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Corporate Sustainability, Social Responsibility and Environmental Management

An Introduction to Theory and Practice with Case Studies

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Mark Anthony Camilleri
Department of Corporate Communication
University of Malta
Msida, Malta

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Dedicated to my wife Adriana and to our kids, Michela and Sam.

Foreword

My personal engagement with corporate social responsibility (CSR) goes back over 40 years. The idea was only mentioned during my academic degree years in the late 1960s and early 1970s, and it was hardly popular to talk about or write about then. My broadest and deepest exposure began in the early 1970s when I was asked to teach a Business and Society course because the regular professor was on leave. Fortunately, he had assembled a book of readings titled *Issues in Business and Society: Readings and Cases (1971)*, and William T. Greenwood, the editor, and my colleague, was one of the early book authors on this topic.

I was employed out of my doctoral program to teach business policy; now we call it strategic management. But, when I took an interest in the business and society area in which CSR was a key, embedded concept, I remember my department head telling me that I would never get promoted pursuing that topic because it was not even a field yet. The topic existed, but it had barely reached the level at which it was being studied or taught with any regularity within courses much less in its own courses. It was not being discussed much in the business world either. In other words, the field was not a field when I began. It was just a few individuals thinking about CSR and even fewer writing about it.

My department head was partially right, but over the following decade I not only got promotions but had publishing opportunities that opened up for me, and this gave me a platform to delve deeper into the topic and I proceeded to do so. Since there were very few academics pursuing CSR and related topics, it was easy to be on the cutting edge, and then Little, Brown publishers invited me to prepare a book of readings and then a textbook on the subject.

Desiring a managerial approach because I was deeply concerned about applicability and implementation, I published *Managing Corporate Social Responsibility* in 1977 and followed it with *Business and Society: Managing Corporate Social Performance* in 1982. It would not be until the first edition of *Business and Society: Ethics and Stakeholder Management* was published in 1989, however, that I was beginning to believe this topic had staying power. Now, I am completing the 10th edition of this book, currently titled *Business and Society: Ethics, Sustainability* *and Stakeholder Management*, 10th Edition (Cengage Learning, 2017) with Jill A. Brown, Bentley University, and the late Ann K. Buchholtz. Ann had been with me on six previous editions before she tragically passed away just as the 10th edition was under way. Fortunately, a rising and successful professor, Dr. Jill Brown, was able to join me as coauthor for the 10th edition.

Another huge step for CSR was taken when I was invited to join three other authors, under the executive editorship of Kenneth Goodpaster, when we were able to publish a comprehensive history titled *Corporate Responsibility: The American Experience* (Cambridge University Press, 2012) which I coauthored with Kenneth Lipartito, James Post, and Patricia Werhane. We were elated when this book was recognized with the 2014 Social Issues in Management Best Book Award in the Academy of Management. What was especially unique about this volume is that it was underwritten by a business man, philanthropist, Harry Halloran, of Philadelphia.

Today, there are an exploding number of scholars writing on the topic of CSR and complementary concepts. My professional involvements have exposed me to hundreds of excellent scholars and I was so encouraged when I learned about the writings of Dr. Mark Camilleri. First, I was introduced to some of the articles he had written, with which I was impressed. Second, we began corresponding with one another. I was invited but not able to join him in any publications because of my textbook revision schedule, but I saw clearly that he was the type of scholar and writer with whom I could easily have a close working relationship. Then, I was introduced to the contents of this book, given the opportunity to read it, and invited to write this Foreword, which I am honored to do.

From my perspective, Dr. Camilleri has written what clearly provides a first-rate introduction to a subject such as CSR. First, he fittingly clarifies that the language of CSR is referred to under a number of different concepts or frameworks and among them are corporate citizenship, sustainability, environmental management, business ethics, and creating shared value. But, he chooses to center on CSR as the irreducible core of these topics and then invokes the other nomenclature when appropriate. I agree with this decision. I think CSR is and will continue to be the centerpiece of these competing and complementary frameworks.

In Part I of the book, he introduces the CSR notion, covers international policies and regulatory instruments for reporting on CSR, and relates it to integrated marketing communications, which are essential. I especially valued his discussions of CSR communications using digital and social media and corporate Web sites. These clearly are the platforms upon which companies and consumers have come to depend in this technology-intensive age. His discussion of socially responsible and sustainable investing gets at the heart of the question of whether CSR pays off in a financial sense. An important dimension of the CSR business case is easily made when one considers the growth and success of the socially conscious investing movement. If investors think it is a good thing, and it has proven to be, then it is not surprising that socially responsible investments have grown. Finally, in Part I he treats what I think is the current challenge of global CSR and that is responsible supply chain management. Companies institutionalizing CSR within their parent entities are not enough. They need to integrate it into their upstream and downstream supply chains to be truly and comprehensively responsible and effective. In short, Dr. Camilleri provides an excellent introduction to the CSR agenda that academics, companies, and other stakeholders face today.

The case studies presented in Part II are both an integral part of understanding the CSR concept and a bonus to the developing discussion. In the first case study, he explores corporate citizenship policies and principles in the USA. Then, he wisely contrasts this with environmental, social, and governance disclosures in Europe. To add even more specificity, he examines responsible governance in European banks. Of value to all readers, he next provides a case study on creating value in business and education. Finally, he presents a case study on closing the loop of the circular economy for CSR and sustainability. I found this case study to be especially enlightening and timely as the idea of the circular economy brings CSR and sustainability into a system's wide framework that is likely to be a top priority theme in the decades ahead.

The topic of CSR has a bright future and I think this book will open it up to both novice readers and those already knowledgeable in the field. Scholars and practitioners alike will find the book essential reading. Dr. Camilleri makes the topic accessible, relevant, and interesting.

CSR's bright future is built upon several key trends that provide a firm foundation for growth. First and foremost is business's acceptance. This is a most significant factor. Without businesses' buy-in, the CSR framework would not have gotten the traction it has experienced. Except for brief periods when CSR was somewhat controversial, business as an institution has increasingly accepted the idea that it is a multipurpose social institution whose goals extend beyond financial returns. Enlightened businesses today are coming to accept that their mission is to serve constructively the needs of society to the satisfaction of society. If they do this, in a sustainable fashion, financial returns will follow. Businesses today are striving to be adaptive-learning entities, and they understand that their legitimacy is tied to public acceptance and support.

A second powerful trend has been global growth in both established and emerging economies. In Europe, the growth of interest in CSR has been unparalled, especially over the past decade. The CSR framework is quickly catching on in Asia, South America, and Africa. International conferences on CSR are now the order of the day. Not too long ago I attended one of the Global CSR conferences held every other year at Humboldt University in Berlin, and I saw firsthand the heightened inquisitiveness about CSR from around the world. Hardly a week goes by that I do not receive some e-mail inquiry about the topic from unexpected parts of the world—sometimes from areas I never imagined were interested in CSR theory and practice. But, now they are. I will look forward to recommending Dr. Camilleri's book to them.

A third prominent force behind CSR's growth and proliferation has been academic acceptance and proliferation. The multiplying organizations, conferences, meetings, books, articles, blogs, awards, academic chairs, and student interest all have pointed to a robust future in academe. Schools and colleges other than business schools are increasingly taking a keen interest in CSR, ethics, sustainability, and stakeholder theory. Schools such as journalism, law, ecology, social work, education, and others are beginning or continuing their use of these concepts and frameworks. The idea that organizations in all walks of life realize that their missions extend beyond their immediate, utilitarian, purpose for being is becoming widespread.

This book will be popular and widely read because it centers on CSR and sustainability, topics that I believe continue to be the heart of socially conscious capitalism, management, and investing. Stakeholders the world over are clamoring for more information about CSR, and this book provides it in a clearly, authoritatively, easily understood format that is expertly and expressively written. Dr. Camilleri's book will take its rightful place as a valued and well-read entry into the books that have addressed these topics and I strongly recommend it to the reader and rest confident that it will have a huge impact.

Terry College of Business, University of Georgia, Athens, GA
USA July 2016

Archie B. Carroll

Preface

Responsible behaviors are increasingly being embedded into new business models and strategies that are designed to meet environmental, societal, and governance deficits. Therefore, the notions of Corporate Sustainability, Social Responsibility, and Environmental Management have become very popular among academia as corporations are moving beyond transparency, business ethics, and stakeholder engagement.

This book provides business students and scholars with a broad analysis of the subject of Corporate Social Responsibility (CSR). It builds on the previous theoretical underpinnings of the CSR agenda, including Corporate Citizenship (Carroll, 1998; Matten & Crane, 2004; Waddock, 2004), Creating Shared Value (Porter & Kramer, 2011, 2006), Stakeholder Engagement (Freeman, 1984), and Business Ethics (Crane & Matten, 2004) as it features the latest Corporate Sustainability and Responsibility (CSR2.0) perspective (Visser, 2010). These recent developments imply that the organizations' commitment to responsible behaviors may represent a transformation of the corporation into a truly sustainable business that is adding value to the business itself while also adding value to society and the environment.

This "new" proposition is an easy term that may appeal to business practitioners. CSR2.0 is linked to improvements in economic performance, operational efficiency, higher quality, innovation, and competitiveness. At the same time, it raises awareness on responsible behaviors. Therefore, this promising concept can be considered as strategic in its intent and purposes, as businesses are capable of being socially and environmentally responsible "citizens" while pursuing their profit-making activities. Carroll (1979) affirmed that the businesses have economic responsibilities as providing a decent return on investment to owners and shareholders; creating jobs and fair pay for workers; discovering new resources; and promoting technological advancement, innovation, and the creation of new products and services along with other objectives.

Lately, there is similar discourse in many international fora, conferences, seminars, and colloquia about corporate sustainability and responsible behaviors.

However, the discussions are usually characterized by the presentation of theories that define the concepts, rather than being practical workshops (which involve the businesses themselves). In this light, this book clearly identifies the business case for CSR. It attempts to trigger active participation in corporate suites. Inevitably, it contends that there are still some challenging opportunities facing businesses, which will have to be addressed in the foreseeable future, including Stakeholder Relations and Collaborations, Government Regulation for CSR Compliance, and the role of Strategic CSR in Education and Training.

This publication combines theory and practice with case studies. Part I introduces the readers to the CSR Agenda. Chapter 1 provides a broad overview of the CSR terminology and its emerging constructs. It presents the business case for CSR. Chapter 2 reports on several international policies and regulatory instruments on the subject of environmental, social, and governance disclosures of large organizations. Chapter 3 suggests that there is a rationale to maintain ongoing communications with stakeholders through integrated marketing communications including digital media and traditional channels. Chapter 4 sheds light on socially reponsible and sustainable investments that are being offered in the financial services market. Chapter 5 discusses about the importance of stakeholder engagement with responsible suppliers in the value chain. In Part II, this book contains five detailed case studies on a wide array of corporate sustainable and responsible initiatives that have been taken on board by global corporations in different contexts.

Msida, Malta Mark Anthony Camilleri

Acknowledgments

There are too many people to thank individually. I am very grateful to my family, particularly to my wife Adriana who has always encouraged me in my endeavors. Finally, I must thank Springer's editorial team, including Christian Rauscher and Barbara Bethke, for their valuable support during this fruitful project.

Praise for this Book

"There's a revolution taking place, one that's percolating from the uncoordinated efforts of activist consumers/NGOs, regulators/moralists, and corporate/institutional investors. Mark Camilleri's new book provides an excellent overview of the eclectic academic literature in this area, and presents a lucid description of how savvy companies can embed themselves in circular systems that reduce system-wide externalities, increase economic value, and build reputation. A valuable contribution."

Charles J. Fombrun, *Founder of Reputation Institute and a former Professor of Management at New York University and The Wharton School, University of Pennsylvania, USA.*

"I am pleased to recommend Dr. Camilleri's latest book, *Corporate Sustainability, Social Responsibility, and Environmental Management*. The book is a rich source of thought for everyone who wants to get deeper insights into this important topic. The accompanying five detailed case studies on a wide array of corporate sustainable and responsible initiatives are helpful in demonstrating how theoretical frameworks have been implemented into practical initiatives. This book is a critical companion for academics, students, and practitioners."

Adam Lindgreen, *Professor and Head of Department of Marketing, Copenhagen Business School, Denmark.*

"This book is an essential resource for students, practitioners, and scholars. Dr. Mark Camilleri skillfully delivers a robust summary of research on the business and society relationship and insightfully points to new understandings of and opportunities for responsible business conduct. I highly recommend Corporate Sustainability, Social Responsibility, and Environmental Management: An Introduction to Theory and Practice with Case Studies."

Diane L. Swanson, *Professor and Chair of Distinction in Business Administration and Ethics Education at Kansas State University, KS, USA.*

"Mark's latest book is lucid, insightful, and highly useful in the classroom. I strongly recommend it."

Donald Siegel, *Dean of the School of Business and Professor of Management at the University at Albany, State University of New York, NY, USA.*

"The theory and practice of corporate sustainability, social responsibility and environmental management is complex and dynamic. This book will help scholars to navigate through the maze. Dr Camilleri builds on the foundations of leading academics, and shows how the subject continues to evolve. The book also acknowledges the importance of CSR 2.0—or transformative corporate sustainability and responsibility—as a necessary vision of the future."

Wayne Visser, *Senior Associate at Cambridge University, UK. He is the author of CSR 2.0: Transforming Corporate Sustainability & Responsibility and Sustainable Frontiers: Unlocking Change Through Business, Leadership and Innovation.*

"*Corporate Sustainability, Social Responsibility and Environmental Management: An Introduction to Theory and Practice with Case Studies*" provides a useful theoretical and practical overview of CSR and the importance of practicing corporate sustainability."

Geoffrey P. Lantos, *Professor of Business Administration, Stonehill College. Easton, Massachusetts, USA.*

"This book offers a truly comprehensive guide to current concepts and debates in the area of corporate responsibility and sustainability. It gives helpful guidance to all those committed to mainstreaming responsible business practices in an academically reflected, yet practically relevant, way."

Andreas Rasche, *Professor of Business in Society, Copenhagen Business School, Denmark.*

"A very useful resource with helpful insights and supported by an enriching set of case studies"

Albert Caruana, *Professor of Marketing at the University of Malta, Malta and at the University of Bologna, Italy.*

"A good overview of the latest thinking about Corporate Social Responsibility and Sustainable Management based on a sound literature review as well as useful case studies. Another step forward in establishing a new business paradigm."

René Schmidpeter, *Professor of International Business Ethics and CSR at Cologne Business School (CBS), Germany.*

"Dr. Camilleri's book is a testimony to the continuous need around the inquiry and advocacy of the kind of responsibility that firms have towards societal tenets. Understanding how CSR can become a modern manifestation of deep engagement into socio-economic undercurrents of our firms, is the book's leading contribution to an important debate, that is more relevant today than ever before."

Mark Esposito, *Professor of Business and Economics at Harvard University, MA, USA.*

"Mark's book is a great addition to the literature on CSR and EM; it will fill one of the gaps that have continued to exist in business and management schools, since there are insufficient cases for teaching and learning in CSR and Environmental Management in Business Schools around the globe."

Samuel O. Idowu, *Senior Lecturer in Accounting at London Metropolitan University, UK; a Professor of CSR at Nanjing University of Finance and Economics, China and a Deputy CEO, Global Corporate Governance Institute, USA*

"Corporate Social Responsibility has grown from 'nice to have' for big companies to a necessity for all companies. Dr Mark Camilleri sketches with this excellent book the current debate in CSR and CSR communication and with his cases adds valuable insights in the ongoing development and institutionalization of CSR in nowadays business."

Wim J.L. Elving, A/*Professor at the University of Amsterdam, Netherlands.*

Contents

About the Author

Dr. Mark Anthony Camilleri is a resident academic in the Department of Corporate Communication at the University of Malta. He specializes in strategic management, stakeholder engagement, corporate social responsibility, and sustainable business. Mark successfully finalized his PhD (Management) in three years' time at the University of Edinburgh in Scotland—where he was nominated for his "Excellence in Teaching." During the past years, Mark taught business subjects at undergraduate, vocational, and postgraduate levels in Hong Kong, Malta, Spain, the UAE, and the UK.

Dr Camilleri has published his research in other books, peer-reviewed journals, chapters, and conference proceedings. He is a member of the editorial board of Springer's International Journal of Corporate Social Responsibility and he's also a member of the academic advisory committee in the Global Corporate Governance Institute (USA). Mark is a frequent speaker and reviewer at academic gatherings, including the American Marketing Association's (AMA) Marketing & Public Policy Conference and the Academy of Management's (AoM) Annual Meeting.

Part I
An Introduction to the Corporate Social Responsibility Agenda

Chapter 1
The Corporate Social Responsibility Notion

1.1 Introduction

Throughout the years, the corporate social responsibility (CSR) agenda has been wrought from distinctive theories and approaches. Initially, this term was typically used when evaluating the effects of business on society and the environment. As a matter of fact, the earliest contributors had associated CSR with corporate philanthropy, stewardship principles and business ethics. Yet, the businesses' way of thinking has changed dramatically since Friedman (1962, 1970) and Levitt (1958) held that the companies' only responsibility was to maximise their owners' and shareholders' wealth. Similarly, with an entrepreneurial stance, Drucker (1984, p. 62) characterised CSR as a way of tackling 'social problem(s)' to engender positive 'economic benefit(s)' to ensure 'well paid jobs, and... wealth'.

It may appear that CSR has developed further, during the latter part of twentieth century as the recognition of all stakeholders. At the time, the shareholders were considered as the legitimate concern of the business (Freeman, 1984). CSR has developed as a rather vague concept of moral good or normative behaviour (Frederick, 1986), as neo-classical economists had acknowledged that CSR was a rational, economic justification for 'doing good' (McWilliams & Siegel, 2001). CSR was a 'relativistic measure of 'the economic, legal, ethical and discretionary expectations that society has of organisations at a given point of time' (Schwartz & Carroll, 2003). Whilst retaining CSR's comprehensive aspects, Porter and Kramer (2006) recognised that CSR could be a source of opportunity, innovation and competitive advantage. An all embracing definition was given by Moon, Anastasiadis,

Parts of this chapter have appeared in Camilleri, M.A. (2015) Corporate Social Responsibility: Theoretical Underpinnings and Conceptual Developments. In Vertigans, S. & Idowu, S.O., Stages of Corporate Social Responsibility: From Ideas to Impacts, Springer (Forthcoming).

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and Viganò (2009, p. 268); 'CSR is about beyond-compliance contributions of companies to social, environmental and ethical concerns'.

Without doubt, the clarification of CSR's meaning was and still remains a significant strand within the research agenda. 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, some of the emerging theoretical underpinnings are increasingly pointing out that CSR is a driver for business and societal benefits (Camilleri, 2013; Falck & Heblich, 2007; Porter & Kramer, 2011). In addition, many empirical studies have also proven that there are significant advantages to be gained for the businesses themselves when they engage in socially responsible and sustainable behaviours (Ameer & Othman, 2012; McWilliams, Siegal, & Wright, 2006; Orlitzky, Schmidt, & Rynes, 2003; Wang & Choi, 2013). Arguably, firms could leverage themselves through corporate social performance and environmentally sound practices; as there may be opportunities for strategic and financial benefits, including operational efficiencies and cost savings. Emerging notions are increasingly relating the responsible behaviours to the business case of CSR.

The underlying objective of this chapter is to present the taxonomy of CSR concepts and terminologies, whilst providing a logical link between the constructs (Eisenhardt & Graebnerm, 2007). Therefore, this contribution features a visual theoretical summary on the subjects of corporate social responsibility, including; corporate social performance, stakeholder theory, corporate citizenship, strategic CSR, corporate sustainability and creating shared value among other notions. This research reports on the numerous constructs that have often been transformed and adapted to better reflect the challenging realities and contexts. In conclusion, it clarifies that there are positive implications for responsible business practitioners; as their CSR engagement is moving away from 'nice-to-do' to 'doing-well-by-doing-good' mantra.

1.2 The Social Responsibility Concept

The origins of CSR can be traced back to the earlier years of the twentieth century. Abrams (1951) voiced his concerns about managerial responsibilities towards employees, customers and the public at large. At the time, these issues were also picked up by several academic contributors. In the 1950s, some of the largest US corporations were no longer owned by individual persons or their families. Equity and debt instruments began to be traded across capital markets. Firms were being owned by many shareholders. The key issues that followed raised concerns on how should these companies ought to be managed. Commentators debated whether corporations should pursue the interests of shareholders; or the interests of their wider communities. It may appear that much of the earliest literature that revolved on social responsibility has legitimised the interests of societal groups, including shareholders.

Some academic experts on the subject sought to explain the normative ethics behind the CSR rationale. 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. At the time, the most important social movements included the civil rights, women's rights and consumers' rights (Bernaz, 2013). Moreover, many individuals were also affiliating themselves with environmental movements. This period was characterised as an issues era, where companies began noticing specific societal, environmental and community concerns (Drucker, 1984; Epstein, 1989). There was also an increased focus on philanthropy, stewardship principles and charitable donations (Varadarajan & Menon, 1988). Eventually, Carroll (1991) depicted a pyramid conceptualisation that explained, in plain words, the obligations of business toward society. He argued that economic responsibility was the foundation of this pyramid; 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 activities that are directed toward the community.

Debatably, many authors contended that corporations were morally obliged to consider their stakeholders' interests, at all times (Carroll, 1991; Freeman, 1984). Notwithstanding, the resurgence of the CSR agenda was triggered by corporate irresponsibility and scandals (e.g. BP, Enron, Nike, Worldcom). The 2008 financial crisis has precipitated a global recession that affected many sectors of the economy. The U.S. and several European governments have rescued ailing banking systems and big corporations. The governments' capacity to steer and invigorate their national policies on fiscal and monetary measures have suffered considerably, leading to unprecedented recessions in the world's leading economies. The globalisation and other socio-political factors have also changed the way in which societies were regulated. Many governments were reluctant to impose extra burdens on businesses for fear of losing employment and tax income. Corporations considered relocating their operations in other business-friendly countries. This phenomenon was (and is) often referred to as the race to the bottom because it can result in a drive to find alternative locations with ever lower social and environmental standards. However, there were many businesses that have deliberately taken on board CSR; as they moved beyond transparency, ethical behaviour and stakeholder engagement, on their own volition. Some of them were embedding social responsibility and sustainability into new business models and strategies that were designed to meet environmental, societal and governance deficits.

