainable communities in the near future. Company C understands that as a business it is part of a wider society and they should develop systems of business continuity management (BCM) in order to share awareness of various risks among key stakeholders; employees, shareholders, customers, and the local community. A significant challenge for the organization is to coordinate the demands of executive managers, various departmental managers, and people on-site.

Some JCs realize the need to develop business approaches for tackling social and environmental issues. The next case is a unique approach for such sustainable development.

Table 11.1 Sustainability Index of Chemical Company D

Sustainability (Green) Index	S-1 Contribute to reducing environmental impact through products and services
	S-2 Take actions against the depletion of natural resources and energy-saving initiatives
	S-3 Contribute to solving soc and env issues through supply-chain management
Health Index	H-1 Contribute to medical treatment
	H-2 Contribute to improvements of QOL
	H-3 Contribute to early detection and prevention of diseases
Comfort Index	C-1 Deliver products (development and manufacturing for comfortable life style)
	C-2 Improve stakeholder satisfaction
	C-3 Earn recognition of corporate trust

Source: Company D's Sustainability Report 2011

Chemical Company "D": This company established a "Sustainability Index" in 2011 in order to evaluate their progress in the adequate management of sustainability issues. This is a new notion of sustainability, set in the core of their organization and integrated into their corporate mission, business plan and strategy. They have developed this Sustainability Index in order to visualize the concept of "Management of Sustainability (MOS)", as they aim to improve sustainability for people, society, and the earth, and to monitor their progress and results. MOS indices include elements of sustainability ("green"), health, and comfort. They cover such issues as the reduction of environmental impact, sustainable use of resources, reduction of energy usage, promotion of good health, and contribution to more comfortable lives. However, it should be noted that the system was initiated and is monitored by the company, rather than through engagement with stakeholders (Table 11.1).

It is not uncommon that global companies establish an international CSR management system and positive engagement with stakeholders. But in JCs it is a relatively new action. On the other hand, we find a unique and constructive platform set by Company C to tackle economic and social challenges after the disaster, and a forward-looking and comprehensive sustainability index set by Company D.

11.8 Discussion

Since the early 2000s, almost all major JCs have introduced CSR systems and the institutionalization of CSR management system has developed rapidly in Japan. However, the common approach has been to focus on activities related to visible forms of CSR and CSR as a function was not necessarily embedded into the core management process. Many JCs have flocked to publish CSR reports and the number of companies doing so has now reached over 1000. The majority of these reports is edited to feature contributions from each group of stakeholders, such as employees, customers, investors, and communities, and is intended to display newly introduced systems for CSR management. These reports, however, can read like lists of assorted information from various division and, more often than not, tend to show that the publishing company is taking the same steps as other, equivalent companies, and does not fall below the industry average with regard to CSR activities and responsibilities. JCs have managed stakeholder issues by treating stakeholders as individuals rather than as parts of a broader management whole. Such CSR report may be published even when CSR functions are neither embedded nor implemented in the management process.

At the early stage of CSR introduction, JCs began to understand the need for stakeholder dialogue. At the same time, however, most of them did not necessarily have any definite objectives in place when engaging in such dialogue. In such cases, the stakeholder dialogue was conducted in a "talk-and-listen" style and had little practical worth, not least because JCs felt no urgency to engage with stakeholders in order to obtain their opinions. Rather, stakeholder dialogue was conducted as a required element in the process of CSR reporting and was separated from strategic management and decision-making processes within the organization. The main features of this predominant style of stakeholder dialogue may be summarized as follows:

1. No specific objectives: JCs set general topics at roundtable talks which were the main platform for stakeholder engagement, and the participants gave their general views on these topics. This resulted in no practical feedback to the management and did not provide possible solutions to working-level issues. Equally, JCs did not expect to acquire any significant information or insight. They considered holding such dialogue to be an end in itself.
2. Perfunctory dialogue: Most dialogues were held only among Japanese attendances at the Japanese headquarters. JCs were lacking of sense of being active in a global market. In many cases, report production companies contracted by the reporting JC arranged the roundtable talks and recommended appropriate and, generally, innocuous stakeholders with which to engage each theme in line with the company's intentions and views. Such an approach is not robust in ensuring the objectivity of information.
3. Immaturity of stakeholders: In Japan, both companies and stakeholders alike have been unaccustomed to holding dialogue and engaging with each other. Stakeholders lacked sufficient knowledge on business management issues. Therefore, providing education to CSOs to enable them to discuss management propositions and collaborate with JCs is another important challenge for CSR, if such engagement is to succeed in building more sustainable business, rather than just involve criticism of existing practice.

The "talk-and-listen" style of stakeholder dialogue would never have created new value; stakeholders expressed their own opinions and JCs merely listened and in response explained their basic policy on each topic. Still now, few JCs have managed to embed productive feedback systems well into their organizations. In many cases, CSR reports show us that stakeholder dialogue is wrapped up by a comment, from the CSR executive director, along the following lines: *"we appreciate your valuable opinions today and would like to utilize them in our future management"*. How exactly they feed back those opinions to the management, however, where they want to be in a year having fed those opinions back, and how they intend to measure those results are not clarified at all in the same CSR report.

Nevertheless, since around 2010, the situation has been gradually changing. JCs have been on the receiving end of negative evaluations and criticism from NGOs concerned with human rights and environmental issues; they have been put under pressure to respond in a practical way. For instance, a Japanese precision machine company is ranked low by an NGO, Enough, which looks at the involvement of companies in conflict mineral issues. The Enough tracks the efforts of major electronics companies in avoiding the use of and investment in conflict-free minerals in their products. The Enough has criticized low ranked companies for not doing enough to change their practices. JCs have also faced demands to take proper steps to investigate their supply chains and some have actively engaged with external shareholders in order to do so.