1.3 The CSR Conceptualisation

Currently, there is still no consensus on a broad definition for CSR (Dahlsrud, 2008). On various occasions the notion of CSR has been used as a synonym for business ethics. It has also been associated to corporate philanthropy and was related to environmental policy. CSR has been renamed corporate social

Table 1.1 A non-exhaustive list of concepts that are related to CSR

Business ethics
De George (1987), Donaldson (1991), Goodpaster (1991), Donaldson and Dunfee (1994), Crane and Matten (2004) and Enderle (2015)
Corporate accountability
Van Marrewijk (2003), Waddock (2004), Valor (2005), Dahlsrud (2008) and Bernaz (2013)
Ho corporate citizenship
Carroll (1998), Maignan, Ferrell, and Hult (1999), Fombrun, Gardberg, and Barnett (2000), Waddock (2004), Matten and Crane (2005), Lin, Tsai, Joe, and Chiu (2012) and Baumann-Pauly and Scherer (2013)
Corporate social performance
Frederick (1987), Wood (1991), Swanson (1995, 1999), Carroll (2000), Orlitzky, Schmidt, and Rynes (2003), Matten and Crane (2005), De Bakker, Groenewegen, and Den Hond (2005), Garriga and Melé (2013), Wang and Choi (2013) and Jones, Willness, and Madey (2014)
Corporate responsibility
Hockerts and Moir (2004), Scherer and Palazzo (2007) and Surroca, Tribó, and Waddock (2010)
Corporate sustainability
Dyllick and Hockerts (2002), Van Marrewijk and Werre (2003), Salzmann, Ionescu-Somers, and Steger (2005), Steger, Ionescu-Somers, and Salzmann (2007), Montiel (2008), Visser (2011) and Benn, Dunphy, and Griffiths (2014)
Creating shared value
Porter and Kramer (2006), Porter and Kramer (2011), EU (2011), Camilleri (2013) and Crane, Palazzo, Spence, and Matten (2014)
Stakeholder engagement
Freeman (1984), Berman, Wicks, Kotha, and Jones (1999), Hillman and Keim (2001), Buysse and Verbeke (2003), Carroll and Buchholtz (2014) and Camilleri (2015)
Stakeholder theory
Freeman (1984), Donaldson and Preston (1995), Jones (1995), Rowley (1997), Jensen (2001), Post, Preston, and Sachs (2002), Harrison and Wicks (2013) and Verbeke and Tung (2013)
Strategic CSR
Burke and Logsdon (1996), Lantos (2001), McWilliams, Siegel, and Wright (2006), Porter and Kramer (2006), Jamali (2007), Husted and Allen (2007), Gelbmann (2010), Camilleri (2013) and Husted, Allen, and Kock (2015)

Compiled by the author

performance and corporate citizenship. It may appear that there is still a lack of uniformity and consistency in the use of the CSR term. In this light, the researcher has identified a wide array of CSR notions that can be subjected to different interpretations. The purpose of this section is to clarify and explain these constructs. Table 1.1 reports a list of concepts that are related to the CSR paradigm.

Arguably, an appropriate definition of CSR must encompass a common terminology which facilitates the modelling of organisational culture and values for responsible behaviour. Therefore, it is vital to understand the role of leadership in strategising CSR activity; as there are different stakeholder demands. CSR is not cost free as it requires substantial resources; including time, financial and human resources. In this light, academic commentators often pointed out that the companies do not always recognise the 'business case for CSR'. Very often, they indicated that discretionary investments in CSR attributes and activities may add value to the business itself (Carroll & Shabana, 2010; Husted, Allen, & Kock, 2015; Orlitzky & Swanson, 2012; Porter & Kramer, 2011).

1.3.1 Corporate Social Performance

The corporate social performance (CSP) notion is rooted in sociology as it relates to social legitimacy (Garriga & Mele, 2004). CSP describes a firm's application of its principles and processes of social responsibility (Wartick & Cochran, 1985; Wood, 1991). Hence, CSP includes policies, programmes and observable outcomes on social responsiveness (Frederick, 1986). Past CSP theory maintained that businesses were responsible for the social problems they caused. Wood (1991) presented a model of corporate social performance composed of CSR principles, processes of corporate social responsiveness and outcomes of corporate behaviours. Carroll (2000) contended that CSP also comprised the ethical, discretionary or philanthropic actions which businesses undertake for societal wellbeing. The principles of CSP include processes such as environmental assessment, stakeholder management and issues management, and outcomes of corporate behaviours including social impacts, social programmes and social policies (Garriga & Mele, 2004). Many researchers have used this concept to test the relationship between firms doing good (CSP) and doing well (Corporate Financial Performance, i.e. CFP). Although there were several unresolved theoretical debates about whether there was a clear link between CSP and financial performance (Waddock & Graves, 1997) and despite controversy regarding the validity of some empirical findings (Griffin & Mahon, 1997; Margolis & Walsh, 2003; McWilliams & Siegel, 2001), most studies have reported a positive relationship between the two (Orlitzky et al., 2003; Wang & Choi, 2013).

McWilliams and Siegel (2001) developed a supply-and-demand model of corporate social responsibility and argued that corporate social performance is influenced by various factors including the firm's size, diversification, research and development and market conditions. They concluded that if all of these factors were considered as social activities, they should neither promote nor hinder financial performance. Similarly, Hillman and Keim (2001) explained that corporate social performance consisted of stakeholder management and social issue participation. They indicated that while stakeholder management positively affected corporate financial performance; social issue participation had a negative effect. De Bakker, Groenewegen, and Den Hond (2005) argued that the CSR/CSP literature has developed from conceptual vagueness, through clarification of central constructs and their relationships, to the testing of theory. They contended that academic research tries to follow and capture trends in the broader societal debate about business' social responsibilities. For example, some studies have taken further steps beyond examining the simple social–financial performance relationship.

Hull and Rothenberg (2008) examined innovation and the level of differentiation in the industry as moderators in the relationship between corporate social performance and financial performance. They found that corporate social performance strongly affected financial performance in low-innovation firms and in industries with little differentiation. It may appear that CSP has placed an emphasis on achieving better performance out of the socially responsible initiatives. Wang and Choi (2013) insisted that focusing solely on the level of social performance is limited. Consistency in social performance, both over time and across stakeholder domains, influences the corporate social–financial performance relationship. Jones, Willness, and Madey (2014) indicated that job seekers are attracted by CSP and organisational ethics that mirror their own values. Brammer, He, and Mellahi (2015) noted that employees tend to reinforce their self-concept and their desire to identify and associate with firms with stronger CSR (Brammer et al., 2015). In a sense, the socially responsible businesses could differentiate themselves from other companies. There is an opportunity for them to improve their firm's image relative to other organisations. This finding suggests that one of the outcomes of CSP is that it communicates a commitment to socially responsible values that stakeholders share.

1.3.2 Business Ethics

In the 1980s there was an increased focus on ethical business. The research at the time was linking CSR with CSP. There were fewer definitions of the concept, but they were more 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 subsequently 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), and there were further developments in the CSP area (Frederick, 1986; Swanson, 1995, 1999; Wood, 1991). Other contributors emphasised on the social control aspect of the business, by paying attention to public responsibility. Freeman and Liedtka (1991) implied that CSR had given a human face to capitalism. Notwithstanding, Goodpaster (1991) suggested that corporations should dedicate appropriate attention to their stakeholders' ethical concerns. He argued that Freeman's (1984) stakeholder idea integrated ethical values into management decision-making. However, he recognised that this multi-fiduciary approach implied a different relationship with "stockholders". Nevertheless, he concluded that there is a practical space for identifying the ethical values shared by a corporation and its shareholders. Goodpaster (1991) noted that fiduciary obligations go beyond strategic self-interest and short term profits; as businesses are also subject to moral criteria.

Donaldson and Dunfee (1994) held that the research on business ethics was informed by two approaches; the normative and the empirical one. They contended that the normative stance was prescriptive in nature. It was not necessarily grounded in existing business practices and structures. Their article presented a normative theory, called integrative social contracts theory (ISCT), which incorporated empirical findings as part of a contractarian process of making normative judgments. The emphasis on the role of communities in generating moral norms characterises this approach as communitarian. These debates on the normative theories and concepts, such as stakeholder approaches (Carroll, 1979; Freeman, 1984) may have provided general guidance but have failed to reflect the context-specific complexity of business situations. Donaldson and Dunfee (1994) discussed on moral rationality and social contracts as they gave specific examples, such as gift giving and receiving, questionable negotiation practices, and non-monetary employee compensation. Recently, Donaldson (2015) reiterated that business ethics is divided into normative and empirical inquiries. This time, Donaldson made reference to various models and issues revolving on the ethical obligations of multinational firms, including; fairness in advertising; bribery; corporate governance; responsibilities for observing human rights in foreign countries; and business obligations to the environment.

It may appear that, in the 1990s 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 toward 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, p. 284) also debated about such ethical responsibilities. He specified the kind of behaviours and norms that society was expecting out of businesses. Eventually, 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, some corporations were becoming more adept and proactive in the disclosures of 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, including; marketing and human relations may have helped to accelerate the understanding of CSP.

Subsequently, Crane and Matten (2004) have explored the domain of business ethics education. They argued that the business ethics curriculum could enable managers and corporations to shape the rules and norms against which they are judged. They went on to suggest that this subject could strengthen the teaching contribution in four ways; issue-based, function-based, theory-based and stakeholder-based. The issue-based model was intended to structure the curriculum according to specific ethical issues, so that each class considers different business ethics problems including bribery, discrimination, advertising to children and so on. The function-based model, purported that the subject could be broken down into ethical issues as they pertain to different business functions; such as marketing, procurement, operations and accounting. In the theories-based model, the curriculum could be structured around the different business ethics theories such as rights, duties and justice. In this context, the main challenge would be to develop appropriate theoretical underpinnings for business engagement.

Whereas, the stakeholder-based model, contended that the curriculum ought to be organised around different parties with a stake in the firm, such as employees, customers and shareholders. In this case, they argued that one impact of a domain extension could give greater attention to the often-neglected actors such as civil society, government and other businesses. This view was congruent with other views on stakeholder theories (Carroll, 1979; Freeman, 1984; Goodpaster 1991). In conclusion, Crane and Matten (2004) admitted that the subject of business ethics offered considerable challenges for educators, regardless of the model they favoured. They maintained that many teachers and students of business ethics were discussing these broader questions, and therefore a redefinition (or refinement) of the domain was “timely and exciting”.

Interestingly, Donaldson (2015) has reiterated that business ethics has become an accepted academic topic as it is preparing students to become responsible business executives. Moreover, Enderle (2015) noticed how corporations are well advised to embrace an ethic of reciprocity that recognises their stakeholders’ rights. He maintained that it should not be too demanding for them to adopt human rights policies (such as the UN sustainable development goals and UNEP’s COP21).

1.3.3 The Stakeholder Theory

There are different interpretations of the ‘stakeholder theory’ which have described the structure and operations of established corporations (Donaldson & Preston, 1995; Freeman, 1994; Harrison & Wicks, 2013; Jensen, 2002; Phillips, 2003). The first authors who contributed in this field of study attempted to raise awareness among corporations, to act in a responsible way toward stakeholders. They suggested that if firms behave responsibly, they will avoid unnecessary stakeholder pressures. The stakeholder theory was considered as a normative theory which has pushed managers to consider their moral duty towards the legitimate interests of all interested parties. Jones (1980, pp. 59–60) clarified that corporations had obligations towards society and their constituent groups. At the time, many business practitioners were becoming more concerned on social matters and/or environmentally-responsible practices.

The stakeholder theory maintained that the businesses' obligations ought to go beyond the traditional fiduciary duties toward shareholders. The organisations' obligations had been extended to other groups including the customers, employees, suppliers and neighbouring communities; in addition to the stockholders (Jones, 1980). Of course, there were reasonable arguments both in favour and against the notion of stakeholder theory. Jones (1980) admitted that it was difficult to reach consensus among stakeholders of what could constitute socially-responsible behaviour. Moreover, 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 may appear that the stakeholder's theory compelling theme was rooted in strategic management. For instance, Freeman (1984) described the constituent groups as those who "can affect or are affected by the achievement of an organisation's purpose" (Freeman, 1984, p. 49). Eventually, Evan and Freeman (1988) claimed that the businesses were expected to forge good relationships with all stakeholders. They went on to argue that the management's decision-making had to incorporate stakeholder representatives.

Freeman (1994) suggested that the stakeholder theory blends together the central concepts of business with those of ethics. 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. Donaldson and Preston (1995) noted that the evolving literature supported (or critiqued) different concepts, including; the stakeholder model, stakeholder management, and the stakeholder theory. These notions were explained and used by various authors with diverse and often contradictory evidence and arguments. For example, Donaldson and Preston (1995) clearly distinguished between managers and other stakeholders. They made a distinction on the roles of managers and their management function, as they discerned the persons involved; within the stakeholder model. The authors suggested that these two issues were intimately intertwined. Donaldson and Preston (1995) argued that it is at the discretion of managers, and their management function; to select activities and direct resources to obtain benefits for legitimate stakeholders. The underlying question was to identify the companies' legitimate stakeholders. They argued that the stakeholder theory is "managerial" and recommends the attitudes, structures, and practices that, when corroborated together, constitute a stakeholder management philosophy.

Jones (1995) integrated the stakeholder concept from behavioural science and ethics. He posited that trusting and cooperative relationships help to solve problems related to opportunism. He hinted that altruistic behaviours turn out to be productive for businesses. Stakeholder research has primarily concentrated on classifying individual stakeholder relationships and influences. Similarly, Rowley (1997) argued that each firm faced a different set of stakeholders, which could aggregate into unique patterns of influences. Another potential weakness to the stakeholder theory was the lack of suitable representation of the diverse stakeholder groups in corporate decision making (Etzioni, 1999). Evidently, there were reasonable difficulties in both implementation and justification, in having stakeholders' involvement in corporate governance issues. Jones and Wicks (1999) reiterated that properly conceived convergent stakeholder theory involves having corporate managers who behave morally in a stakeholder context, without endangering either the viability of the firm or their relationship with it.

Several authors like Jensen (2000) and Marcoux (2000) noted that managers resorted to stakeholder engagement for their own good. The managers seemed to justify their opportunism by appealing to the stakeholders who were benefiting from their responsible behaviours. Phillips (2003) recognised that managerial opportunism was a problem. He held that the procedure for the stakeholder theory was as crucial as its final distribution. Apparently, 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 (2003) underlined the importance of balancing the stakeholders' interests and treating them alike. He argued that the stakeholder concept lacked in morality as it failed to account for the fiduciary duties toward shareholders. Clearly, the stakeholder theory treated all stakeholders' interests equally; despite the shareholders had a legitimate claim over other stakeholders. Phillips (2003) also noticed that there were some misunderstandings regarding legitimate interests within the stakeholder theory context.

Some other critics including Jensen (2000) argued that when businesses attempted to balance their stakeholder interests, they were distancing themselves from their primary objective of maximising economic value. Berman, Wicks, Kotha, and Jones (1999) held that there was a need for further research to establish a relationship between stakeholder theory and financial performance. Subsequently, Jensen (2002) tried to find the right balance between value maximisation and stakeholder theory. He admitted that enlightened value maximisation demanded requisite trade-offs amongst its stakeholders. However, Wheeler, Colbert, and Freeman (2003) have 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 their new approach has increased the economic value for shareholders. Their stakeholder value-oriented approach was considerably different from Freeman's

(1984) stakeholder theory. This revised perspective had highlighted the benefits of inter-stakeholder relationships. They also suggested that stakeholder engagement could create ‘synergistic value’.

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. Of course, these demands may be met at the expense of shareholders. The better terms for suppliers and/or distributors may translate to higher prices for customers. On the other hand, the neglect of any one stakeholder could set off a downward spiral in the system as the firm’s other stakeholders respond to what they observe. Harrison and Wicks (2013) postulated that businesses ought to create processes for engaging stakeholders. In a similar vein, Verbeke and Tung (2013) suggested that firms needed to move from an idiosyncratic capitalisation of the resources (this is consistent with the Resource-Based View perspective); toward later stage, where institutional pressures towards inter-firm homogeneity (this is consistent with institutional theory thinking), in order to gain and sustain competitive advantage over time.

Evidently, the normative stakeholder theory is widely acknowledged by many academic commentators. From a practitioner perspective, stakeholder theory has taught good managerial and instrumental practices to firms. Nevertheless, the notion of corporate citizenship was also gaining ground in academic publications, particularly in the later 1990s.

1.3.4 Corporate Citizenship

Corporate citizenship (CC) describes the corporations as social institutions. This notion is rooted in political science as it directs corporations to respond to non-market pressures. Corporate citizenship promotes the social and environmental behaviours, especially in the global context (Carroll, 1998; Crane & Matten, 2007; Frederick, 2008; Matten & Crane, 2005). It may appear that corporate citizenship 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.

For decades, businesses were taking part in philanthropic activities. Sometimes they contributed through their donations in cash or in kind toward the community. This was widely perceived as a clear expression of appropriate corporate citizenship. As a result, corporate citizenship has been conceived and accepted by the general public. Businesses were voluntarily engaging themselves in social and environmental activities out of their own volition; as responsible practices were not necessarily mandated by law. During the late 1980s and into the 1990s, practitioners became more concerned about their societal relationships (Altman & Vidaver-Cohen, 2000; Windsor, 2001, 2006). Several pioneers in the CSR field, including Carroll, (1979), Davis (1973) and McGuire (1963) had floated the idea of looking at the firm as being a citizen.

Epstein (1989, p. 586) noted that good corporate citizenship was simply evidenced in socially-responsible organisational behaviour. The corporations' support (through financial and/or non-monetary contributions) to philanthropic, charitable causes have put them in a good light among stakeholders. Hunt, Wood, and Chonko's (1989) investigated broad based perceptions on (a) how managers acted ethically in their organisations (b) how managers were concerned about ethical issues, and (c) the extent to which employees perceived that ethical (or unethical) behaviour was rewarded (or punished) in their organisation. Subsequently, Pinkston and Carroll (1994) identified four dimensions of corporate citizenship, including; orientations, stakeholders, issues and decision-making autonomy. They argued that by observing orientations, one may better understand the inclinations or posturing behaviours of organisations; with respect to corporate citizenship. The stakeholder dimension suggested that the organisations felt responsible to identify where social concerns were originating. The aspect of decision-making autonomy was believed to illuminate the perceived importance of corporate citizenship as one that could determine at what organisational level corporate citizenship decisions were actually made. Very often, the measurement of corporate citizenship could have involved quantitative analyses on organisational commitment toward responsible behaviours (Maignan, Ferrell, & Hult, 1999). Significant empirical and conceptual work on corporate citizenship was also carried out in the late 1990s (see McIntosh, Leipziger, Jones, & Coleman, 1998; Tichy, McGill, & StClair, 1997).

A number of similar studies have gauged corporate citizenship by adopting Fortune's reputation index (Fryxell & Wang, 1994; Griffin & Mahon, 1997; Stanwick & Stanwick, 1998), the KLD index (Fombrun, 1998; Griffin & Mahon, 1997) or Van Riel and Fombrun's (2007) Reptrak. Such measures required executives to assess the extent to which their company behaved responsibly toward the environment and the community at large (Fryxell & Wang, 1994). Despite their wide usage in past research, the appropriateness of these indices still remains doubtful. For instance, Fortune's reputation index failed to account for the multidimensionality of the corporate citizenship construct as it could have been more useful to measure management quality, rather than corporate citizenship (Waddock & Graves, 1997). Fortune's past index suffered from the fact that its items were not based on theoretical arguments; as they did not appropriately represent the economic, legal, ethical, and discretionary dimensions of the corporate citizenship construct. With regards to management philosophy or policy; at the time, there was more concern on strategic giving, cause-related marketing, international donations, employee volunteerism, sustainability and global corporate citizenship (Windsor, 2001). 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'. 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). The increasing popularity of the corporate citizenship concept can be attributed in part to certain factors that were having an impact on the relationship between business and society (Andriof & McIntosh, 2001).

Logsdon and Wood (2002) believed that the 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. He argued that corporate citizenship was dependent on managerial discretion and on the firms' philanthropic ideology. 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 formed a community (Matten et al., 2003, p. 111). Nonetheless, Munshi (2004) noted there was a lack of clarity among practitioners with regards to who is responsible for setting the standards for global citizenship. However, for the first time, 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. The language of corporate citizenship was frequently being used when referring to CSR issues (Matten, Crane, & Chapple, 2003). Carroll (2004) noted that businesses were never expected to engage themselves in such activities; yet they felt that they were acting as good citizens in society.

Baumann-Pauly, and Scherer (2013) found that companies were still not fully engaging in corporate citizenship behaviours. Although there were some businesses that have aligned their procedures with the requirements of the United Nations Global Compact (UNGC), others were not embedding corporate citizenship in their corporate culture. As a result, these businesses failed in their corporate legitimacy as they did not integrate their stakeholders in the design and discussion of corporate citizenship activities.

1.3.5 Strategic CSR

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

Burke and Logsdon (1996) believed that social projects have helped to create competitive advantage. Similarly, Reinhardt (1998) found that a firm which engages in CSR strategy can generate significant returns as 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 (Lantos, 2001). This is a type of philanthropy that is aligned with profit motives. The strategic CSR perspective seemed to resonate very well with Friedman's (1970) vision. Yet, it may appear that the businesses' way of thinking has changed since Friedman (1962, 1970) held that the companies' only responsibility is to maximise their owners' and shareholders' wealth. CSR has developed as the recognition of all stakeholders, rather than just shareholders being the legitimate concern for the business (see Freeman, 1984). Lantos (2001) described strategic CSR as good works that are also good for the business itself. With strategic CSR, corporations "give back" to their constituencies because they believe it is 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. Lantos (2001) posited that CSR had potential to derive positive benefits for both the societal stakeholders and the firm itself. He 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. Generally, it is quite difficult to quantify the returns of responsible behaviors. However, 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).

Other research has indicated that it is also possible to over-spend on strategic CSR—as this is true of all discretionary marketing expenditures (Lantos, 2001). Some cynical commentators maintained that strategic CSR had impoverished the notion of citizenship. Moon (2001) held that the motivation for engaging in CSR is always driven by some kind of self-interest. Rollinson (2002) also admitted that it is difficult to tell whether ethical behaviour is triggered by altruism or self-preservation. Porter and Kramer (2002) 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. These arguments suggest that there was a business case for CSR (Schwartz & Carroll, 2003). Garriga and Mele´ (2004) suggested that in the long term businesses create value in society. 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, 2003) with a respectful and proactive attitude towards stakeholders (Freeman, Wicks, &

Parmar, 2004). These authors 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. Similarly, Falck and Heblich (2007) held that proper incentives may encourage managers 'to do well by doing good'.

Companies were realising that they could direct their social philanthropic investments to areas that are relevant to the company (Jamali, 2007). Therefore, strategic CSR offered prospects for greater credibility and value added as it involves linking philanthropic interventions with long-term strategic goals. In fact, Jamali's (2007) cases studies have indicated that CSR projects were creating value to the businesses themselves. Husted and Allen (2009) also implied that strategic CSR variables, including; centrality, visibility, and voluntarism were related to value creation. Notwithstanding, Orlitzky, Siegel, and Waldman (2011) contended that there was an optimal level of spending on strategic CSR, as businesses are expected to continuously balance conflicting stakeholder interests and to measure the returns from strategic CSR investments (McWilliams & Siegel, 2011). Recently, Jamali, Dirani, and Harwood (2015) reiterated that CSR can be a strategic capability. Jamali et al. (2015) maintained that CSR should be properly embedded in the firm and supported by a strong HRM function to be sustainable to the business, in the long term.

1.3.6 Corporate Sustainability and Responsibility

Many authors suggested that corporate sustainability activities can be structured into value systems that could result in a better financial performance (Montiel, 2008; Valor, 2005; Van Marrewijk, 2003). According to Dyllick and Hockerts (2002), corporate sustainability relied on six criteria: eco-efficiency, socio-efficiency, eco-effectiveness, socio-effectiveness, sufficiency and ecological equity. Van Marrewijk and Werre (2003) have developed a matrix that distinguished between organisations at different developmental stages, their corresponding institutional frameworks that demonstrated different performance levels of corporate sustainability. They argued that their matrix offered a (self)-assessment tool, that could be used to audit, analyse and interpret corporate sustainability. On the other hand, Salzmann, Ionescu-Somers, and Steger (2005) admitted that corporate sustainability was extremely complex since it was contingent on a number of parameters (e.g. technology, regime and visibility) that varied across industries, plants, countries and different points in time. Notwithstanding, they remarked that corporate sustainability was limited to the reduction of downside operational risk and to measures that were intended to increase eco-efficiency. Salzman et al. (2005) advocated that the economic value of more sustainable business strategies was elusive, since it only materialised in the long term. They argued that the effects of corporate sustainability on intangible assets (e.g. brand value, employee loyalty) were difficult to quantify. Steger, Ionescu-Somers, and Salzmann (2007) have reiterated their opposition to the normative calls in favour of the "sustainability rhetoric" that were raised by many companies and consultancies. They noted that the business case for corporate sustainability lied in improved efficiency and health and safety performance. According to Steger et al. (2007), the companies often lack in their capacity (and will) to collect and process meaningful data on social and environmental issues.

Montiel (2008) noticed that many commentators described corporate sustainability as a nested system consisting of economic social and ecological systems. He recognised that these pillars were interconnected as the economy is part of society, which is also a constituent part of the larger ecological system. He implied that more collaboration between CSR and the corporate sustainability fields will help to increase the impact of social and environmental performance research within the field of general management. Similarly, Visser (2011, 2010) postulated that corporate sustainability's strategic goals are economic development, institutional effectiveness, stakeholder orientation and sustainable ecosystems. Benn, Dunphy, and Griffiths (2014) assessed the organisations' commitment to human and ecological behaviours. They discovered that there was a relentless progression from active antagonism; through indifference, to a strong commitment to actively furthering sustainability values, not only within the organisation; but within industry and society as a whole. This argumentation implies that corporate social and environmental responsibilities represent a transformation of the corporation into a truly sustainable business that is adding value to the business itself, whilst also adding value to society as a whole, and to the environment (Benn et al., 2014).

1.3.7 Creating Shared Value

The concept of creating business value is not new to academia. Wheeler et al. (2003) had proposed a simple framework for the creation of synergistic value among stakeholders. They reconciled the concepts of corporate social responsibility and sustainable development with a stakeholder approach. Wheeler et al. (2003) 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. In a similar vein, Porter and Kramer (2006) claimed that the solution for CSR lies in the principle of 'shared value'. They 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 (EU, 2011). Porter and Kramer (2011) contended that 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 economic results. 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 their shared value approach has set out new business opportunities as it created new markets, it improved profitability and has strengthened the competitive positioning. They argued that when organisations are doing well, there are more available jobs in the community; they address the unemployment issues, resulting in more tax contribution to government authorities. Elkington (2012) maintained that shared value can play a key role in destroying key resources, reducing the planet's biodiversity and de-stabilising the climate. Elkington (2012) went on to say that Porter and Kramer (2011) 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 in 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.

1.4 Conclusions

This chapter has clarified the notion of CSR and its synonymous constructs. A thorough literature review has examined a non-exhaustive list of relevant theoretical underpinnings and empirical studies in the realms of CSR. The academic debate is full of contributions; therefore, this contribution has developed structured and explicative reviews on this broad topic. Evidently, the CSR phenomenon has been wrought from distinctive theories and approaches. In fact, most of the CSR research often referred to different phenomena, in several contexts. Moreover, in the past there were a number of qualitative and quantitative studies (and also theories) that have been used to understand CSR in different temporal dimensions. For instance, this chapter has reported several terms that have been based on the CSR notion; including. Corporate Citizenship (Carroll, 1998; Matten & Crane, 2005; Waddock, 2004), Creating Shared Value (Porter & Kramer, 2011, 2006), Stakeholder Engagement (Freeman, 1984) and Business Ethics (Crane & Matten, 2004). It noted that very often there is a lack of uniformity and consistency in the use of the CSR paradigm. Notwithstanding, this promising research area is attracting researchers from heterogeneous backgrounds; bringing different values, ideologies and perspectives in shaping and formulating CSR theory.

Past theoretical and empirical papers may have shed light on the normative nature of CSR. Debatably, not all the proposed concepts may be considered as equally acceptable to today's businesses. Any academic theory is usually established after a significantly number of tests of validity and internal consistency. In practice, many companies may be following the shareholder model. Other companies' CSR activities could be related to the corporate social performance model. In addition, there are multinational corporations who may be adopting the corporate citizenship practices or the global business citizenship model.

This contribution has reported that every CSR construct 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. Nevertheless, there are other synonymous notions pertaining to sustainable and responsible practices of the smaller businesses. For example, this contribution did not report on the extant conceptualisations behind, responsible entrepreneurship, social entrepreneurship (Austin, Stevenson, & Wei Skillern, 2006; Mair & Marti, 2006), social innovation (Mulgan, Tucker, Ali, & Sanders, 2007) and sustainable entrepreneurship (Cohen & Winn, 2007; Santos, 2012), to name a few.

In conclusion, this chapter has shed light on how CSR has transformed and adapted itself to reflect today's societal realities. CSR is becoming value driven as it is offering new ways of thinking and behaving. CSR engagement is moving away from 'nice-to-do' to 'doing-well-by-doing-good' mantra. Therefore, CSR's latest proposition could appeal to the business practitioners themselves, particularly when corporate sustainable and responsible behaviours will bring significant improvements in economic performance, operational efficiency, higher quality, innovation and competitiveness.

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Chapter 2
International Policies and Regulatory Instruments for Non-financial Reporting

2.1 Introduction

Corporate social responsibility (CSR) often involves the development of network relations as both private and government actors invest in and draw upon social capital (Habisch & Moon, 2006). CSR necessitates legal compliance as well as 'customary ethics' (Carroll, 1991). In this context, it seems that a motivation for CSR may be borne out as a necessity to offset the threat of regulation. 'Many companies prefer to be one step ahead of government legislation or intervention, to anticipate social pressures themselves', (Moon & Richardson, 1985, p. 137 in Crane, Matten, & Spence, 2008, p. 308). Therefore, non-governmental organisations (NGOs) sought to step into the regulatory vacuum created by the inadequacies of both national governments and international institutions to regulate multinational corporations (MNCs) by forging alliances with consumers, institutional investors and companies themselves (Newell, 2000, pp. 117–118). While they cannot replace the role of the state, these social movements have created new mechanisms of global business regulation. According to Knill and Lehmkuhl (2002, p. 442); global corporate responsibility is intended to compensate for the decreasing capacities of national governments for providing public goods. CSR may have represented an effort to challenge the increasing reluctance of national governments to impose regulations on global firms that could have discouraged domestic investment. Hence, the aim of this chapter is to better understand how business and government may become more aligned with regards to the regulatory aspect of CSR. This contribution suggests that there is scope for governments to take an active leading role in triggering responsible behaviours among firms. The businesses themselves

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will realise that appropriate environmental, social and governance regulations can bring in economic value as well.

2.2 The Regulatory Frameworks for Environmental, Social and Governance Reporting

The growth of global CSR engagement can be viewed in the context of business developments within the international trade law. For instance, a number of bilateral and regional trade agreements were entered into force in North American and European countries. They contained such provisions about the inclusion of labour, human rights and environmental standards in trade agreements. Nonetheless, the former General Agreement on Tariffs and Trade (GATT) and the World Trade Organisation (WTO) (which replaced GATT in 1995) never necessitated countries to conform to any product labelling standards which describe how products have been sourced and produced outside of their borders. In this light, during the mid-1990s, Mr Robert Reich in his capacity as the American Secretary of Labour has asked the International Labour Organisation (ILO) to develop a social label that would certify to consumers which products comply with the ILO standards. However, his proposal has been denounced by the representatives of the developing countries as it was considered as a form of protectionism and was eventually abandoned (Crane, McWilliams, Matten, Moon, & Siegel, 2009). Surprisingly, this setback has triggered the formation of private labour certification standards which now represent a critical dimension of contemporary global corporate responsibility (Vogel, 2005). The ILO has limited itself to establish minimum standards for working conditions and these have been agreed to by numerous governments. These standards were and still are entirely voluntary in nature as the ILO has no enforcement capacity. The growth of interest in the private regulation of global firms is a direct outgrowth of the lack of effective regulation of global firms (Newell, 2002; Rasche, 2007).

Thus, the regulation of trans-national firms was denounced from the agenda of the United Nations' (UN) Commission on Environment and Development, while another related initiative—the UN Agenda 21 did not recommend the creation of global codes of conduct for multinational corporations (see Agenda, 1992). Likewise, the Commission on International Investment and Transnational Corporations was unable to agree on a code of conduct for global firms due to conflicts between developed and developing nations. Yet, the Organisation for Economic Cooperation and Development (OECD) issued guidelines for MNCs. The OECD Principles have provided an international benchmark for corporate governance. These principles guide policy makers, regulators and market participants in improving their legal, institutional, and regulatory framework. The OECD Principles (1999) are reproduced in Table 2.1.

These principles have served as the basis in various reform initiatives by different governments and have been taken up by the private sector in different

Table 2.1 Basic principles of corporate governance

• *Protection of shareholders' rights*
Entails the protection of shareholders and maintaining investor confidence at all times in a way of ensuring the continuous inflow of needed capital
• *Equitable treatment of shareholders*
Entails the equitable treatment of all equity investors, including minority shareholders
• *The role of stakeholders in corporate governance*
Entails the skillful consideration and balancing of interests of all stakeholders, including employees, customers, partners and the local community
• *Accurate disclosure of information*
Entails the accurate and timely disclosures of clear, consistent and comparable information in good times and bad times;
• *Diligent exercise of board responsibilities*
Board elections should be totally free from political interference and board members should exercise their responsibility diligently and independently.

OECD (1999)

countries (Jesover & Kirkpatrick, 2005). Apparently, the ILO and the OECD Guidelines have garnered the formal support from many business organisations. The UN Global Compact has also been recognised on a number of occasions by the UN General Assembly as well as by all the Heads of States and Governments in the World Summit Outcome document. The International Finance Corporation's (IFC); 'Environmental and Social Standards' were also developed within a governmental framework, and sometimes with significant inputs from businesses and other sectors. Enterprises can better identify and manage issues that may influence their business success by disclosing social, environmental and governance information (EU, 2012).

Several experts have supported the idea of a principles-based approach, rather than a detailed, rules-based one. According to this view, the EU Commission Expert Group suggested that their framework on non-financial reporting has given flexibility to the companies to decide the topics to report on and on the metrics they use. The European Union's (Directorate General of the Internal Market and Services) experts came up with an innovative approach, which incentivised the companies to report their non-financial information. Of course, materiality is considered as a key concern by several audit experts. The experts stressed that improving materiality of reports is useful to address the comparability issues. They advocated that the companies' boards should have ownership on reporting, in order to make it relevant and effective. Clearly, the experts did recognise that there were significant differences in national cultural contexts as well as in their respective reporting mechanisms. Some experts have indicated their concern about the consequences of adopting more detailed reporting requirements (including specific KPIs) into EU legislation. On the other hand, they did not reject the idea of proposing a list of topics which could be covered by any company when reporting its responsible practices. The current EU framework still does not provide a specific reference framework as to the expected quality of the disclosure of the non-financial reports. It transpires that there are significant differences in mentalities across different member states, and within particular economic sectors (EU, 2011).

To date there is still no 'one-size-fits-all' with regards to non-financial reporting. For the time being, the instruments for environmental, social and governance reporting are not compulsory, although quite a lot of CSR tools and standards have already been developed. Arguably, such voluntary principles may have directed enterprises to appropriate CSR behaviours, by providing good guidance for best-practice through workshops, formal policy guidelines and media releases (EU, 2011). The European perception has also been drawn from a myriad of environmental management tools which measure the degree of sustainability. "It is against this background of weak instruments and failed initiatives at the international level that NGOs have begun to target MNCs with increasing frequency and vigour in recent years", (Newell, 2002, p. 910).

2.3 International Standards for Corporate Social Responsibility and Sustainability Reporting

Academic literature about the corporate responsibility agenda is proliferating. The corporations' political role has inevitably raised the need for further transparency and accountability of their practices. The national and international laws have failed to hold corporations accountable for their actions (Bondy, Moon, & Matten, 2012). Apparently, the so called accountability standards were assisting businesses in taking into account their stakeholders' interests (see Rasche, Baur, Van Huijstee, Ladek, & Naidu, 2008). The accountability standards represent voluntary predefined norms and procedures for organisational behaviour with regards to social and/or environmental issues and are often valid on a global level (Rasche, 2010).

There are several well-known examples of such standards, which of course possess considerable differences. These standards help corporations to be accountable to the consequences of their actions. Organisations are encouraged to assess and communicate their responsible activities and impacts on social and environmental issues to their stakeholders (Crane & Matten, 2004). Many scholars have often described the basic characteristics of these standards (Leipziger, 2001, 2003). Yet, it may seem that there is still no formal model which can be used as a yardstick to evaluate these standards' strengths and weaknesses. The accountability standards reflect a shift towards a 'quasi-regulation' which is based on a substantive (outcome-based) and reflexive (process-based) law approaches (Rasche et al., 2008). A 'substantive' law approach is regulated by prescribing predefined outcomes, whereas a 'reflexive' law approach is regulated by prescribing procedures to determine outcomes in a discursive way (see Hess, 2001). It is suggested that the standards can be analysed on two distinctive levels: a macro-level that reflect the standards' substantive element and a micro-level that reflect the standards 'reflexive element' (Gilbert & Rasche, 2007; Rasche & Esser, 2006). Different stakeholders are shaping CSR communications in relational networks. On the macro-level, the institutionalisation of CSR can be described as a multi-level process between regulatory drivers. These actions may possibly be triggered by different external expectations and conditions. In the micro-level, stakeholders translate and interpret CSR according to their personal values, organisational roles and constructions of reality.

The macro-level represents the substantive standard, whereas the micro-level corresponds to the implementation procedures to make macro-level norms a success. On the macro level, accountability standards seem to provide the general norms which focus on outcomes and echo a substantive law approach. For instance, the standard Social Accountability (SA8000) came up with eight central norms which can be taken up by organisations (e.g. health and safety standards). These macro-level norms are outcome-focused, as they indicate which practices are expected from the corporations in order to be perceived as accountable (Rasche, 2009). Since most accountability standards are addressing corporations all over the world, their macro-level norms appear to be generic and broad. Interestingly, Leipziger (2001, 2003) has inquired about the accountability standards which are positioned at the macro-level. The author went through the macro-level norms and questioned how the standards can become legitimised. She looked at the standards' compliance as well as their verification processes with the macro-level norms. Finally, Leipziger (2003) concluded that there is an appropriate level of specification for global macro-level norms. Rasche and Esser (2006) argued that most standards do not differ much with regard to the content of their macro-level norms. The authors implied that the key challenge ahead is not the development of more norms, but rather to make the existing ones more effective, by issuing guidance on how to implement them appropriately.

2.4 The National Governments' Regulatory Role

The governments are usually considered as the main drivers of CSR policy. However, there are other actors within society, such as civil organisations and industry. It is within this context that a relationship framework has been suggested by Mendoza (1996) and Midttun (2005). Inevitably, it seems that there was a need for a deeper understanding of the governments' role and function in promoting CSR behaviours. Societal governance is intrinsically based on a set of increasingly complex and interdependent relationships. There are different expectations and perceptions within each stakeholder relationship, which have to be addressed to develop an appropriate CSR policy. Essentially, this relational approach is based on the idea that recent changes and patterns affecting the economic and political structure may transform the roles and capacities of various social agents (Albareda, Lozano, Tencati, Midttun, & Perrini, 2008). The exchange relationships among different actors and drivers which are shaping CSR policy and communications

According to Golob et al. (2013) CSR communication is concerned with the context/environment within which CSR communication practices take place. The authors went on to say that it is necessary to observe CSR communication processes between organisations, (new) media and stakeholders. Apparently, several governments have chosen to draw business further into governance issues without strictly mandating behaviour and specifying penalties for non-compliance. For example, the UK government's Department Innovation and Skills, DBIS website states: "The government can also provide a policy and institutional framework that stimulates companies to raise their performance beyond minimum legal standards. Our approach is to encourage and incentivise the adoption of CSR, through best practice guidance, and where appropriate, intelligent (soft) regulation and fiscal incentives" (DBIS, 2013).

Similarly, in the context of high unemployment levels and social exclusion in Denmark, Ms Karen Jesperson, the Minister of Social Affairs (2003) had unveiled the campaign entitled, "It concerns us all", which drew attention to the ways in which CSR could assist in addressing public policy problems (Boll, 2005). In a similar vein, the Swedish governments' CSR initiative had called on the companies' commitment in upholding relevant international standards. In Australia, the former prime minister, John Howard had formed the Business Leaders' Roundtable as a means of encouraging business leaders to think about how they could assist government in solving the social problems (Crane et al., 2009). Arguably, the governments can facilitate CSR implementation by setting clear frameworks which guide business behaviour, establishing non-binding codes and systems, as they could provide information about CSR to firms and industries. For instance, the UK and Australian governments came up with the notion of CSR as a response to mass unemployment. They set public policies which have encouraged companies to engage in CSR practices by providing relevant work experience and training opportunities to job seekers (see Moon & Richardson, 1985, Moon & Sochacki, 1996). Similarly, the EU institutions have frequently offered trainee subsidies and grants for education, including vocational training for the companies' human resources development (EU, 2007). The governments' role is to offer guidance on best practice. Japan is a case in point, where there are close relationships between government ministries and corporations. The firms in Japan report their CSR practices as they are required to follow the Ministry of Environment's framework (Fukukawa & Moon, 2004). Such evidence suggests that there is scope for the respective governments to bring their organisational, fiscal and authoritative resources and use them to form collaborative partnerships with businesses to trigger their CSR engagement. National governments may act as a catalyst in fostering responsible behaviours.

For instance, India has taken a proactive stance in regulating CSR as it enforced corporate spending on social welfare (India Companies Act, 2013). India, with its latest Companies Bill is pushing big businesses to fork out at least 2% of their 3-year annual average net profit toward CSR purposes. Clause 135 of this bill casts a duty on the Board of Directors to specify reasons for not spending the specified amount on CSR (EY, 2013). It mandates companies to form a CSR committee at the board level. The composition of the CSR committee has to be disclosed in the annual board of directors' report. The board will also be responsible for ensuring the implementation of their CSR action plan. The annual Director's Report has to specify reasons in case the specific amount (2% of the Profit after Tax) has not been utilised adequately. IB (2014) has recently estimated that around 8000 companies in India will be shortly accounting for CSR-related provisions in their financial statements. Although its economy is growing year on year, this country is striving to improve its credentials on human rights and precarious labour conditions among other issues. These CSR-related provisions would closely translate to an estimated discretionary expenditure between $1.95 billion and $2.44 billion for CSR activities. In a similar vein, the European Parliament passed a vote to require mandatory disclosures on non-financial and diversity information by certain large companies and groups on a 'comply or explain' basis (Camilleri, 2015). This vote amended Directive 2013/34/EU and affects all European-based 'Public Interest Entities' (PIEs) of 500 employees or more as well as parent companies (EU, 2014).