Many JCs like Electronics Company A, described before, have set out to establish an international management system, to monitor their supply chain, and to engage with external stakeholders. In general, over the past few years JCs have begun to meet with stakeholders and have learn from the dialogue they can have with them. Some JCs now understand the importance of such dialogue, of setting practical objectives, and of talking with related stakeholders in domestic and international market societies. One CSR manager stated,

> *I recognize stakeholder engagement is not just for the purpose of publishing a CSR report but it must also be a driver for facilitating better management with stakeholders.*

This company receives advices and ideas from stakeholders and experts on various CSR-related issues—environment, human rights, philanthropy—and also sets out their responses in detail.

JCs have begun to figure out what the expectations of their stakeholders' are, as well as the demands stakeholders have towards them, both at home and overseas. JCs are also beginning to realize how they should be contributing to the sustainable development of local and global communities through their business activities. The experiences of the major 2011 earthquake prompted Japanese people to reconsider how it might be possible to develop communities less vulnerable to disaster. Construction Company C established a unique platform to discuss with related stakeholders how, in the future, more resilient societies and companies could be constructed. The ideas created here feedback to each stakeholder. Electronics Companies A and B realized they should fill the gap between responsible management system and conventional management system, and rebuild organizational culture and relationship with stakeholders. Chemical company D developed a Sustainability Index to contribute to greater sustainability for people, society, and the earth. The company makes sure to constantly adjust their indices to reflect the expectations of their stakeholders.

11.9 Conclusion

Until the CSR movement began to hot up in the 2000s, JCs never placed emphasis on engagement with stakeholders. In response to the global trend of CSR, however, they initially dealt with it as something required in the process of creating CSR reports, rather than as a part of strategic management. During this initial stage, JCs had no clear ideas as to with whom they should talk or what about. A number of JCs simply implemented engagement by copying the approach taken by leading companies, while being advised by report production companies. This led to the mimetic isomorphism of CSR institutions. In general a newly-established management institution does not automatically work and produce a significant result. Since JCs did not necessarily understand the significance of stakeholder engagement, the purpose of meeting and talking with stakeholders was not clear, nor did it have any practical significance for business management.

JCs tended to regard stakeholder engagement as a part of corporate PR activity. This meant that they failed to make use of it strategically and neglected to embed into management systems to feedback the outcomes of engagement; as such, engagement did not make any contribution to bringing about change in organizational structures or culture. Browne and Nuttall (2013) also insists that companies must deeply integrate external engagement into their strategy and operations, and external engagement cannot be separated from everyday business. There is a significant gap between the situation we see today, namely just talking and listening to stakeholders, and the ideal engagement scenario of learning and innovating for value creation. However, JCs recently have experienced having meetings with stakeholders. JC policy toward their relationships with stakeholders has been gradually transforming through: (1) experimental learning through engagement with stakeholders, (2) responding to negative evaluations and ratings of their CSR management by NGOs, and (3) sensing a greater requirement to strengthen the resilience of business organizations and wider society in the aftermath of the Great East Japan Earthquake in 2011. For JCs, holding meaningful dialogue with stakeholders and listening to external stakeholders is an unprecedented experience. Here, JCs may glean hints as to how they might reconsider existing systems and introduce new systems in their place.

Through their experiences in stakeholder engagement, some JCs have learned that stakeholder engagement is not simply an exercise in talking with and listening to stakeholders. Rather, it can be an opportunity to learn, to implement, and to make changes in organizational thinking in order to incorporate CSR into management process. Stakeholder engagement should be a source of innovation for contributing to sustainable development and an opportunity to find creative ideas. Sloan (2009) argues that stakeholder engagement leads to learning, innovation and fundamental corporate transformation.

One CSR manager interviewed stated,

> *Concerning "stakeholder engagement", we have done many things, for example, corresponding with customers, sharing information with clients, holding labor-*

management consultation with employees, holding IR meetings with institutional shareholders and investors, holding dialogues with SRI rating organizations, and holding dialogues with NPOs related to local communities. However, these activities are not coordinated effectively as a whole. We cannot communicate well with market society. In other words, our communication doesn't work well.

The reason why stakeholder engagement does not work well within JCs is not, however, just a matter of communication skills. JCs have engaged with major stakeholders individually regarding economic issues, without invoking a holistic management approach, and never talked with those stakeholders about social and environmental issues. Introducing CSR into management process tends to create conflict between the conventional management system and the desired, socially responsible, management system. Through the experience of creating CSR reports and holding stakeholder dialogue, JCs have been able to reconsider the meaning of implementing CSR and of forging good relationships with stakeholders.

JCs should be prepared to respond constructively in stakeholder engagement, because such engagement may allow problematic behavior to be identified as well as the positive restructuring of corporate strategy. Stakeholder engagement is not just about talking and listening; it is a negotiation. Daniel Vasella, former chairman of Novartis, stated: "*I have an aversion against missionaries. I don't like to go out as a missionary and preach, and then be accused of preaching for my own parish. This is a negotiation, and it can be a very tough one*" (Browne & Nuttall, 2013). When engagement is conducted perfunctorily, no practical result can be produced. Stakeholder engagement will enable JCs to be more conscious of the initiation and mainstreaming of sustainability in their core business, as well as to recognize the importance of nurturing an effective relationship with stakeholders, both core stakeholders and peripheral alike.

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