2.5 Non-governmental Regulatory Tools

The corporate statements, codes of conduct and the ethical codes serve as a basic institutional indication of organisational commitment and aspiration for social responsibility. Whilst the businesses' very own codes of conduct tend to be designed primarily for internal use and scrutiny (Gilbert & Rasche, 2007), there are international standards and guidelines which focus on social or environmental issues. Nowadays, several standards span in more than one company or industry. The process-oriented standards are applied in particular industries. Whilst other performance-oriented standards are more generic in their approach as they focus on specific areas such as human rights, labour standards, environmental protection and the like (see Jamali, Safieddine, & Rabbath, 2008). Many NGOs are providing a certification for compliance with proposed rules and guidelines as they incorporate their own independent monitoring systems (Berkhout, Hertin, Wagner, & Tyteca, 2008). The following are some of the most popular standards and reporting instruments: Accountability's AA1000, British Assessment's—OHSAS 18001, Eco-management and Audit Scheme (EMAS), Global Reporting Initiative (GRI), Fair Labor Association (FLA), International Standards Organisation's ISO 26000—Social Responsibility, International Standards Organisation's ISO 14001, Environmental Management System, Social Accountability's SA8000 and the United Nations Global Compact among others.

There is an ongoing discussion about the gap between theory and reality concerning CSR policy and practice. CSR reporting instruments and standards for social and environmental performance such as industry-based certifications (e.g., SA8000; ISO 14001) and product-based standards (e.g., Fair Trade) have grown in number and as they became quite popular in the past decades. In many cases, these standards have been taken up voluntarily by businesses. Such instruments signal the firms' responsibility credentials to their stakeholders (Simpson, Power, & Klassen, 2012). Non-governmental agencies have developed standards to certify specific types of manufacturing practices (e.g. ISO 14001 and OHSAS 18000) so that firms can identify responsible suppliers and niche producers. Suppliers are increasingly aware of the importance of honesty and quality in all of their procurement contracts, dealings and advertising. Similarly, consumers are increasingly becoming acquainted with the responsible procurement of products, organic certifications and 'Fair Trade' initiatives that can possibly improve the identification of sustainable products with unique characteristics (Fair Trade, 2012).

Apparently, many standards are providing adequate guidance to businesses who are voluntarily applying the predefined norms and procedures in their social and/or environmental issues. Evidently, the CSR's standards may be very different from the individual firms' codes of conducts. Such standards are designed by third parties and are usually applied across different industry sectors and geographic regions (Leipziger, 2003, p. 37). The standards include initiatives such as SA8000, AA1000 and the GRI. For instance, GRI grew out of a joint initiative between the U.S. Coalition for Environmentally Responsible Economies (CERES) and the United Nations Environment Programme. GRI complements existing financial reporting frameworks with an environmental reporting framework that provides guidance for companies in reporting on the environmental sustainability of its current operations. De Tomasi (2006) held that the GRI codes involved consultation with industry and government groups in their formulation. The author believed that they are issue-specific, designed to improve reporting requirements in the areas of social and environmental impact assessments.

CSR standards are often related to soft law solutions for the business as they are not legally binding. However, the rules usually emerge directly from the hard provisions which arise from government legislation, which are enforced by public authorities. Conversely, the compliance with soft law is voluntary and is not legally enforceable. In this sense, these instruments act as a precursor, and may pave the way for harder or legalistic initiatives. Once a particular standard gains a broader cultural acceptance; it turns out that it is usually internalised by businesses. Many of the mentioned corporate responsibility standards may often fill governance and accountability gaps in certain contexts; for which there may be no applicable national law or regulatory enforcement.

Interestingly, the U.S. Occupational Safety and Health Administration (OSHA) converted a large number of voluntary health and safety standards into regulatory requirements. Moreover, the Brazilian state of Acre has made certification under the Forest Stewardship Council's sustainable forestry programme a requirement for practicing forestry in the state. Zimbabwe has incorporated ISO 14001 into its regulatory system (Stenzel, 2000). Nonetheless, the quality of the ISO 14001 has been criticised altogether (Mueller, Dos Santos, & Seuring, 2009). A study by the University of Sussex among 280 companies has indicated that ISO 14001 certified companies were not so different than other companies without an ISO certificate. This study revealed that the employees' behaviour has hardly changed following the attainment of the ISO certification (Berkhout et al., 2008).

Some standards have been developed to ensure that corporations remain transparent and accountable in their behaviour, as they provide assurance mechanisms. For example, the social accountability standard SA8000 maintains a universally accepted 'working conditions standard' throughout the global supply chain (Reynolds & Yuthas, 2008, pp. 51–52). This standard is applicable to a wide range of industry sectors and to any size of organisation (Jiang & Bansal, 2003). Interestingly, the businesses which implement the standards have committed themselves to integrate the standard into their existing management systems. This standard may entail incorporating SA8000 into staff training, strategic planning and the facility's supply chain management. Apparently, SA8000's focus on the establishment of management systems has been drawn on the experience of the well-acclaimed ISO 9000 and ISO 14000 standards (Leipziger, 2001, p. 9). SA 8000 configures the requirements for social evaluation, as it refers to forced labour. Evidently, the companies pledge to fulfil all standard requirements when they implement them. This is followed by thorough examinations of adequateness as they should be committed to make continuous improvements in their operational procedures.

Klettner, Clarke, and Boersma (2013) article has outlined a good example of how corporate governance processes and structures are being implemented by fifty listed companies in Australia. Although, the authors have presented an empirical analysis of the governance of sustainability, their paper gave no evidence of how leadership structures were put in place to ensure that board and senior management were involved in their corporate sustainability strategy. On the other hand, Michelon & Parbonetti's (2012) contribution examined the relationship of board composition, leadership and structure in corporate governance disclosures. The authors indicated how good corporate governance and sustainability reporting can be seen as complementary mechanisms of legitimacy as companies are expected to communicate about their practices with stakeholders. Specifically, they claimed that, as disclosure policies emanate from the board of directors, sustainability disclosures may be a function of the board attributes. Michelon and Parbonetti (2012) investigated the relationship between different characteristics of the board and sustainability disclosures among US and European companies. Their results indicated that there was a distinction between insider and the independent directors' attitudes on social and sustainability disclosures as they focused on the specific characteristics of each director.

Gilbert and Rasche (2007, p. 202) identified that there was a lack of participation by all key stakeholders in the process management of the SA8000 standard. The lack of meaningful stakeholder involvement can threaten the legitimacy of the standard (Gilbert & Rasche, 2007). In practical terms, this means that CSR communication should not be reduced to a corporate function that is carried out at the strategic level or by marketing and PR departments, but should be treated as a holistic endeavour that encompasses the organisation as a whole (Schoeneborn & Trittin, 2013). Every employee, from the CEO down to the worker on the ground, can potentially become a crucial actor of CSR communication (Kjærgaard & Morsing, 2012).

2.6 Corporate Governance, CSR and Sustainability Reporting

According to the EU Commission Expert Group (2012), non-financial reporting enables investors to contribute to a more efficient allocation of capital, and to better achieve longer-term investment goals. Environmental, social and governance (ESG) reporting can also help to make enterprises more accountable in a strategic and instrumental manner. ESG disclosures are a corporate communications' tool which may help companies to be judged as "legitimate" by stakeholders (Nielsen & Thomsen, 2007). At the same time, their ESG reporting could result in increased levels of the citizens' perceived trust in the businesses. Aras and Crowther (2009) sought to explore the relationship between corporate governance and sustainability of FTSE100 companies. They indicated that firms were recognising the benefits of publishing their non-financial reports—first to shareholders, then to potential investors, then to other stakeholders.. Evidently, these responsible businesses were raising their profile among stakeholders by being transparent and accountable to them. Overall, it may appear that the larger corporations are increasingly reporting about their sustainable and responsible. They recognise that such non-financial disclosures add value to their business. CSR communication often translates to commercial benefits for the reputable and trustworthy businesses who regularly disclose their social and environmental reports (Du, Bhattacharya, & Sen, 2010; Morsing & Schultz, 2006).

Klettner et al. (2013) suggested that there is a managerial shift away from an orthodox shareholder primacy understanding of the corporation, towards a more enlightened shareholder value approach, often encompassing a stakeholder-orientated view of business strategy. Generally, it may appear that there is evidence that corporations are genuinely willing to communicate their CSR credentials to interested stakeholders. Ioannoi and Serafeim (2011) maintained that disclosure regulations may have different effects across countries. For instance, they pointed out that firms in China and South Africa are often characterised by severe social and environmental challenges. There are stringent disclosure requirements in some countries, coupled with efforts to increase the comparability and credibility of their sustainability reports. Ioannou and Serafeim (2011) went on to suggest that increases in ESG disclosures which are driven by regulation are usually associated with relevant increases in firm value.

2.7 Conclusions and Recommendations

This chapter builds on emerging theoretical underpinnings which are related to the reporting of corporate sustainability and responsibility behaviours. It considered some of the major intergovernmental benchmarks in corporate governance, social and environmental responsibility; as it reported on some of the most relevant recommendations and guiding principles on non-financial reporting. Many corporate businesses are increasingly using the non-governmental organisations' regulatory tools, process and performance-oriented standards. Most of their standards focus on issues such as labour standards, human rights, environmental protection, corporate governance and the like.

In addition, academic commentators also noted that stakeholders, particularly customers are expecting accountable and transparent disclosures on responsible ESG practices in corporate reports. Relevant literature has indicated that corporate sustainability and responsible behaviours, including stakeholder engagement may bring added value to businesses. This contribution posits that the way forward is to have more proactive governments which address societal, environmental, governance and economic issues. The governments have a vital role to play in improving on the corporate sustainable and responsible practice of businesses operating from their country. Their regulatory roles with stakeholders is intrinsically based on relational frameworks.

Notwithstanding, at the moment, we are witnessing regulatory pressures toward mandatory changes in CSR reporting (EY, 2013; EU, 2014; IB, 2014). However, to date there is still no empirical evidence which suggests that the Indian or European disclosure regulations may have positively or adversely affected the corporations' shareholders. Perhaps, firms may respond differently to the reporting regulations according to their local contexts and realities. Such pressures are responding to energy crises and addressing contentious issues such as resource deficiencies including water shortages.

Nowadays, firms are tackling social issues and implementing certain environmental initiatives (e.g. waste reduction, alternative energy generation, energy and water conservation, environmental protection, sustainable transport et cetera). Perhaps, regulators would accomplish much more by focusing on measuring social and environmental performance by introducing standards, phase-in periods, and utilisation of innovative technologies which will ultimately bring operational efficiencies. Such measures may improve the environment, and increase the organisations' competitiveness. Governments may give fiscal incentives and enforce regulation in certain areas where responsible behaviour is needed. The regulatory changes may involve the efficient and timely reporting of sustainable (responsible) practices. The reporting may be primarily aimed at the larger businesses. The governments may provide structured compliance procedures and they have to explain their objectives. The CSR practices and their measurement, their reporting and audit should be as clear and understandable as possible for businesses. The governments' reporting standards and guidelines may be drawn from the international reporting instruments (e.g. ISO, SA, AA, and GRI). Nevertheless, it must be recognised that there are different businesses out there which consist of various ownership structures, sizes and clienteles. In addition, there are many stakeholder influences which may possibly affect the firms' level of social and environmental engagement.

Although regulation is desired to limit the pursuit of exploitative, unfair, or deceptive practices, this chapter has shown that in some cases regulation (and legislation) is taking the form of command-and-control mandates. It maintains that it is in the businesses' interest to anticipate such regulatory changes and to implement sustainable environmental initiatives to mitigate their effects. It may be argued that any compulsory reinforcement of the regulatory measures may possibly result in efficiencies and cost savings for businesses, in the long term. On the other hand, many governments are increasingly realising that social and environmental behaviours lead to economic growth, social cohesion and sustainable environmental practices.

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Chapter 3
Unlocking Corporate Social Responsibility Through Integrated Marketing Communication

3.1 Introduction

The stakeholder awareness of the CSR policies and practices could result in strategic and financial benefits for the businesses themselves. Therefore, companies' marketers need to possess a thorough understanding on their stakeholders as this will impact on the effectiveness of their CSR communications. The value of their communications platform lies in their ability to open up lines of dialogue with varied stakeholders through stories and ideas that will reflect their interests. Hence, CSR communications could enrich how stakeholders interact with the business and its offerings. This engagement helps the business to improve its customer relationships, by lowering acquisition costs whilst improving on their consumers' trust and loyalty among other benefits. Notwithstanding, a genuine commitment to ongoing CSR communications may also result in stronger employee engagement. Therefore, the corporate communications on environmental and social matters could create a win-win situation for the business and its stakeholders.

Meaningful CSR communications could foster positive behaviours or compel remedial action. Since, the 1980s, some authors have clarified techniques for the effective communication of corporate responsibility (Bruning & Lendingham, 1999; Dawkins, 2005; Du, Bhattacharya, & Sen, 2010; Etter, 2013; Golob, Podnar, Elving, Ellerup Nielsen, & Thomsen, 2013; Lewis, 2003; Manheim & Pratt, 1986; Morsing & Schultz, 2006; Nielsen & Thomsen, 2009). However, Dawkins (2005, p. 109) still pointed out that communication remains the missing link in the practice of corporate responsibility. Lewis (2003, p. 361), also contended that companies often fail to communicate in a sufficiently active manner with their stakeholders.

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In this light, this chapter discusses the challenge of generating favourable CSR attributions from stakeholders. It is primarily concerned with the implementation aspects of CSR communication. This contribution's objective is to review and synthesise the existing literature surrounding CSR communication; hence it provides relevant insights into how companies can communicate about their corporate sustainable and responsible activities more effectively with different audiences. In the process, it also develops and broadens the scope of CSR disclosures as a process of legitimation of the business.

3.2 Organisational Legitimacy and Stakeholder Influences

Suchman (1995, p. 574) considered that "legitimacy is a generalised perception or assumption that the actions of an entity are desirable, proper, or appropriate within some socially constructed system of norms, values, beliefs, and definitions". According to this conceptualisation, the legitimacy theory explains the behaviours of organisations in implementing and developing voluntary social and environmental disclosures in order to fulfil their social contract or "licence to operate" (Porter & Kramer, 2006). Social disclosures are used strategically to manage relationships with stakeholders "by influencing the level of external demands originating from many different constituencies" (Ullmann, 1985, p. 554). Different stakeholders, including; corporations, government institutions, the media, and consumers are driving the CSR dynamics (Caruana & Crane, 2008); as legitimacy is interactively constituted in corporate communication through ongoing and changing descriptions (Schultz, Castelló, & Morsing, 2013). Although companies often manage to control their internal communication paths, it is much harder to control external media.

While there are differences between stakeholder and legitimacy theory (Deegan, 2002), they both focus their attention on the nexus between the organisation and its operating environment. Therefore, these two theories could be regarded as overlapping perspectives on issues situated in a framework of assumptions that recognise heterogenous, competing groups of stakeholders (Van der Laan, 2009). Clearly, there is organisational legitimacy when corporate performance matches the stakeholders' expectations. Hence, businesses could restore, maintain or enhance their legitimacy through relevant corporate communications. Their implementation of any legitimation strategy could include voluntary and solicited CSR disclosures that address norms, values or beliefs of stakeholders (Reverte, 2009; Wanderley, Lucian, Farache, & de Sousa Filho, 2008). The legitimacy theory recognises heterogenous, competing groups of stakeholders (Moir, 2001) who often expect and solicit CSR disclosures from businesses.

Arguably, companies are often in a position to prevent third-party pressures through societal engagement. At the same time, they could lower the criticisms from the public and minimise their legal cases through active compliance with regulations. Tost (2011) maintained that such legitimacy entails an evaluative process as it is a critical driver of institutional and organisational change. This was also suggested by Scherer, Palazzo, and Seidl (2013) as they discussed on the corporations' isomorphic adaptation to societal pressures. Thus, the legitimacy literature also considers the other side of the process, where organisations exercise strategic choices to change the type and amount of legitimacy they possess (Suchman, 1995). Although such approaches constitute the basis for most of the legitimacy literature, they do not fully analyse the relations between the organisation and its stakeholders (Bitektine, 2011; Scherer et al., 2013). The literature tends to underestimate the importance of power relations between actors in the control of their legitimacy process (Lawrence, 2008; Rowley, 1997). Moreover, it may appear that it fails to consider the existence of different cultural orders, including the distinct sustainable development claims (Barkemeyer, Holt, Preuss, & Tsang, 2014). Political perspectives on legitimacy highlight the power relations between different actors as they propose environmental, social and governance conditions for the business (Mena & Palazzo, 2012; Scherer et al., 2013; Vogel, 2005). However, the political perspective has often been accused of being overly normative (Kuhn & Deetz, 2008; Scherer & Palazzo, 2007; Schultz et al., 2013) and of neglecting consideration of the complexity of the debates between corporations and society by assuming institutionalised interactions (Baur & Arenas, 2014) and the closure of debates by means of consensus. Such regulated interactions and consensus building are especially unlikely when corporations address sustainable development issues (Baur & Arenas, 2014), which typically call for the negotiation of social, economic, and environmental factors.

Indeed, addressing sustainable development issues often requires shifting through a multitude of complex and often contradictory stakeholder demands (Freeman, 2010; Hardy & Phillips, 1998) that are defined beyond nation-state governance institutions and instead by multiple ethical systems, cultural backgrounds, and rules of behaviour that coexist within the same communities (Palazzo & Scherer, 2008). As the legitimacy of the business community around sustainable development issues is often challenged (Porter & Kramer, 2011; Scherer & Palazzo, 2011), stakeholder engagement processes have become important instruments for legitimacy building (Banerjee, 2003; Scherer & Palazzo, 2011).

Since sustainable development issues rest on the principles of environmental integrity, social equity, and economic prosperity (Bansal, 2005), reactions to these fall beyond general expectations regarding the role of corporations in a capitalist system (Patriotta, Gond, & Schultz, 2011; Scherer et al., 2013). Researchers have argued that legitimacy in resolving sustainable development issues requires active engagement with stakeholders (Freeman, Harrison, Wicks, Parmar, & De Colle, 2010; O'Riordan & Fairbrass, 2008) and, 'the ability to establish trust-based collaborative relationships with a wide variety of stakeholders' (Sharma & Vredenburg, 1998, p. 735). While stakeholders claim they want to know about the good deeds of the companies they buy from or invest in, they also quickly become leery of the CSR motives when companies aggressively promote their CSR efforts (Du et al., 2010).

A key challenge of CSR communication is how to minimise stakeholder skepticism by conveying the company's CSR activities. CSR reporting may cover areas like training and development opportunities for employees; employee consultation and dialogue; health, safety and security; and also measures for work-life balance among other issues. CSR behaviors could foster a stronger sense of contribution and ownership among internal stakeholders. Dawkins (2005) emphasised that companies should not underestimate the power and reach of employees as CSR communicators. Dawkins' research (2005) on employee advocacy showed that about a third of employees have advised someone to use their company because it had acted responsibly. Since employees typically have a wide reach among other stakeholder groups through their social ties, and are often considered a source of credible information, companies should 'tune up' their internal CSR communication strategy and find ways to engage employees and convert them into companies' CSR ambassadors. According to the Corporate Leadership Council, companies with high employee engagement have up to 87% lower turnover and 20% better performance (McPherson, 2012).

Very often, business organisations are also pledging their commitment on sustainability issues. For instance, innovative practices in environmental responsibility matters may include: energy and water conservation; waste minimisation and recycling; pollution prevention by reducing emissions; increasing environmental protection and using sustainable transportation options. For example, Levi Strauss & Co's efforts to save water has identified an issue that's core to the sustainability of its business as well as the natural environment. In 2010, Levi's partnered with Goodwill to develop care tags that tell consumers not only how to wash the clothes, but where to take them for recycling. As part of its Wateris < Less campaign, Levi's has sold more than 13 million products that needed less washing. The company teamed with Water.org to get thousands of people in more than 1300 cities to pledge their support in providing clean water for life to more than 4000 people worldwide (Du et al., 2010).

3.3 The CSR Communication and Its Content

Stakeholders expect responsible businesses to report a true and fair view of their social responsibility and sustainable behaviours. The non-financial reports should feature genuine and authentic representations of the businesses' CSR credentials, rather than aspirational talk (Christensen, Morsing, & Thyssen, 2013; Du & Vieira, 2012; Nielsen & Thomsen, 2009). Generally, the stakeholders' attribution of a company's CSR motives may be either extrinsic or intrinsic (Du et al., 2010).

Firstly, the extrinsic motive is seen as an attempt to increase the firm's bottomline. Profit-seeking and self-interest is not per se bad, but profit maximisation without any ethical basis leads to some serious shortcomings. Porter and Kramer (2011) contended that not all profit is equal. They went on to suggest that profits involving a social purpose represent a higher form of capitalism—one that will enable society to advance more rapidly while allowing companies to grow even more.

Secondly, stakeholders could perceive that the business has an intrinsic motive when it acts out of a genuine concern toward society and the environment. The stronger attributions of intrinsic motives could lead stakeholders to making positive inferences about the companies' underlying characters.

On the other hand, the extrinsic motives could lead to less favourable stakeholder attitudes and behaviours toward the company (Yoon, Gürhan-Canli, & Schwarz, 2006). Interestingly, the latest plethora of research indicates that stakeholders are capable of perceiving and reconciling different CSR motives. Several empirical studies have indicated that discretionary investments in CSR, whether they are driven from strategic intents or from posturing behaviours, often result in improved relationships with internal and external stakeholders (Camilleri, 2012).

Stakeholders do not respond negatively to extrinsic CSR motives per se, but rather respond negatively to any marketing strategies that seem manipulative or deceptive (Forehand & Grier, 2003). Any discrepancies between the stakeholders' perceived CSR motives and a company's publicly stated motives could trigger the stakeholders' scepticism and feelings of deceitfulness, which in turn will drive negative reactions to the businesses' CSR activities. Forehand and Grier (2003) held that, by acknowledging both intrinsic and extrinsic motives in CSR communication, firms can inhibit stakeholder scepticism, enhance the credibility of their CSR message, and generate goodwill.

Du et al. (2010) contended that the key challenge in designing effective CSR communication strategy is how to reduce stakeholder scepticism and to convey favourable corporate motives in a company's CSR activities. They went on to say that consumers are increasingly attentive to everything that has to do with safety and environmental health. Safeguarding the environment is a criterion they will increasingly consider. Research on CSR attributions shows that consumers often perceive multiple motives, and they understand that companies often seek to achieve certain business goals through their CSR initiatives (Ellen, Webb, & Mohr, 2006; Maignan & Ralston, 2002). Forehand and Grier (2003) argued that extrinsic CSR messages that feature firm-serving motives actually enhance the credibility of a company's CSR communication and inhibit stakeholder scepticism. A number of stakeholders are often tolerant of extrinsic motives as long as CSR initiatives are attributed to intrinsic motives as well (Du et al., 2010). This growing tolerance of extrinsic motives suggests that stakeholders expect the companies to communicate their true motivations behind their CSR engagement. Many stakeholders are aware that there is business case for CSR. Therefore, companies should emphasise the convergence of social and business interests, and acknowledge that their CSR endeavours are beneficial to both society and to themselves (Porter & Kramer 2006, 2011). Du et al. (2010) held that business ought to communicate the CSR fit, or the perceived congruence between a social issue and the company's business. They went on to suggest that this fit affects the stakeholders' CSR attributions.

Companies and their brands could share common associations with the cause, such as product dimensions (e.g. when brands selling herbal products decide to sponsor the protection of rain forests); demonstrate their affinity with specific target segments (e.g. Avon fights breast cancer), or corporate image associations created by the brand's past conduct in specific social domains (e.g. Ben & Jerry's and the Body Shop's activities in environment protection) (Bhattacharya, Sen, & Korschun, 2011; Menon & Kahn 2003). Du et al. (2010) posited that consumers will first attribute CSR activities to dispositional motives (i.e. intrinsic motives). Afterwards, they will engage in more effortful elaboration by considering alternative, contextual factors (e.g. competitive pressure, financial motivations).

On the other hand, low CSR fit could result from the lack of logical connection between a social issue and the companies' business. This is likely to increase cognitive elaboration and it makes extrinsic motives more salient; thereby reducing stakeholders' positive reactions to the companies' CSR activities. Therefore, it is in the businesses' interest to highlight their CSR fit with social initiatives, particularly if the social issues are related to the businesses. When companies do not have a good natural fit with the social cause they support, they should elaborate on the rationale behind their social initiatives, in order to increase the perceived fit. By elucidating the link between the sponsorship and their core business, companies are able to create a high perceived fit and hence enjoy greater business returns to their CSR activities. Nevertheless, other authors including Elving (2013), Yoon et al. (2006) as well as Menon and Kahn (2003) maintained that under certain circumstances, communication of low fit could still lead to more favourable stakeholder reactions. They argued that the companies' alignment with a low-fit cause might differentiate them as they may appear truthful in their motives. This may very well increase the effectiveness of their CSR communication.

3.4 CSR Communication and the Use of Media

Companies are increasingly dedicating their time and resources to promote their public relations initiatives as their corporate communication managers and executives amplify their company's CSR communication efforts. They are in a position to decide what to communicate (i.e. message content) and where to communicate (i.e. message channel) to reach out to different stakeholders. The businesses and their marketers have a wide array of media channels at their disposal. These channels that may be used to communicate their CSR credentials. As a matter of fact, businesses are continuously being scrutinised by media, customers, monitoring groups, consumer forums and blogs (Du et al., 2010) on their responsible behaviours.

Very often, businesses disclose their CSR activities through official documents, such as annual corporate responsibility or sustainability reports, media releases, dedicated sections of their corporate websites; as well as in social media pages or groups. CSR communication is produced, translated, and integrated according to the companies' contexts and their specific reality constructions (Schultz & Wehmeier, 2010).

Companies could use broadcast advertising, including TV and radio commercials. Businesses could also utilise print media (e.g. newspapers, magazines) to disseminate their message to their target audience. Newspaper articles reflect corporate ideas of social responsibilities and assumptions about public expectations, as they react to what they perceive is in the public's expectations (Schultz & Wehmeier, 2010). Alternatively, they may use outdoor advertisements such as billboards and signage on brick-and-mortar premises. These traditional media are based on a hierarchical one-to-many communication; with a clear distinction between producer and consumer of information. Strategic manipulation and isomorphic adaptation strategies tend to be organised by the firm in one-way communication events (Morsing & Schultz, 2006) with selected stakeholders. In contrast, networked strategies favour two-way communication (Morsing & Schultz, 2006) between the firm and its stakeholders, favouring dialogic and contextual engagements (Castelló, Etter, & Årup Nielsen, 2016).

Notwithstanding, there are other communication channels that are not entirely controlled by the company. In this case, there is likely to be a trade-off between the issues of controllability and credibility of CSR communication. The communicators that are not controllable are the most credible. Stakeholders will probably perceive self-interested companies. They are often more critical of corporate messages that come from sources that are biased or subjective. CSR communication via corporate sources could trigger more scepticism and have less credibility than non-corporate sources (Du et al., 2010). For instance, Yoon et al. (2006) indicated that consumers reacted more positively to a company's CSR activities when they learned about its CSR activities from a neutral source (e.g. an independent organisation that provides unbiased evaluations of corporate activities) rather than from a corporate source.

Therefore, although getting media co-operation is often difficult, companies should try hard to get positive media coverage from independent, unbiased sources, such as editorial coverage on television or in the press. It would greatly enhance a company's CSR association if it had to be reported in a positive manner by specialty publications such as *Business Ethics*, or if it received a good CSR rating by independent organisations such as *Fortune* magazine. Also importantly, companies should try to encourage informal yet credible communication channels such as word-of-mouth publicity by stakeholders.

Evidently, the internet has reshaped communication at different levels. It has enabled the emergence of a new participatory public sphere that is based on a many-to-many communication where everybody can dialogically and publicly interact and collaborate in the creation of content and the definition of the agenda (Colleoni, 2013; Jenkins, 2006). In a relatively short period of time, the internet has become an essential tool for organisational communication (Capriotti & Moreno, 2007a). For this reason, businesses are encouraged to become more proficient in the use of digital media in addition to traditional media in order to increase their impact of their corporate communication.

Moreover, in today's digital era, the engagement between the public and the organisation is one of the main characteristics of the internet (Colleoni, 2013). Web pages are a vehicle for the marketing communications of CSR policy and practices. The general public is continuously being presented with content marketing of social and environmental responsibility on the web. Several studies focus on the type of content that is available on corporate web sites. This content is often presented on the sites themselves or through reports that are made available through the sites. However, there is little research that has been dedicated to analysing how such content is organised and structured (Capriotti & Moreno 2007b). The organisation and presentation of information on corporate web sites is of great relevance to different stakeholders. Individual users should have readily accessible information from their CSR report. They will notice how and where the disclosures are presented to online browsers. Capriotti & Moreno (2007b) suggested that these last issues determine the utility and accessibility (of CSR reporting) for users. Therefore, the quality of the CSR reporting relies on adequate web architecture and on the organisation of information (Adams & Frost, 2008; Idowu & Towler, 2004). This refers to the way how the content of the web site is structured.

3.4.1 CSR Communication on Digital Media

The presentation of the web site is defined by organisation schemes and structures (Du et al., 2010). Organisation schemes define the shared characteristics of the units of content and influence its logical grouping (Capriotti & Moreno, 2007b). Hence, organisational structures define the types of relationships that exist between different units (and groups), whilst also establishing the basic routes through which users may navigate the web site (Capriotti & Moreno, 2007b). The information that is related to a single theme needs to be structured and ordered vertically in a sequence. The hierarchisation of content is the most familiar and simplest way of organising information, and should be established in relation to its importance (Capriotti & Moreno, 2007b). The hierarchy can be structured to move from the most general or important topics to the most specific or detailed ones. Therefore, the themes' topics could also link to other sub-topics or related aspects. This way, online users could easily locate and consult the themes they are searching for. The manner in which the information is organised (through schemes and structures) on a web site will determine the usability and accessibility of its contents to visitors. Moreover, it establishes the level of importance of a given topic within the web site. Hence, stakeholder could easily access the CSR themes on corporate web sites. They may browse for the relevant content through the organisational schemes and structures (Capriotti & Moreno, 2007b).

Many corporate websites already possess a high degree of interactivity; including their ability to disseminate information and to generate relationships between the different publics and the organisation (Capriotti & Moreno, 2007a). In the first approach, the level of interactivity is low, and the use of the Internet is unidirectional; as its essential objective is to diffuse information and to try to improve the corporate image of the business. However, in the second approach, the degree of interactivity is high, and the Internet is used to facilitate bidirectional communication and to nurture relationships by allowing dialogue and interaction between the organisation and its stakeholders.

Interactive communication is becoming one of the most important information channels for corporations as it is changing social dynamics (Fieseler & Fleck, 2013). Web-based co-operation and data exchanges have empowered the communication between businesses and their stakeholders (Buhalis & Law, 2008; Fieseler, Fleck, & Meckel, 2010). It enables them to engage with online users and to take advantage of positive publicity arising from word-of-mouth marketing and digital platforms. As a result, it has never been more necessary to turn stakeholders into advocates for both the cause and the company (Du et al., 2010). Therefore, environmental, social and governance disclosures should be presented in a fair manner in all material respects for all stakeholders. Businesses are expected to disclose relevant information that reflects their accountability and transparency credentials (Livesey & Kearins, 2002). Arguably, corporations can maintain legitimacy better as they engage with stakeholders via social media; and take on the gate keeping function of traditional media (Fieseler et al., 2010). At the same time, there are protest actors; who have become more powerful online as they disrupt the corporations' legitimacy by using social media (Castelló, Morsing, & Schultz, 2013).

Societies are currently undergoing a fundamental transformation toward globally networked societies (Castelló et al., 2013). Unsurprisingly, the public relations and corporate communications of business have benefited of social networking software (Etter, Morsing, & Castello, 2011). Of course, these technological advances have brought significant benefits for CSR communication; as companies can reach out to stakeholders in a more interactive way. In a similar vein, the use of social networks has offered the businesses new forms of interactivity that enable them to address the CSR information toward a variety of stakeholders (Morsing & Schultz, 2006). A powerful stakeholder group, the consumers serve as an informal yet highly credible CSR communication channel. In particular, the power of the consumers' word-of-mouth has been greatly magnified given the popularity and vast reach of interactive communication.

Companies such as Stonyfield Farm and Ben & Jerry's have been benefiting from consumer ambassadors who raved, in the virtual world, about their social responsibility endeavours. For example, one consumer wrote enthusiastically about Ben & Jerry's butter pecan ice cream and its support for an educational foundation, 'besides the great flavour that the Ben & Jerry's Butter Pecan Ice Cream offers you, a portion of the proceeds go to the Tom Joyner Foundation [that] provides financial support to students attending historically black colleges and universities' (Du et al., 2010). Therefore, companies can be proactive in using social media to engage with consumers, as they manage online publicity and "use" the referrals of their consumer advocates.

Timberland, a company that is known for its environmental stewardship, launched the Earthkeeper campaign in 2008 to recruit one million people to become part of an online network designed to inspire real environmental behaviour change. As part of the Earthkeeper programme, Timberland launched an innovative global network of online social networking tools, including a strong Facebook presence, a YouTube Earthkeeper Brand Channel and a richly populated Earthkeeper blog, as well as an Earthkeeper product collection which serves as the pinnacle expression of the company's environmental commitment (Du et al., 2010). Through this campaign, Timberland communicated its sustainability initiative. However, it also engaged consumers to spread the word about this laudable initiative and, more importantly, it raised awareness of the company's involvement in this initiative.

3.4.2 CSR Communication and Social Media

Fieseler et al. (2010) suggested that communication through social media is dynamic in relation to traditional media. The global diffusion of social software like blogs, RSS feed, wikis, electronic forum, social networks have facilitated companies to attract prospects and consumer groups. Social media has the technological potential to speed up communication processes (Kaplan & Haenlein, 2010) and to increase direct interaction, dialogue and participation across organisations and various audiences (Colleoni 2013; Schultz et al. 2011). Such interactive communications are referred to as "viral" because ideas and opinions spread like epidemic diseases throughout the network via word-of-mouth. These digital communications are perceived as highly trustworthy sources (Hansen, Arvidsson, Nielsen, Colleoni, & Etter, 2011; Schultz & Wehmeier, 2010). When businesses share CSR information on their stakeholder engagement with online communities, they may find out that their followers (or friends) could also share their passion for good causes. Therefore, online communication could create a ripple effect that grows as it has potential to reach wider audiences.

Accordingly, social media empowers its users to engage with businesses on a myriad of issues. They also enable individual professionals or groups to promote themselves and their CSR credentials in different markets and segments. Due to their apparent lack of gatekeeping and symmetric two-way communication (Morsing & Schultz, 2006; Vorvoreanu, 2009), open social media platforms may be used as a vehicle for corporate-public dialogue (Ángeles & Capriotti, 2009; Fieseler & Fleck, 2013). However, these platforms can also (Whelan, Moon, & Grant, 2013) increase the complexity of the debates and decrease the level of institutionalisation of the interaction between the stakeholders and the firms (Schultz et al., 2013).

Social media and search engine optimisation have transformed the communicative dynamics within and between corporations and their environment. Social media networks are effective monitoring tools as they could feature early warning signals of trending topics. These networks may help business communicators and marketers identify and follow the latest sustainability issues. Notwithstanding, CSR influencers are easily identified on particular subject matters or expertise. For example, businesses and customers alike have learned how to use the hashtag (#) to enhance the visibility of their shareable content (Some of the most popular hashtags comprise: #CSR #StrategicCSR, #sustainability, #susty, #CSRTalk, #Davos2016, #KyotoProtocol, #SharedValue et cetera). Hashtags could be used to raise awareness on charities, philanthropic institutions and green non-governmental organisations. They may also help during fund raising events. Hence, there are numerous opportunities for businesses to leverage themselves through social networks as they engage with influencers and media.

The ubiquity of Facebook, Instagram, Twitter, Linkedin, Snapchat, Pinterest and Google Plus over the past years has made them familiar channels for many individuals around the globe. These networks have become very popular communication outlets for brands, companies and activists alike. Facebook and Twitter have become popular tools that are used by millions of people to publish messages and conversationally interact through their computers and mobile phones. Twitter provides a variety of ways for users to become interactive (Herring & Honeycutt, 2009; Schultz, Utz, & Göritz, 2011). First of all, users can declare that they are interested in following other individuals (friends on Facebook), as they may also be notified if those members have posted new messages (Etter et al., 2011).

Moreover, LinkedIn is yet another effective tool, particularly for personal branding. However, this social network helps users identify and engage with influencers who share their same interests. Companies can use this site to create or join their favourite groups (e.g. GRI, FSG, Shared Value Initiative among others). They may also use this channel for CSR communication as they promote key initiatives and share sustainability ideas. Therefore, LinkedIn connects individuals and groups as they engage in conversations with both academia and CSR practitioners.

In addition, Pinterest and Instagram enable their users to share images or ideas with other users in their networks. These social media outlets could also be relevant in the context of the sustainability agenda. Businesses could illustrate their CSR communication to stakeholders through visual and graphic content. Evidently, these innovative avenues provide sharable content, including; infographics or videos to groups who may be passionate on certain issues, including CSR and sustainability.

Moreover, digital marketers are increasingly uploading short, fun videos which often turn viral on internet. YouTube, Vimeo and Vine seem to have positioned themselves as important social media channels for many consumers, particularly among millennials. These sites offer an excellent way to humanise or animate CSR communication through video content. These digital media also allow their users to share their video content across multiple networks. For instance, videos featuring university resources may comprise lectures, documentaries, case studies and the like.

The Internet and social media open platforms are shifting the power dynamics and increasing the complexity of the debates between business and society (Hanna, Rohm, & Crittenden, 2011). Open platforms provide access to multiple stakeholders, increased speed in communications, and have an apparent lack of gatekeeping mechanisms (Keegan & Gergle, 2010). This facilitates two-way communication between participants (Briones, Kuch, Liu, & Jin, 2011) without formal hierarchies. Open platforms are therefore unique spaces for coping with the emerging diversity and plurality of the sustainable development agenda (Castelló et al., 2013). Participants in social media can no longer be classified as formal, functional, or institutionalised stakeholders (e.g., as customers or NGOs) but are defined as publics and are categorised in relation to their changing affinities to the specific issue under discussion (Castelló et al., 2013; Whelan et al., 2013).

However, despite the premise that social media improves the efficiency of communication between the businesses and their publics, recent studies have shown that the implementation of this engagement is neither automatic nor easy (Besiou, Hunter, & Van Wassenhove, 2013; Etter, 2013; Fieseler et al., 2010). The dialogic features that has been enabled by web pages, blogs, and other social media could prove difficult to apply when interacting with diverse stakeholders (Ángeles & Capriotti, 2009; Etter, 2013). Although recent communication research has developed indicators to measure the dialogic level of the engagement (Ángeles & Capriotti, 2009), little research has attempted to identify the legitimacy constraints on managing online engagements in complex environments. Research is thus required in this promising field in order to understand how corporations gain legitimacy through engagements in social media.

3.4.3 Environmental, Social and Governance Reporting in Corporate Web Sites

The corporate websites are increasingly dedicating more space to explain their company's characteristics from a commercial perspective rather than from an ethical one (Capriotti & Moreno, 2007b). The information about the corporate profile is usually divided in two sections: "company profile" and "information for investors and shareholders". Very often, the first section (About Us) presents the general information of the companies, such as the corporate philosophy, the number of outlets or factories, countries/regions where the companies operate from, and other generic data about economic and financial results. In the second section, online users could find more detailed facts and figures on the financial performance of the companies. Notwithstanding, there could be relevant information about the company's property, structure and legal form, and it usually describes the corporate strategy. Most of the corporate information is not related to the corporate responsibility principles and practices. However, some companies are including the possibility to download some corporate documents, such as annual reports within these sections.

Capriotti & Moreno (2007b) reported that listed companies were disclosing descriptive information on their products, services and activities, rather than explaining the way how they create, develop, produce and sell their products and services (raw materials, manufacturing systems and the like). Apparently, these were prevalent themes on the Spanish companies' domains as they featured the general characteristics pertaining to their company's profile and of their offerings. However, this information is not linked to the corporate responsibility agenda. Capriotti & Moreno (2007b) found that the Spanish companies were not always reporting non-financial information about human rights, labour rights, or gender, minority or children's (labour) rights. Their study indicated that the majority of the companies often provided information on job opportunities or about career prospects. In the main, the listed companies were disclosing information on social principles and on their commitment to improve society. There were corporations that presented information on their contribution through funding and sponsoring toward philanthropy and cultural issues. In addition, some of these corporations also disclosed information on their sustainability values as they described their environmental responsibility. A few companies shed light on their impact on the environment (in economic terms). Evidently, most of the listed companies dedicated specific sections on their social and environmental behaviours. Internet users could download the CSR or environmental responsibility reports through these companies' web sites.

The corporate governance reporting is a legal obligation for listed companies, in many jurisdictions. In fact, corporate governance has also a high presence on corporate web sites of businesses; due to their legal obligation when they are listed in the Spanish stock market. Yet, Capriotti and Moreno (2007b) noted that very few companies were including detailed declarations and explanations on their transparency compromises in the governance of their company. They held that some companies did not disclose adequate and sufficient details on their corporate governance aspects, including; the structure of power, remunerations or responsibilities. Again, there were corporations that have included within this section the possibility to download their corporate governance report. Nowadays, companies are expected to "comply or explain" to their stakeholders on their compliance with the directive on non-financial reporting (Camilleri, 2015).

Very often, companies do not address corporate ethics in an explicit manner. Even when they do, this theme appears in a diluted form within other issues (Capriotti & Moreno, 2007a, 2007b). Generally, companies inform their stakeholders and the general public about the ethical principles. Some businesses voluntarily disclose how they developed and applied a code of ethics within the corporation. At times, there are also corporations that may decide to present declarations and explanations about their declared interests. The principal stakeholders of businesses comprise the employees, the investors and shareholders, the consumers, and the community. However, Capriotti and Moreno (2007b) indicated that the Spanish companies were not always identifying who their stakeholders are. Perhaps, these businesses did not have appropriate systems in place to foster stakeholder engagement.

Yet, Capriotti and Moreno (2007b) went on to suggest that the majority of Spanish companies reported that they used external evaluative criteria to disclose their CSR activities. They implied that these businesses did not include much information about the rationale behind setting higher standards of corporate responsibility. Apparently, many companies were not justifying the impact and results of their evaluation. Capriotti and Moreno (2007b) indicated that the GRI, the UN global compact and the stock exchange indices (including the FTSE 4 good and Dow Jones Sustainability Index) were among the most popular international criteria that were followed by Spanish companies, at the time of their study.

It may appear, that several companies are increasingly giving more importance to the communication of responsible corporate behaviours through web sites. The presence of a specific section that is dedicated to CSR signifies an explicit recognition of the topic in question. In this day and age, most of the stakeholders (including employees, investors, shareholders and suppliers) have become very acquainted with reputable corporations who report their genuine CSR credentials through their respective corporate websites. Indeed, this can happen if CSR initiatives are a good fit for the firms' mission and vision (Kotler & Lee, 2008). Relevant theoretical underpinnings suggest that CSR communication often reflects the ethos of the practicing organisations.

3.5 Conclusions

This chapter has reviewed different aspects of CSR communication from message content and communication channels to company- and stakeholder-specific factors that influence the effectiveness of CSR communication. While stakeholders claim they want to know more about the responsible behaviours of the companies they interact with, they can easily become leery of their extrinsic motives when they promote their CSR efforts. Therefore, CSR communication can have a backlash effect if stakeholders become suspicious and perceive the companies' extrinsic motives behind their social and environmental initiatives. A key challenge for corporate communication executives is to generate favourable CSR attributions to overcome stakeholder skepticism. Therefore, businesses ought to strike a balance in satisfying numerous stakeholders' expectations (Donaldson & Preston, 1995; Freeman, 2010). It is in their interest to engage in fruitful and collaborative working relationships with different people, as dialogue often leads to improvements in mutual trust and understanding (Camilleri, 2012; Schein, 1993). Ongoing communication with stakeholders could also translate into tangible benefits for the business (Camilleri, 2012; Porter & Kramer, 2011). Over time, engaging with the people who matter most (i.e. the customers) will pay off in terms of corporate reputation, customer loyalty and market standing among other benefits (Camilleri, 2012; Dawkins & Lewis, 2003; Du et al., 2010; Rodrigo & Arenas, 2008) For these reasons, companies cannot afford to overstate or misrepresent their corporate social responsibility (CSR) reporting.

A communications platform can be finely tuned to share relevant information on corporate responsible behaviours in order to reach diverse audiences through a mix of traditional and interactive channels. This chapter reported how businesses are increasingly embracing the dynamics of new online technologies, as they communicate relevant content (including policies, case studies, stories et cetera) on their responsible initiatives through corporate websites, and other digital channels including social media and blogs.

3.6 Future Research

The discussion on the key aspects of CSR communication also open up several avenues for future research. One important avenue for future research would be to explore the mediating mechanisms that account for the effectiveness (or ineffectiveness) of CSR communication. Further research could explore cognitive (e.g. trustworthiness, CSR attributions) and affective (e.g. pride, empathy) responses that are unique to CSR communication. Such research could possibly deepen our understanding of the psychological mechanisms underlying the effectiveness of CSR communication and marketing strategy.

Notwithstanding, very often individuals could have multiple stakeholder relationships with a particular company (e.g. being an employee, consumer and investor at the same time). Since different stakeholder groups have different expectations of businesses (and different information needs), future research could explore the best communication practices for the reporting of corporate sustainable and responsible initiatives to respective target audiences.

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Chapter 4
Socially Responsible and Sustainable Investing

4.1 Introduction

Socially responsible investment (SRI) is the practice of incorporating social and environmental goals into investment decisions. Therefore, SRI is a strategy that encourages corporate practices that promote social responsibility and laudable initiatives such as impact investing, shareholder advocacy and community investing (Guay, Doh, & Sinclair, 2004; Sparkes & Cowton, 2004; Schueth, 2003). The rationale behind SRI is to consider both financial return as well as responsible investments for societal development. Its goals are based upon environmental issues, human rights, community involvement and labour relations (Friedman & Miles, 2001; Ooi & Lajbcygier, 2013; Sparkes, 2003).

SRI's professionally managed assets have emerged as a dynamic and quickly growing segment of the U.S. financial services industry (Schueth, 2003). In many cases, responsible and sustainable investments are influencing how asset managers invest in diversified portfolios (Lemke & Lins, 2014). This term refers to responsible investments that seek to avoid negative externalities. In fact, the investment portfolios of listed companies are often screened by SRI contractors (Renneboog, Ter Horst, & Zhang, 2008). In fact, in recent years, SRI funds have become a popular investment opportunity. Many investors are attracted to businesses that will yield return on investment. Yet, it may appear that a large and growing segment of the population possess a spiritual yearning to integrate personal values into all aspects of life, including finance and investing (Schueth, 2003). As a result, many conscientious investors were avoiding businesses that are involved in alcohol, tobacco, fast food, gambling, pornography, weapons, contraception and abortion, fossil fuel production, and/or the military industries among others (Ghoul & Karam, 2007; Logue, 2009; Renneboog et al., 2008; Statman, 2000). In addition, responsible investors have become increasingly aware about the numerous instances of accounting fraud and other scandals that may have eroded their trust in corporate

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leadership. The areas of concern that are recognised by the SRI practitioners are often denoted under the heading of environmental, social and governance (ESG) issues, including social justice, human rights, anti-corruption and bribery issues and diversity on the boards (Camilleri, 2015a).

This chapter clarifies the nature of socially responsible investment and explains its foundations. It looks at the extant theoretical underpinnings as it sheds light on the opportunities and challenges presented by SRI. This contribution suggests that shareholders and venture capitalists are increasingly considering socially and environmentally responsible investments. Yet, it contends that it may prove difficult for them to give up on their investment returns. Notwithstanding, the market is setting relevant ethical and socially responsible investment screens on all types of corporations, hailing from different industry sectors.

4.2 The Background Behind Responsible Investing

Given the growing importance of social responsible investing, it could be surprising that there is still no consensus of what the SRI term means to the investors (Sparkes & Cowton, 2004). The roots of the SRI notion can be traced back to various religious movements. Back in 1758, the Religious Society of Friends (Quakers) prohibited members from participating in the slave trade. At the time, one of the founders of Methodism, named John Wesley outlined his basic tenets of social investing. He preached about not to harm your neighbour through business practices and to avoid certain industries that could harm the health and safety of workers. Hence, the best-known applications of socially responsible investing were motivated by religion (Sparkes, 2003). This may well reflect the fact that the first investors to set ethical parameters on investment portfolios were church investors in the U.K., U.S., and Australia (Sparkes & Cowton, 2004). The churches also played a prominent role in the development of commercial "ethical" investment products (Benijts, 2010; Lydenberg, 2002; McCann, Solomon, & Solomon, 2003). By time, the 'ethical investment' term has been replaced by that of 'socially responsible investment'. In part, this reflected the fact that many people felt uncomfortable about using the word 'ethical' to describe investment matters. "Any individual or group who truly care about ethical, moral, religious or political principles should in theory, at least want to invest their money in accordance with their principles" (Miller, 1992, p. 248). The original 'ethical investors' were church investment bodies. It is only in the past decades that such a perspective has been explicitly reflected in dedicated SRI retail funds (Sparkes & Cowton, 2004). Since their inception in the U.S. (1971) and in the U.K. (1984) the basic model used by SRI retail funds has been to base their "ethics" upon an avoidance approach, whereby responsible investors avoided have shareholding in unethical companies (Schepers & Sethi, 2003).

SRI evolved during the political climate of the 1960s as socially concerned investors were increasingly addressing equality for women and minority groups

(Schueth, 2003). This time was characterised by activism through boycotts and direct action that targeted specific corporations (Carroll, 1999; Rojas, M'zali, Turcotte, & Merrigan, 2009). Yet, there were also interesting developments, particularly when trade unions introduced their multi-employer pension fund monies to targeted investments. During the 1970s, a series of themes ranging from the anti-Vietnam war movement to civil rights, to concerns about the cold war and equality for women, served to escalate the sensitivity to some issues of social responsibility and accountability. These movements broadened to include management, labour relations and anti-nuclear sentiment. Trade unions also sought to leverage pension stocks for shareholder activism on proxy fights and shareholder resolutions (Gillan & Starks, 2000; Guay et al., 2004; Smith, 1996).

Moreover, SRI may have led to the beginning of the end of the apartheid government in South Africa. In 1971, Reverend Leon Sullivan (at the time a board member for General Motors) drafted a code of conduct for the practicing business in South Africa; which became known as the Sullivan Principles (Arnold & Hammond, 1994; Sullivan, 1983; Wright & Ferris, 1997). However, relevant reports that documented the application of the Sullivan Principles revealed that the US companies did not lessen the discrimination in the country. As a result, there were US investors who divested from companies operating in South Africa. In 1976, the United Nations has also imposed a mandatory arms embargo against South Africa (Nayar, 1978). Hence, large institutions were avoiding investment in South Africa under its apartheid regime. The ranks of socially concerned investors grew dramatically through the 1980s as millions of people, churches, universities, cities and states were focused on pressuring the white minority government of South Africa to dismantle the racist system of apartheid. The subsequent negative flow of investment eventually forced a group of businesses, representing 75% of South African employers, to draft a charter calling for an end to the apartheid. While the SRI efforts alone did not bring an end to apartheid, it mounted persuasive international pressure on the South African business community.

There were a diverse range of other SRI issues that were emerging. By 1980 presidential candidates Jimmy Carter, Ronald Reagan and Jerry Brown advocated some type of social orientation toward investments in pension funds (Barber, 1982; Gray, 1983). Afterwards in the mid to late 1990s there were health awareness campaigns that have effected tobacco stocks in the US (Krumsiek, 1997). During the late 1990s, SRI also focused on the sustainable development of the environment (Brundtland, 1989; Richardson, 2008). Many investors started to consider their environmental responsibility following the Bhopal, Chernobyl and Exxon Valdez incidents. At the time, international media began to raise awareness on global warming and ozone depletion (Pienitz & Vincent, 2000). As a result, the environmental protection and climate change was higher on the agenda for many responsible investors. Since 1989, the representatives from the SRI industry have gathered at the annual SRI conference in the Rockies to network and exchange social and environmentally sound initiatives (Pivo, 2008). This conference was organised by the First Affirmative Financial Network, an investment advisory firm that specialised in sustainable and responsible investing. The conference has attracted over 550 persons annually since 2006 (CSRA, 2017).

In January 2001, Unibanco (a Brazilian bank) became the first sell-side brokerage in the world to offer SRI research (Jemel-Fornetty, Louche, & Bourghelle, 2011). The research involved social and environmental issues (but not governance issues) regarding companies listed in Brazil. The bank has voluntarily decided to disclose its socially responsible investments to its clients until mid-2002. Interestingly, HSBC and then Citigroup have also started reporting about their responsible investments to their shareholders (Hockerts & Moir, 2004). Notwithstanding, ABN AMRO's operation in Brazil has created the first SRI fund back in November 2001 (Scholtens, 2005). As of late 2008, this SRI fund, called Fundo Ethical was back then the biggest and best performing (Brazilian) stock fund of any kind. Most recently, the issues of human rights and healthy working conditions in factories (producing goods for developed economies) have become rallying points for responsible investors. For instance, the California State Teachers' Retirement System (CalSTRS) removed more than $237 million in tobacco holdings from its investment portfolio after 6 months of financial analysis and deliberations (Reynolds, Goldberg, & Hurley, 2004). Arguably, such a divestment strategy seems to have satisfied the ethical principal of non-harming, but did not necessarily create a positive social impact (Lane, 2015).

In the past, Sparkes (2001) defined the ethical investments as the exercise of ethical and social criteria in the selection and management of investment portfolios, generally consisting of company shares. However, he argued that ethical investing could have been more appropriate to describe non-profitmaking bodies such as churches, charities, and environmental groups (rather than companies). Sparkes (2001) went on to suggest that value-based organisations applied internal ethical principles to an investment strategy. Yet, very often, individual investors may be satisfied by institutions and people who do not necessarily share their values; whose sole motive might be to make more money. Today, SRI has matured to a point where virtually any investment need can be met through portfolio design that integrates an investor's personal values, institutional mission, and/or social priorities. While SRI has grown dramatically in recent years, it is an area of work, of study and of practical application that continues to evolve in many significant ways. One intriguing example of the ongoing development of the field can be found in the analysis of the language that is used to describe SRI (Schueth, 2003). The terms social investing, socially responsible investing, ethical investing, socially aware investing, socially conscious investing, green investing, values-based investing, mission-based or mission-related investing all refer to the same general process and are often used interchangeably (Kempf & Osthoff, 2007; Schueth, 2003).

4.3 Socially Responsible Investing

In the past, clients had to request brokers, financial planners and investment advisors for socially responsible mutual funds as these investments were not popular in the financial services industry (Schueth, 2003). Today, socially-screened financial instruments have become a thriving market across most of the developed economies. SRI is a guiding principle that is driving the investment strategies of various funds and accounts (Lemke & Lins, 2014). USSIF (2017) reported that there were $6.57 trillion in sustainable, responsible and impact investment (SRI) assets in the US market. Similarly, responsible investment in Europe has grown at double-digit rates between 2011 and 2013, much faster than other European investment market. Growth rates range from +22.6% (Sustainability themed) to +132% (Impact investing). (EUROSIF, 2014). Since 2003, the European Sustainable Investment Forum (EURSIF) has published annual studies that highlight the scale of sustainable and responsible investment practices and trends in Europe. In fact, nowadays there are many types of financial assets that could be considered as socially responsible and sustainable investments.

4.3.1 Impact Investment Approaches

Impact investing is one of the fastest growing SRI strategies. This form of investment also has its roots in the venture capital community. In impact investing, an investor will actively seek to place capital in businesses and funds that combine financial and social returns (Bugg-Levine & Emerson, 2011; Jackson, 2013). Thus, responsible businesses can invest in social or environmental projects for societal wellbeing. The impact investment capital may include equity, debt, working capital lines of credit, and loan guarantees.

Specific examples could comprise investments in microfinance, community development finance, and clean technology among others. Impact investing has grown to an estimated 20 billion euros market in Europe (EUROSIF, 2014). The Netherlands and Switzerland were key markets for this investment strategy, as they represented an estimated two thirds of European assets. These markets were followed by Italy, the United Kingdom and Germany. Microfinance represented an estimated 50% of European Impact investing assets (EUROSIF, 2014). Furthermore, 40% of ESG integration assets follow structured investment processes as non-financial factors are increasingly being considered by investment decision makers within the European Union (EU) (Camilleri, 2015a). All forms of ESG integration have grown by 65% since 2011 (EUROSIF, 2014). Almost 40% of these assets are subject to investment processes that incorporate ESG criteria. Other integration assets relate to situations where non-financial research is made available to mainstream investment teams.

4.3.2 Positive Investing

Similarly, positive investment approaches allow investors to express their values on corporate behavioural issues such as social justice and the environment; without sacrificing portfolio diversification or long-term performance (Sparkes & Cowton, 2004). Positive investing is the new generation of socially responsible investing (Blue & Green Tomorrow, 2012). It involves making sound investments in corporate sustainable and responsible activities that create value in an environmental or humanitarian sense, but also for the companies' long-term prospects (Garriga & Melé, 2004). High sustainability companies significantly outperform their counterparts over the long-term, both in terms of stock market and accounting performance (Eccles, Ioannou, & Serafeim, 2012). The outperformance is stronger in sectors where the customers are individual consumers, rather than companies (Eccles et al., 2012).

4.3.3 Shareholder Advocacy and Engagement

Shareholder advocacy describes the actions that many socially-aware investors take in their role as owners of corporate businesses (Schueth, 2003). These efforts include engaging in a fruitful relationships and dialogue with companies on issues of concern (and the submission of their voting proxy resolutions). Therefore, shareholder advocacy facilitates direct communication with the management about desired changes in corporate policy and practice. Advocacy efforts are aimed at positively influencing corporate behaviours. Social investors often work cooperatively to steer management on a course that could improve corporate financial performance over time. At the same time, their aim is to enhance the well-being of all stakeholders, including; shareholders, customers, employees, vendors, communities and the natural environment.

Such shareholder activism positively influence CSR behaviours. In a similar vein, "investor relations activism" (Hockerts & Moir, 2004) assist groups of shareholder activists in their endeavour to encourage corporations to pursue responsible behaviours. The investors leverage their enhanced knowledge of the corporation, its management (often via direct relationships), and the securities laws as a whole (Sparkes & Cowton, 2004). While some investors pursue socially responsible investing goals, others may simply desire to maximise their fund returns. For instance, hedge funds are also considered as a popular investment among major activist investors (Lemke, Lins, Hoenig, & Rube, 2015). On the other hand, pension plans are somewhat more constrained on their ability to engage in shareholder activism (particularly those that are subject to ERISA) (Lemke & Lins, 2014). A less vocal subtype of shareholder activism, shareholder engagement requires extensive monitoring of the non-financial performance of all portfolio companies (Guay et al., 2004). When there is shareholder engagement; investees often receive constructive feedback on how to improve their ESG issues within their sphere of influence (Camilleri, 2015a).

4.3.4 Community Investing

Community investing is another subset of socially responsible investing. It allows for investment into community-based organisations (Mansuri & Rao, 2004). Investors are able to invest directly in an institution to create a greater social impact (rather than purchasing stock). Arguably, the monies spent on purchasing stock may accrue to the stocks' previous owners (and could not necessarily generate social good). While investments in community institutions are put to work. For example, the funds that are invested in a Community Development Financial Institution may be used by that institution to alleviate poverty or inequality. The community investment funds could help spread access to finance to under-served communities, support economic development or green business, or create other social good (Benjamin, Rubin, & Zielenbach, 2004).

Community investing provides capital to people in low-income, at-risk communities who have difficulty accessing it through conventional channels. It allows investors to put money to work in local communities, where capital is not readily available; in order to create jobs, affordable housing and environmentally friendly products and services. The community investing institution could also provide training and other types of support and expertise to ensure the success of the loan and its returns for investors (Berry & Junkus, 2013; Domini, 2011). Community investing grew by 5% from 2012 to 2014 (USSIF, 2017). Assets held and invested locally by community development financial institutions (CDFIs) based in the US totalled $64.3 billion at the start of 2014 (USSIF, 2017).

4.3.5 Government-Controlled Funds

Government-controlled funds such as pension funds are often very large players within the financial services industry. These funds are being pressured by society and by activist groups to adopt investment policies which encourage; ethical corporate behaviours, respect toward the workers' rights, to consider environmental concerns, and to avoid violations of human rights (Lane, 2015). "The Government Pension Fund of Norway" is one outstanding endorsement of such laudable policies. This fund is mandated by the Norwegian government to avoid investments which may contribute to unethical acts or omissions; such as violations of fundamental humanitarian principles, serious violations of human rights, gross corruption or severe environmental damages (Halvorssen & Eldredge, 2014). At this point in time, there are several other pension funds around the globe that are currently under pressure to disinvest from arms companies.

Institutional investors, including public pension funds, socially responsible mutual funds, labour unions and faith-based investors could file shareholder resolutions. These resolutions vary from country to country. For instance, in the United States, they are determined primarily by the Department of Labour and the Securities and Exchange Commission, which regulates mutual funds and applies the 1940 Act. These regulatory regimes require pension plans and mutual funds to disclose how they voted on behalf of their investors. U.S. shareholders have organised various groups to facilitate the filing of joint resolutions. These include the Council of Institutional Investors, the Interfaith Centre on Corporate Responsibility, and the US SIF. From 2012 to 2014, more than 200 US institutions and investment management firms filed or co-filed proposals (USSIF, 2017). These institutions and money managers collectively controlled $1.72 trillion in assets at the end of 2013. The top categories of environmental and social issues from 2012 to 2014 were political contributions and environmental issues, including climate change (USSIF, 2017).

4.4 SRI Developments

The SRI indices serve as a ‘seal of approval’ function for responsible companies as they could prove their CSR and sustainability credentials to their stakeholders. Currently, there are many factors that may be contributing to the growth of the socially responsible investments:

Firstly, one of the most important factors for SRI is information. Today’s investors have access to technologies that keep them up to date on the latest developments. Certain apps inform investors on the latest movements in the stock market, in real-time. Notwithstanding, research organisations are providing much higher quality data than ever before. As a result, very often investors are in a position to take informed decisions that are based on evidence and research. Investors and analysts are using “extra-financial information” that is reported by SRI contractors to help them analyse investment decisions (GRI, 2012). This “extra-financial information” includes disclosures on governance and environmental issues. These sources of information will encourage businesses to report on their responsible and sustainable practices (Camilleri, 2015b). The companies’ integrated thinking could be the precursor to successful integrated reporting (GRI, 2012). Interestingly, “governance information”, “the information on natural resources” as well as “social and community information” are some of the most relevant extra-financial information at the disposal of prospective investors and analysts (GRI, 2012).

Secondly, the increased gender equality in the developed economies could be another plausible reason behind SRI’s prolific growth. Nowadays, there are more emancipated women who are in employment. They are gainfully occupied as they actively contribute in the labour market. Most of these women have completed higher education programmes and attained relevant qualifications. Many of them are enrolling in MBA programmes as they move their way up the career ladder with large organisations. Some of them may become members on boards of directors and assume fiduciary duties and responsibilities. There are other women who have become entrepreneurs as they started their own business. Therefore, in the last decades, the gender equality issue could have led to some of the most significant developments in the financial services industry. Women are no longer the only the beneficiaries of social finance, as they are building a complete ecosystem of social investing (Maretick, 2015). Moreover, it transpires that they will receive 70% of inherited wealth over the next two generations, and Wall Street wants their business (BCC, 2009). This wave of wealth is set to land in the laps of female investors who have shown positive attitudes toward social investing, when compared to their male counterparts. In a recent survey, half of the wealthiest women expressed an interest in social and environmental investing. While only one-third of wealthy men did. 65% of women thought that social, political and environmental impacts were important, as compared to just 52% of men (Maretick, 2015).

Thirdly, a growing body of evidence suggest that investors do not necessarily have to sacrifice performance when they invest in socially responsible assets. Relevant academia denied the contention that social screening could result in corporate underperformance. Investors have realised that responsibility is congruent with prosperity (Porter & Kramer, 2011; Schueth, 2003). In fact, today, all major asset classes including global, international, domestic equity, balanced and fixed-income categories also comprise top-performing socially responsible mutual funds. The broad range of competitive socially responsible investment options have resulted in diverse, well-balanced portfolios. In the U.S., top-performing socially and environmentally responsible mutual funds and asset managers can be found in all major asset classes. More and more investors are realising that they can add value to their portfolio whilst supporting socially and environmental causes. Generally, socially responsible funds are rated well above average performers no matter which ranking process one prefers to use (Schueth, 2003). Interestingly, Auer (2016) found that negative screens based on environmental and social scores did not add nor destroy portfolio value, when cut-off rates were not too high. In addition, he noticed that governance screens have significantly increased portfolio performance under similar conditions.

4.5 The Screening for the Responsible Investments

There are no underlying financial frameworks to assess the performance of socially-responsible and sustainability investing. In other words, there is no theoretical model to determine how much social responsibility is appropriate, or to define the optimal trade-off between social responsibility and other investment criteria, involving risk and return (Berry & Junkus, 2013; Bilbao-Terol, Arenas-Parra, Cañal-Fernández, & Bilbao-Terol, 2013; Scholtens & Sievänen, 2013). Thus, SRI lies outside the common efficient markets framework that is used in finance theory to decide on the attractiveness of an investment. Selecting, applying and reporting on investment screens for socially responsible investing (SRI) presents challenges for companies, investors and fund managers. The composition of investment portfolios may be constrained to exclude/include stocks based on ethical screens (Rhodes, 2010). Clearly, there is a high degree of subjectivity in this approach. As screens are applied on funding opportunities, they could alter the required rate of return on capital, consequently altering the behaviour of firms.

Generally, socially and environmentally-conscious investors seek to own profitable companies that make positive contributions to society. Therefore, they require investment managers to help them analyse corporate policies, practices, attitudes and impacts on the traditional quantitative determination of profit potential. This evaluation process results in the screening of portfolios that may often shed light on businesses who forge genuine relationships with their stakeholders. Hence, responsible companies are often characterised by their employer-employee relations and/or their environmental practices (Matten & Moon, 2008). These businesses could be selling safe and useful products to customers (or businesses) that have been procured in a responsible manner (Walker & Brammer, 2009). Therefore, socially responsible businesses promote safe, healthy working conditions whilst protecting the environment (Matten & Moon, 2008). At the same time, they empower communities to build strong, thriving businesses. The companies whose products and business practices are harmful to the people and the planet are often avoided (Elkington, 1997; Schueth, 2003).

The investors must choose which corporate behaviours, positive or negative, to focus on. They need to decide how much importance to assign to each type of responsible activity. They must quantitatively rate corporations on these criteria after examining the totality of their business activities (Schueth, 2003). Finally, they must relate this score to their portfolio composition. Therefore, it is not surprising that social responsible investing covers a wide range of heuristics and final investment choices (Berry & Junkus, 2013). Certain stocks may be selected to put pressure on management to change their organisational behaviours (Rhodes, 2010). A basic decision is whether to use an exclusionary or inclusionary SRI filters. Given the difficulty in observing organisational behaviours and in quantifying corporate actions; the product exclusion approach is often used when engaging in socially responsible investing (Berry & Junkus, 2013).

Negative screening excludes certain securities from investment consideration based on social and/or environmental criteria. From a fund perspective, it may be easier to follow an exclusionary approach. However, even with an exclusionary approach, the products most often excluded from funds are not necessarily those ranked as most objectionable by investors. For example, the US Social Investment Forum lists nine factors in its analysis of screening criteria for its member mutual funds, including; alcohol, tobacco, gambling, animal testing, defence/weapons, human rights, labour relations, community investment and proxy voting (Berry & Junkus, 2013). Such an exclusionary approach filters out certain companies based on products or certain corporate behaviours when selecting investments for a portfolio. A particular firm might also be excluded because it is involved in violations of labour norms such as child labour or sweatshop conditions, or because it collaborates with a particularly repressive regime(s) (Emmelhainz & Adams, 1999). The so-called "sin stocks" were often banned from portfolios on moral or ethical grounds (Entine, 2003).

Exclusions criteria grew by 91% between 2011 and 2013 and cover an estimated 41% (6.9 trillion euros) of European professionally managed assets (EUROSIF, 2014). For instance, in Northern Europe exclusions were aimed at safeguarding the reputation of major institutional investors, and at avoiding them being linked with controversial issues that affect the companies they invest in. These exclusions usually involve violations of major international human rights or environmental protection norms. They are often called norm-based exclusions. In France, SRI funds prefer best-in-class approaches to so-called ethical exclusions. However, the idea of excluding companies in order to avoid black sheep is gradually gaining ground among SRI funds sponsors (EUROSIF, 2014). Moreover, an increasing number of investors outside the SRI community view norm-based exclusions as a tool that is applicable to all of their assets (Bengtsson, 2008). Exclusions enable them to avoid criticism of their legitimacy and social usefulness. It may appear that investors seem increasingly willing to adopt strong and sometimes political positions, in order to safeguard their reputation; by implementing norm-based exclusions on the grounds of specific issues, such as respect for human rights. This is especially the case for the exclusion of the so-called controversial weapons, which have now been banned through international conventions. Voluntary exclusions related to Cluster Munitions and Anti-Personnel Landmines (CM&APL) are among the most common. They cover about 30% (5.0 trillion euros) of the European investment market. Other exclusion assets cover about 23% (4.0 trillion euros) of the market (Becchetti & Salustri, 2015). Of course, shutting out entire industries hurts the economy and the jobs. Lobe & Walkshäusl (2011) created a set of global and domestic sin indices consisting of 755 publicly traded socially irresponsible stocks. They compared their stock market performance directly with a set of virtue comparables consisting of some of the most important international socially responsible investment indices. Surprisingly, they found no compelling evidence that ethical and unethical screens led to a significant difference in their financial performance. This finding was not consonant with the other results of prior studies on sinful investing (Guay et al., 2004; Hong & Kacperczyk, 2009; Kempf & Osthoff, 2007).

On the other hand, an inclusionary approach is more difficult as it involves adjusting the weights of an investment in a firm according to whether its behaviour is more or less socially-responsible. Under this approach, an investor would give "points" to firms for acting positively in terms of social and environmental responsibility. Apparently, society determines the legal and social constraints on the businesses' behaviours. However, these constraints will fall short of some individuals' preferences, soliciting different types of responses ranging from political and pressure group activity to changes in consumption and investment decisions (Rhodes, 2010). Berry and Junkus (2013) suggested that investors seem to have a preference to reward those firms who display overall positive social behaviour rather than to exclude others on the basis of particular products or practices. They implied that this disconnect could be limiting the growth of SRI. Investors judge socially responsible businesses, their stakeholder relationships and their overall behaviour in the marketplace. While specific metrics are useful to evaluate corporate responsible behaviour, investors require a more nuanced synthesis of a corporation's actions, both positive and negative (Berry & Junkus, 2013).

The specification of common metrics would directly address the problem of information asymmetry and, in this regard, the Global Reporting Initiative (GRI) is a means to correct market failures. However, the universal requirement for firms who intend adopting such metrics could result in the imposition of costs; which could not be justified by the benefits which would subsequently accrue. Of course, there are different opinions about such metrics as to whether they should be mandatory or not. With heterogeneous beliefs, it is unlikely that any metric will adequately address every preference on corporate social responsibility (CSR) disclosures. However, this is true of any reporting convention. The principal issue is that one defines the balance between the quality of information available and introducing a convention within a short span of time (Rhodes, 2010).

Social investors know that there are no perfect companies. However, a thorough qualitative research and evaluation process (which is also known as social screening) generally seeks to identify better-managed companies. The result is the creation of investment portfolios that meet SRI criteria, as they produce the adequate and sufficient returns. Hence, social screening provides an opportunity for investors to align their values with their personal financial goals while earning competitive returns (Schueth, 2003). Firms which are sensitive to worker and human rights, who are concerned about the environment, and who avoid profiting from a few products would seem to have a stronger SRI profile. Such responsible firms would have a greater potential investor base (Schueth, 2003).

4.6 Analysing SRI Portfolios

A large number of SR contractors and research firms are specialising in the collection of environmental, social and governance information as they perform ongoing analyses of corporate behaviours. Many of them maintain a CSR database and use it to provide their clients (e.g., corporations and institutional investors) with ESG analysis (including proxy advice), benchmarks and engagement strategies. Very often these organisations publish directories of ethical and SRI funds, as they outline their investment strategy, screening criteria, and voting policies. Most data providers allow their clients to choose which environmental, social and governance (ESG) factors to use as a screening device.

KLD/Jantzi Global Environmental Index, Jantzi Research, Ethical Investment Research Service (EIRIS) and Innovest (among others) analyse the corporations' socially responsible and environmental behaviours. Their indices emphasise on the impact of products (e.g. resource use, waste), the production process (e.g. logging, pesticides), or proactive corporate activity (e.g. clean energy, recycling). Similarly, social issues are also a common category for these contractors. Many of SRI indices benchmark different types of firms hailing from diverse industries and sectors. They adjust their weighting for specific screening criteria as they choose which firms to include (or exclude) from their indices. One of the oldest SRI indices for CSR and Sustainability ratings is the Dow Jones Sustainability Index. The companies that are featured in the Dow Jones Indices are analysed by the Sustainable Asset Management (SAM) Group (i.e. a Swiss asset management company). These companies are expected to complete an SAM questionnaire to be considered for inclusion in this index. Another popular SRI index is KLD's Domini 400 Social Index (also known as the FTSE/KLD400) partners with the Financial Times on a range of issues. Similarly, the Financial Times partners with an ESG research firm (i.e. EIRES) to construct its FTSE4 Good Index series.

Smaller FTSE Responsible Investment Indices include the Catholic Values Index, the Calvert Social Index, the FTSE4Good indices, and the Dow Jones family of SRI Indices, among others. FTSE/KLD400 index screens the companies' performance on a set of ESG criteria. It eliminates those companies that are involved in non-eligible industries as it. Impax, a specialist finance house (that focuses on the markets for cleaner or more efficient delivery of basic services of energy, water and waste) maintains a group of FTSE Indices that are related to environmental technologies and business activities (FTSE Environment Technology and Environmental Opportunities). The Catholic Values Index uses the US Conference of Catholic Bishops' Socially Responsible Investment Guidelines to screen eligible companies (e.g., corporations with generous wage and benefit policies, or those who create environmentally beneficial technologies). This index could also exclude certain businesses trading in "irresponsible" activities. The Calvert Group's Calvert Social Index examines the 1000 of the largest US companies according to their social audit of four criteria: the company's products, their impact on the environment, labour relations, and community relations. The latter "community relations" variable includes issues such as the treatment of indigenous people, provision of local credit, operations of overseas subsidiaries, and the like. Companies are then featured in the Index if/when they meet Calvert's criteria. This index also maintains a target economic sector weighting scheme.

Other smaller indices include; Ethibel Sustainability Index for Belgian (and other European) companies and OMX GES Ethical Index for Scandinavian companies, among others. Generally, these SRI indices are considered as investment benchmarks. SRI Indices have spawned a range of products, including index mutual funds, ETFs, and structured products. A wide array of SRI mutual funds evaluate target companies and manage their investment portfolios reflecting other criteria such as risk and return targets. For instance, iShares lists two ETFs based on the KLD Index funds, and the Domini itself offers a number of actively managed mutual funds based on both ESG and community development issues. In addition, there are research and ratings vendors who also manage a series of mutual funds, including Calvert and Domini. Large mutual fund families like TIAA-CREF, Neuberger Berman, and Legg Mason also offer similar SRI funds.

4.7 Conclusions and Future Research Avenues

Currently, the financial industry is witnessing a consumer-driven phenomenon as there is a surge in demand for social investments. Community investments are increasingly being sought by values-based non-governmental organisations (NGOs), including philanthropic groups, charitable foundations and trusts. More importantly, year on year, institutional investors and shareholder activists within the financial services industry are increasingly considering impact investments. At the same time, there are many researchers in the realms of business ethics who are focusing their attention on SRI.

This chapter has provided a thorough review of relevant academic literature as well as regulatory guidelines on socially responsible and sustainable investments. Notwithstanding, it mentioned a number of financial services organisations that have developed useful metrics that are intended to identify and measure the corporate responsible practices. In this light, fund managers ought to define their investment screens and are expected to confirm their adherence to them. Ideally, the companies' SRI activities could be aligned with the NGO lobbying activities; although their underlying goals will always remain fundamentally different.

Socially responsible and sustainable investments and the construction of indices often relied on "negative screening" approaches. However, in reality, balanced investors are still investing in industries that can be categorised as absolutely "bad" or "good". Arguably, it is hoped that in future there could be alternative screening approaches that could be more based on inclusionary approaches, rather than exclusionary factors. Of course, the companies exhibit their environmental, social and governance credentials through their engagement in responsible corporate behaviours, rather than what they say they avoid doing. Nevertheless, it may appear that SRI is putting significant pressure on companies to adopt corporate sustainable and responsible practices. Moreover, this contribution also suggests that impact investment approaches and shareholder advocacy are catalysing the financial services industry, whilst improving the quality of life of society at large.

Further research is needed to determine the investors attitudes on SRI. There may be investors who still view this phenomenon under a negative lens, for some reason on another. While some non-socially responsible investors may simply feel that the returns are better elsewhere, others could be strongly opposed to the SRI concept. Presumably, there may be instances where institutional investors could be sceptical on the companies' genuine CSR commitment and on their intrinsic motives behind their ESG behaviours. Most probably they will have reasonable concerns on how, where and when responsible companies are actually engaging in responsible activities. Further research could investigate how SRI policies or relevant guiding principles were established. They could shed light on the extant processes that should be there to review them. Future studies on the subject could explain in detail how financial services institutions are following SRI policies, in different contexts. The researchers could also analyse the content of these policies.

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Chapter 5
Responsible Supply Chain Management and Stakeholder Engagement for Corporate Reputation

5.1 Introduction

The globalised supply chain is strongly shaping both the production and the consumption of products in different markets as the international markets have been (or are being) liberalised and deregulated. In this light, very often businesses source their materials or products from developing and/or transitioning countries in order to reduce their production and distribution costs. Consequentially, there may be perceived shortcomings in the companies' procurement of materials and products as well as their supply chain's regulatory capacity. At the same time, many stakeholders including consumers are increasingly inquiring on the regulation of unwanted economic, social and environmental side-effects of low-cost production. This is a globalisation phenomenon that has triggered new views on the firms' responsible supply chain management and genuine stakeholder engagement.

The multi-national brands that are usually based in the developed world play a central role in the organisation of global supply chains. Big companies focus on activities such as product design, marketing and brand management in their home country. However, they may decide to outsource their operations in low-income countries. The third world countries' suppliers are often accused for their social and environmental deficits as they are pressurised to enhance their productivity levels. Of course, their irresponsible behaviours toward employees and their surrounding environment could negatively affect their competitiveness in the long term. Unfair employment conditions and work practices are very likely to occur in industries where production is labour intensive and where the automation is limited. Notwithstanding, there are increasing competitive pressures to lower production costs by using subcontractors. This way, the big brands could not control the lower echelons in their production chain.

This chapter provides a comprehensive review of contributions on the responsible supply chain management. It also explains how firms use responsible

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procurement and supply chain management to protect and enhance their corporate reputation. This contribution takes into account a wide range of issues; including the stakeholder theory (Donaldson & Preston, 1995; Sarkis, Zhu, & Lai, 2011). Hence, it discusses about the regulatory forces on labour market issues and describes the changing roles of consumers, industry peers and media in their endeavour to safeguard socially responsible and sustainable practices in the supply chain.

5.2 The Procurement of Materials and Products from the Global Supply Chain

There has been a wide array of contributions on supply chain management from a variety of fields, including marketing (Closs, Speier, & Meacham, 2011; Piercy & Lane, 2009), supply chain (Awaysheh & Klassen, 2010; Simpson, Power, & Samson, 2007) and industrial marketing (Ewing, Windisch, & Newton, 2010; Helm & Salminen, 2010; Liu, Kasturiratne, & Moizer, 2012). A thorough literature review suggests that academia have often conducted case-based studies that focused on the social performance of suppliers (Egels-Zanden, 2007; Hoejmose, Brammer, & Millington, 2013), others reported on the consequences of irresponsible social practices on customers (Phillips & Caldwell, 2005). It may appear that the recent research is concerned with the processes through which buyers manage social issues in the supply chain, rather than focusing on the social performance of suppliers (Awaysheh & Klassen, 2010; Hoejmose et al., 2013; Klassen & Vereecke, 2012). The "process" literature has provided considerable insights on the role of social management capabilities, including; monitoring, collaboration and innovation (Klassen & Vereecke, 2012); internal and external barriers and enablers (Walker & Jones, 2012); supply chain structures, namely; transparency, dependency and distance—for the adoption of socially responsible practices (Awaysheh & Klassen, 2010); inter-organisational resources as a 'collaborative paradigm' in supply chain management (Gold, Seuring, & Beske, 2010) and third-party certification standards (Ciliberti, de Groot, de Haan, & Pontrandolfo, 2009) among other perspectives.

Other authors have investigated the impact of institutional factors on the adoption of socially responsible supply chain practices (Park-Poaps & Rees, 2010). Recent studies suggest that responsible supply chain management should be related with the firm's strategy as it leads to significant outcomes, including; improved relationships with stakeholders as well as reputational benefits (Carter & Rogers, 2008; Hoejmose et al., 2013; McElhaney, 2009; McManus, 2008; Monczka, Handfield, Giunipero, & Patterson, 2015; Seuring & Müller, 2008; Sirsly & Lamertz, 2008; Yawar & Seuring, 2015).

5.2.1 The Responsible Supply Chain Management

Firms are often facing increased stringent government regulations on their supply chain (Xia, Zu, & Shi, 2015). Arguably, there are a number of governments hailing from the most advanced economies that have already redefined their conceptions of responsibility beyond their own national borders. However, the poorest countries may not possess the same legal frameworks and regulatory policies on responsible supply chain management. Even if they have policies, guiding principles and codes of conducts in place; they will not necessarily enforce them in their workplace environments. For instance, in 2013, there were more than 1100 victims when a building collapsed on the factory workers in Bangladesh. This tragic case has raised awareness about responsible procurement from global supply chains. As a result, many stakeholders have become more concerned about the responsible sourcing of materials and products. Non-governmental organisations (NGOs) and customers themselves are constantly demanding for an increased focus on corporate responsibility practices in the value chain. This is especially the case for brand-owning companies, as they are likely to come under pressure from diverse stakeholders, including NGOs.

The bigger companies are expected to consider their environmental and social responsibility across their entire supply chain. The stakeholder pressures are often being manifested both in conflict (e.g. name-and-shame campaigns and consumer 'boycotts' targeting big brands) and in the pro-active developments of multiple institutional and regulatory innovations toward 'sustainable supply chain management', including; eco-labelling, codes of conduct, auditing procedures, product information systems, procurement guidelines and eco-branding. Therefore, the purchasing and supply chain managers of the global brands are increasingly recognising the importance of integrating social and environmental responsibility in their day-to-day operations. Some businesses are also embedding certain NGOs' standards (e.g., ISO 14001 and ISO 26000) in their daily tasks. Such triggers have increased corporate interest in fair trading, environmental management and responsible supply chain management.

The responsible supply chain management is an issue affecting the businesses' production, supply and distribution of materials. In the past, many big corporations including; Adidas, Benetton, BP, C&A, Disney, Levi Strauss, Nike and Primark among others have been blamed for their irresponsible or unethical behaviours (Jones, Temperley, & Anderson, 2009; Winstanley, Clark, & Leeson, 2002). Very often, these companies' suppliers or distributors were based in third world countries; where they offered inhumane conditions for employees in their work place environments. Alternatively, these businesses were accused of contaminating the (local) natural environment. Their irresponsible behaviours often translated to a tarnished corporate images and significant losses in revenue. Notwithstanding, it is not only the business-to-consumer firms that have experienced such reputational damage. At times, the business-to-business market has also experienced negative publicity due to poor supply chain practices (Lefevre, Pellé, Abedi, Martinez, &

Thaler, 2010); although such businesses could be better placed to put pressure on suppliers to take their responsible behaviours more seriously (Sharma, Gopalkrishnan, Mehrotra, & Krishnana, 2010). Such contentious issues have led several customers, including businesses to become increasingly wary of the social and environmental impact of their purchases. Moreover, many consumer groups and NGOs have often set their agenda toward a socially responsible transition. Many campaigns are raising awareness on organically-grown foods, anti-sweatshop labour codes, fair trading as they promote locally produced goods.

Xia et al. (2015) indicated that stringent government rules could drive firms to proactively improve their responsible supply chain performance. Historically, firms were often deemed reactive in their corporate social responsibility (CSR) engagement. It may appear that the notion of proactivity in this context is a recent phenomenon. Very often, the businesses may be more concerned on their legislative compliance than on their genuine commitment to embedding responsible procurement practices at the firm level (Preuss, 2001). In this light, in 1997, President Clinton had initiated the Apparel Industry Partnership which involved the introduction of a code of conduct and relevant principles that were intended to monitor operational activities in work place environments. Evidently, the US president has responded to the numerous stakeholder pressures regarding unfair labour conditions in the U.S. supply chain. Since then, many corporations have adopted voluntary codes and engaged in various social initiatives such as monitoring systems and/or vendor certification requirements.

Other parties, such as media and independent NGOs, including the Fair Labor Association and Social Accountability's SA 8000 in the U.S. and the Ethical Trading Initiative in the UK, among others also played an important role in improving the responsible supply chain performance in different contexts. In particular, they were critical to the monitoring of any social transgressions and for informing and educating consumers about the global production and supply environments (Park-Poaps & Rees, 2010; Roberts, 2003).

In the last few decades, several companies are increasingly taking social and sustainable performance into account when selecting their suppliers. For instance, Wal-Mart has created a global sustainability index in 2009. This index rates products according to their environmental and societal impacts of their manufacturing and distribution. Generally, responsible supply chain management is being quantified by using ratings that incorporate; social, ethical, cultural, and health footprints (also known as SECH ratings).

Interestingly, President Obama has endorsed the US Dodd–Frank Wall Street Reform and Consumer Protection Act in 2010. This act contained a supply chain sustainability provision in the form of a Conflict Minerals law. In a nutshell, this law requires SEC-regulated companies to conduct third party audits on their supply chains in order to determine whether they were procuring conflict minerals (including; tin, tantalum, tungsten or gold) from the Democratic Republic of the Congo. The SEC-regulated firms were mandated to create a report detailing their due diligence efforts as well as the results of their audits (which ought to be disclosed to the general public and SEC) The chain of suppliers and vendors of these reporting companies are expected to provide appropriate supporting information to their stakeholders.

In a similar vein, the state of California passed legislation that became effective as of the 1st January, 2012 This bill mandated that the Californian retailers and manufacturers (who generated more than $100,000,000 in annual worldwide gross receipts) to disclose their non-financial reporting (in terms of social and environmental performance). These entities are expected to report (in their annual corporate statements) how they are eradicating slavery and human trafficking from their direct supply chains for tangible goods offered for sale (Pickles & Zhu, 2013).

5.2.2 Engaging with Responsible Suppliers

The supply chain management is influenced by different stakeholders that may be considered as the "consumers" of businesses. Therefore, it is important to identify both primary and secondary stakeholders (Maignan, Ferrell, & Ferrell, 2005). Businesses are increasingly realising that customers, competitors, regulators, agencies, media, suppliers and non-governmental organisations (NGOs) are their primary stakeholders of socially responsible corporate behaviours (Buysse & Verbeke, 2003; Freeman & Reed, 1983). For this reason, there is scope in forging strategic buyer-supplier relationships as they rely on each other for their individual success (Gray & Balmer, 1998; Mohr & Spekman, 1994). Hence, the firms' proactive stance on the responsible supply chain management (in conjunction with their stakeholders) will help them enhance their reputation as they promote fair practices in the labour market. At the same time, it is in their interest to protect the natural environment throughout their distributive value chain.

According to the stakeholder theory, businesses are responsible toward various stakeholders as they are expected to respond to their different claims as an attempt to legitimise their existence (Freeman, 1999; Park-Poaps & Rees, 2010). Firms tend to favour those stakeholders who are powerful and important to them (Freeman, 1999). They must not only identify who their stakeholders are, but also determine whether their stakeholders' claims are manageable, considering the firm's limited and scarce resources. Their socially responsible supply chain orientation consists of both internal organisational direction as well as external partnerships. In their study in the apparel industry, Park-Poaps and Rees (2010) indicated that consumer and industry peer pressures were significantly related to the companies' internal direction, whilst the industry peers and media were significantly related to their external partnerships. Curiously, they found that regulation was not significantly related to either internal direction or external partnerships. Relevant studies have reported that such initiatives to control labour issues are still somewhat inefficient and ineffective due to hierarchal communication approaches (Fawcett & Magnan, 2002).

Other scholars have suggested that socially responsible initiatives require incorporating values of fair labour into the organisational core (Andersen & Skjoett-

Larsen, 2009; Howard-Grenville & Hoffman, 2003). Very often, commentators argued that the development of partnerships among stakeholders could facilitate both internal and external communication, including; mutual understanding and cooperation on labour issues (Lim & Phillips, 2008). Therefore, the stakeholder engagement is expected to affect the lower levels in the supply chain (Park-Poaps & Rees, 2010). The socially responsible supply chain performance will ultimately influence stakeholder management, corporate image, consumer choices and reputation (Tate, Ellram, & Kirchoff, 2010).

Given the development of today's stakeholders' expectations and demands, the contemporary subject of responsible behaviour is becoming an important instrument for the enhancement of corporate reputation (Caruana, 1997; Fan, 2005; Fombrun & Shanley, 1990). As businesses are socially responsible they minimise their risk and improve their stakeholder relations (Husted & Allen, 2001). In a similar vein, Fombrun and Shanley (1990) argued that the businesses' social and environmental responsiveness will bring reputational benefits.

5.2.3 The Responsible Supply Chain Management and Its Effect on Corporate Reputation

Corporate reputation has often been defined as "a set of attributes ascribed to a firm, that is inferred from the firm's past actions" (Weigelt & Camerer, 1988, p. 443). Fombrun and Shanley (1990) argued that reputation "signals publics about how a firm's products, jobs, strategies and prospects compare to those of competing firms" (p. 233). The value of reputation has been subject to extensive research by many scholars (Caruana, 1997; Caruana & Chircop, 2000; Fombrun, Gardberg, & Sever, 2000). Relevant theoretical underpinnings have indicated how reputation influences the stakeholders' perceptions (Money, Hillenbrand, & Downing, 2011), the customers' choices and their purchase intentions (Keh & Xie, 2009; Mohr & Webb, 2005; Siegel & Vitaliano, 2007) Therefore, corporate reputation is related to corporate financial performance (Camilleri, 2012; Flanagan, O'Shaughnessy, & Palmer, 2011). Much of the work on corporate social–financial performance also implicitly assumes that this relationship is positive, because an improved reputation facilitates revenue and profit growth (Orlitzky, Schmidt, & Rynes, 2003; Surroca, Tribó, & Waddock, 2010).

Extant work suggests that reputation is important because it establishes credibility (Greyser, 1999; Herbig, Milewicz, & Golden, 1994). The notion that reputation is related to credibility has also been noted in the wider corporate social (and environmental) responsibility literature. McWilliams and Siegel (2001) argued that building a reputation of 'responsibility' can signal an improved reputation (Brammer & Millington, 2005; Fombrun & Shanley, 1990; Husted & Allen, 2007; McWilliams & Siegel, 2001). Hence, responsible corporate behaviour "builds trust and enhances the firm's reputation, which in turn attracts customers, employees, suppliers and distributors, not to mention earning the public's goodwill" (Lantos, 2001, p. 606). In a similar vein, Lewis (2003) also held that responsible behaviours can establish trust and ultimately develop a company's reputation. Social and environmental activities not only can enhance the reputation of the firm, but also enhance the goodwill trust of stakeholders (Carlisle & Faulkner, 2005; Siltaoja, 2006).

Therefore, corporate reputation is fundamentally a signal to stakeholders (Ponzi, Fombrun, & Gardberg, 2011) and is particularly important in markets where there is imperfect information (Hoejmose, Roehrich, & Grosvold, 2014; Weigelt & Camerer, 1988). The market signals, including engagement in social and environmental issues could help to improve corporate image (Bagnoli & Watts, 2003; McWilliams & Siegel, 2001). Markley and Davis (2007) also noted that responsible behaviours could send positive market signals. Therefore, today's businesses are expected to implement responsible supply chain practices by their stakeholders. If they won't they run the risk of damaging their corporate reputation and image. Hence, there is scope for firms to implement socially and environmentally responsible practices in their supply chains (Ansett, 2007). Responsible supply chain management encapsulates social issues (e.g. child labour, working conditions, human rights et cetera) and/or environmental matters (e.g. environmental protection, waste management, recycling, reusing natural resources et cetera) (Carter & Rogers, 2008; Hoejmose et al., 2013; Seuring & Muller, 2008). Such responsible behaviours shield the firms from negative media attention and consumer boycotts (Hoejmose et al., 2013). The companies' stronger engagement in socially responsible supply chain management enables them to manage exposure to risk (Tate et al., 2010; Van De Ven & Jeurissen, 2005). Thus, the businesses' stakeholder engagement and their responsible procurement of materials and products is linked to corporate reputation, which in turn allows them to target discerning customer groups (Phillips & Caldwell, 2005; Roberts, 2003).

Kleindorfer, Singhal, and Wassenhove (2005) suggested that responsible supply chain practices can lead to increased profitability, as customer satisfaction and loyalty will improve as a result of a stronger reputation. Conversely, the firms risk losing customers to rival companies if they fail to be responsible in their supply chain. In fact, Harwood & Humby (2008) findings suggested that suppliers were adhering to specific corporate social responsibility (CSR) requirements in order to reduce their exposure to risk. It may appear that ongoing CSR behaviours and environmental management protect the firms' reputation. This reflects Burke's (2011) argumentation as he suggested that the firms' positive actions including CSR programmes and the other tangible things enhance their corporate reputation.

Therefore, the distinction between reputation protection and enhancement is subtle, but important. Corporate reputation protection is concerned with evidencing the firms' efforts to meeting the stakeholders' expectations, whilst reputation enhancement goes beyond a purely evidential basis which encompasses embedded practice. Corporate reputation protection occurs when firms can prove to stakeholders that they took reasonable steps to prevent certain incidents from happening (Coombs, 2014). In fact, corporate reputations could be jeopardised by irresponsible supply chain practices which may "directly harm business contracts, marketing and sub-sourcing, and damage the corporation's brands and the trust they have established with their business customers" (Lee & Kim, 2009, p. 144). The companies' failure to manage their supply chain in a responsible manner could result in negative repercussions for their bottom line. Conversely, the corporations' reputation and credentials in socially responsible supply chain management could lead them to achieve a competitive advantage in the long term (Ansett, 2007; McWilliams, Siegel, & Wright, 2006).

5.2.4 The Link Between Responsible Supply Chain Management and a Differentiated Strategy

Firms should seek to "have their reputation stand out from their group" (Ferguson, Deephouse, & Ferguson, 2000, p. 1211) in order to increase their chances of building a competitive advantage (Porter, 1986; Porter & Kramer, 2006). Consequently, an improved corporate reputation may be considered as an important lever for the businesses' long term prospects. A growing body of literature has noted the relationship between supply chain practices and business strategy (Cousins, 2005; Fombrun & Shanley, 1990; McManus, 2008). Those firms that implement and develop responsible supply chain practices are clearly pursuing differentiation strategies (McWilliams & Siegel, 2001). Therefore, "the supply chain function cannot be viewed in isolation from the firm and its competitive advantage" (Knudsen, 2003, p. 720; Watts, Kim, & Hahn, 1995). This suggests that the organisational goals could guide the supply chain practices (Power, 2005), and that the two variables must be coordinated (Tamas, 2000). Narasimhan and Carter (1998) argued that the supply chain strategy must support product and market characteristics, for firms to achieve a competitive advantage. They held that those firms, who adopted a differentiation/customisation strategy were choosing those suppliers who were characterised for their product innovation, technological leadership, total quality management and internal organisational integration.

In contrast, they contended that the firms that pursued traditional manufacturing-oriented strategies (low-cost) prioritised on rapid volume change, fast delivery, low prices and external organisational integration. The low-cost firms generally consider the role of the supply chain function to be one of cost reduction, whereas the firms pursuing differentiation strategies view supply chain management as a central function for them (Narasimhan & Carter, 1998). The low cost firms are less likely to collaborate with suppliers on their shared responsibilities toward conflict resolution (Park & Dickson, 2008, p. 52). At times, they may seek to exploit the labour market in search of lower prices (Park & Dickson, 2008). Such firms are unlikely to manage labour issues in their supply chain as this would increase their costs. Very often, low-cost retailers are being pressurised to lower their prices and to provide added value. For these reasons, they may frequently change suppliers and make them bid against one another. Therefore, the low cost suppliers may not be motivated to comply with the guiding principles and responsible codes of conduct (Fearne, Duffy, & Hornibrook, 2005; Hoejmose et al., 2013). For instance, some of the major low-cost retailers regularly exploit other businesses as they may have bargaining power over their suppliers. They may force them to bear cost increases in the supply chain.

Under such circumstances, the low-cost firms often try to exploit all sources of cost advantage. They may not engage in socially responsible activities as this will result in higher discretionary costs for them. Very often, low-cost producers will neglect socially responsible supply chain management because it is costly for them and they do not consider CSR engagement as core to their business strategy (Furberg & Schullström, 2008; Hoejmose et al., 2013). Empirical evidence suggests that social responsibility is often neglected in low-cost sourcing contexts (Andersen & Skjoett-Larsen, 2009; Boyd, Spekman, Kamauff, & Werhane, 2007; Gugler & Shi, 2009). The stakeholder engagement (with suppliers) could be problematic for many businesses because they operate in highly competitive environments; where the focus is on price (Barrientos & Smith, 2007). In these cases, the firms that pursue low-cost strategies will inevitably neglect responsible behaviors in the value chain.

On the contrary, the firms that pursue differentiation strategies often engage with their suppliers. These firm develop highly collaborative relationships and foster joint market strategies with them. The engagement with suppliers is stronger and deeper when the firms pursue differentiation strategies (Porter & Kramer, 2006). González-Benito (2007) found that the fit between business strategy and purchasing strategy significantly moderates the relationship between purchasing efficacy (as measured by the fit between purchasing strategy and capabilities, and firm performance). It may appear that focal firms invest in building relationships with suppliers in order to improve their effectiveness and to gain potential collaborative advantages (Hoejmose et al., 2013). Interestingly, Baier, Hartmann, and Moser (2008) noticed that innovative firms were emphasising on supplier management, talent management, integration and core processes; as they compared them to low-cost firms that were more focused on information and knowledge management (rather than cross-functional collaboration). Very often, the low-cost producers consider the supply chain as a source of cost savings and invest less in supplier development (Hoejmose et al., 2013).

The firms that pursue differentiation strategies resort to socially responsible activities, along with other marketing activities, such as advertising as a signalling tool (McWilliams & Siegel, 2001). In a similar vein, Van De Ven, & Jeurissen (2005) argued that firms that pursue differentiation strategies tend to engage more proactively with social responsibility, when compared to low-cost producers. They reasoned that the differentiation strategies of the socially responsible firms were improving their corporate image by signalling quality and trustworthiness (McWilliams & Siegel, 2001; Van De Ven & Jeurissen, 2005). Cruz and Boehe (2008) also noted that a responsible supply chain is increasingly being used as a differentiation strategy. They recognised that a successful organisational performance is dependent on the promotion of laudable activities and on raising awareness of the responsible procurement of materials and products, fair trading and respecting labour rights. Therefore, from a market-based perspective, social responsibility (and responsible supply chain management) can add value to the differentiated businesses.

Avram and Kahne (2008) argued that firms could charge a premium for their CSR-oriented approaches. The sustainable products' market positioning could be improved through the use of social responsibility and responsible supply chain management (Palazzo & Basu, 2007). There are positive implications for certain firms that pursue differentiation strategies (through social and environmentally responsible practices) as a means to signal an image of high product quality and sustainability to consumers (Tate et al., 2010). As a matter of fact, numerous findings reported how socially responsible business practices are actually improving both brand equity and organisational performance (Castaldo, Perrini, Misani, & Tencati, 2009; Lai, Chiu, Yang, & Pai, 2010).

On the other hand, some other contributions have indicated that there is little evidence on socially responsible firms that pursue niche strategies in narrow markets (Van De Ven & Jeurissen, 2005; Weitzner & Darroch, 2010). It may appear that the supply chain literature has often ignored how niche firms develop their supply chain strategies (Baier et al., 2008; Cousins, 2005). Perhaps, it may prove difficult for academia to propose a specific relationship between niche strategy and socially responsible supply chain management. The responsible procurement of materials and products may not necessarily constitute a part of the firms' strategy. Notwithstanding, the promotion of the responsible supply chain management could be beneficial if it is directed toward socially conscious consumer groups (Weitzner & Darroch, 2010).

Weitzner and Darroch (2010) argued that there is a wide array of niche strategies that strive in their endeavours to appeal to different market subgroups. The specialised products that are marketed using a niche strategy will be easily distinguishable from other competitors' products. The niche strategies are often associated with relatively high cost structures (Galbraith & Schendel, 1983), with informal and reactive decision making processes (Miller & Toulouse, 1986). Debatably, the typical niche firms may not have the necessary resources to implement the responsible supply chain management practices, which often require time and expertise in terms of formal processes. The firms pursuing niche strategies, including; well-intended small and medium sized enterprises (SMEs) may find it difficult to manage their distributive chain. On paper, the inclusion of social and environmental requirements as preconditions to the supply of their materials and products would probably decrease the small businesses' motivation to engage in CSR. In fact, Baden, Harwood, and Woodward (2009) reported that the SME owner managers were put off by the exhaustive formalities, whilst others thought that such responsible behavioural criteria would be counter-productive for them. Hence, the smaller firms (in particular) may encounter unique challenges if they decide to implement responsible supply chain management (Ciliberti et al., 2009; Pedersen, 2009; Russo & Perrini, 2010).

5.3 Conclusions

Generally, firms are becoming more proactive in their engagement with responsible supply chain management and stakeholder engagement. Very often, corporate responsible behaviours could form part of their broader strategic commitment toward their stakeholders (Walker, Di Sisto, & McBain, 2008; Walker & Preuss, 2008; Zhu, Sarkis, & Lai, 2013). This contribution is based on the premise that corporations could make a genuine and sustaining effort to align their economic success with corporate social responsibility in their value chain.

This chapter indicated that the corporations' differentiated strategies as well as their proactive engagement in responsible supply chain practices can lead them to achieve a competitive advantage in the long term. The firms pursuing differentiation strategies may have more sophisticated responsible procurement processes in place, and could be in a better position to support their different suppliers. However, this contribution pointed out that the low-cost producers may be neglecting socially responsible supply chain management. Similarly, a niche strategy does not necessarily result in a direct increase in responsible supply chain practices. Nevertheless, the niche firms tend to exhibit stronger ties with their suppliers; they may be relatively proactive vis-a-vis their socially responsible behaviours.

Previous studies indicated that there are significant gaps between policy and practice (Egels-Zanden, 2007; Govindan, Kaliyan, Kannan, & Haq, 2014; Preuss, 2009; Yu, 2008). For the time being; firms may (or may not) be inclined to implement responsible supply chain and manufacturing processes on a voluntary basis. Yet, the big businesses are aware that they are susceptible to negative media exposure, stakeholder disenfranchisement, particularly if they are not responsible in their supplier relationships (or if their social and environmental policies are not fully-implemented). Arguably, a differentiated strategy can serve as a powerful competitive tool in the global marketplace as the customers' awareness of social and responsibility rises. It goes without saying that many stakeholders are increasingly becoming acquainted with fair trade and sustainability issues. Moreover, empowered consumers and lobby groups could enforce firms to invest in a more responsible supply chain.

Undoubtedly, there are opportunities for the proactive firms who are keen on integrating responsible practices into their business operations. It is in the firms' interest to report about their responsible supply chain management, social performance and sustainable innovations to their stakeholders. The corporations' environmental, social and governance disclosures will help them raise their profile in their value chain. The responsible businesses can achieve a competitive advantage as they build (and protect) their reputation with stakeholders. Of course, there are different contexts and social realities. The global supply chain and the international NGOs also play a critical role in the enforcement of responsible behaviours in the supply chain. In conclusion, this chapter contended that the responsible supply chain management as well as forging stakeholder relationships with suppliers and distributors is a means to create value to the businesses themselves.

5.4 Possible Research Avenues

Future research could shed light on how businesses are communicating about how they are managing their responsible supply chains in collaboration with their different stakeholders. Alternatively, they may explore how multinational organisations are actively building relationships with governments and regulatory authorities to foster a safe working environment for their domestic labour market. Moreover, academia could investigate in detail about the procurement of sustainable products in different contexts. They could aggregate product characteristics (such as price, perceived quality, energy efficiency, convenience to repair, ease to recycle and reuse, et cetera) and explore their effect on the consumers' purchasing decisions. Researchers may investigate the consumer's ethical disposition to purchase sustainable products. These findings could also provide additional, meaningful data to the business practitioners as they may (not) be intrigued to invest in a responsible supply chain.

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Part II
Case Studies on Social and Environmental Issues in Business

Chapter 6
Case Study 1: Corporate Citizenship and Social Responsibility Policies in America

6.1 Introduction

This case study sheds light on the broad categorisation of social responsibility and environmental sustainability policies in the USA. At the same time, it outlines a non-exhaustive, disciplined research on corporate citizenship. Previous theoretical underpinnings and empirical studies have often indicated that social responsibility and environmentally sound behaviours are being embedded into core business functions and corporate strategic decisions. Notwithstanding, this research shows how major US institutional frameworks and principles have been purposely developed to foster a climate for social and environmental responsibility engagement. Policies and voluntary instruments include formal accreditation systems and soft laws that stimulate businesses and large organisations to implement and report their CSR-related activities. Several agencies of the US Government are currently employing CSR programmes that are intended to provide guidance on corporate citizenship and human rights; labour and supply chains; anticorruption; energy and the environment; as well as health and social welfare among other issues.

6.2 American Social Responsibility Policy

The US markets for labour and capital are fairly unregulated as there are low levels of welfare state provisions. Consequently, many social issues, such as education, healthcare or community investment have traditionally been at the core of corporate

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social responsibility (CSR) in the American context. CSR initiatives and communicating activities within the areas of philanthropy, stewardship, volunteerism and environmental affairs are not treated as a regulatory compliance issue in the United States of America (USA or U.S.). Therefore, CSR in the USA is often characterised by voluntary societal engagements by businesses as they are not obliged to undertake social and environmental responsibility practices. Such laudable behaviours are also referred to as corporate citizenship initiatives (Carroll, 1998; Fifka, 2013; Matten & Crane, 2005). Social responsibility and corporate citizenship encompass responsible behaviours that go beyond financial reporting requirements.

These behaviours are particularly evidenced in cause-related marketing, stewardship activities, philanthropic and charitable contributions (Porter & Kramer, 2002; Varadarajan & Menon, 1988). In fact, US companies donate 10 times as much as their British counterparts (Brammer & Pavelin, 2005). Notwithstanding, at this point in time, the United States is currently consuming some 207% of its ecological capacity (Worldwatch, 2015.) and the average U.S. citizen uses 11 times as many resources as the average Chinese, and 32 times as much as the average Kenyan (Worldwatch, 2015). Moreover, the United States was a net importer of 67 non-fuel minerals and metals out of the 92 tracked by the U.S. Geological Survey (2010). Nonetheless, the American policy makers handle the issues that are related to global warming or the use of genetically modified organisms in food production, quite differently than their counterparts (Doh & Guay, 2006). In other parts of the world, the provisions of healthcare or issues pertaining to the climate change have traditionally been considered in the realms of government's responsibilities. Corporate responsibilities for social and environmental issues seem to have become the object of codified and mandatory regulation in certain jurisdictions (Camilleri, 2015a). Therefore, it may appear that the larger firms rather than small and medium sized enterprises (SMEs) are the leading actors and drivers of CSR engagement and sustainable behaviours.

6.3 The Corporate Citizenship Notion

The corporate citizenship notion offers ways of thinking and behaving responsibly (Carroll, 1998; Matten & Crane, 2005). It has potential to unlock significant benefits to both business and society (Carroll & Shabana, 2010) as it is also consonant with Porter and Kramer's (2011) shared value proposition. Sound environmental practices could be linked to improvements in economic performance and productivity, operational efficiencies, higher quality, innovation and competitiveness. Therefore, corporate citizenship (through social responsibility and environmental sustainability) can be strategic in its intent and purposes. An integration of these different perspectives has led to the definition of corporate citizenship. The conceptual grounds to better understand the nature of corporate citizenship can be found in the bodies of literature on corporate social responsibility (e.g., Carroll, 1979), corporate social responsiveness (e.g., Clarkson, 1995), corporate social performance (e.g., Albinger & Freeman, 2000; Wartick & Cochran, 1985; Wood, 1991), and stakeholder engagement (Strand & Freeman, 2013). 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. Businesses always had a commitment towards society as they are obliged to engage in economic, legal, ethical and discretionary (philanthropic) activities (Carroll, 1979, 1999).

CSR's economic responsibilities include the obligations for businesses to maintain economic growth, and to meet consumption needs. The economic component of CSR represents the fundamental social responsibility of businesses. Many firms produce goods and services and sell them at fair prices. This will in turn allow the business entities to make a legitimate profit and to pursue growth. Legal responsibilities imply that businesses must fulfil their economic mission within the extant framework of regulations and legal parameters. The legal component recognises the obligation of the enterprise to obey laws. However, it could prove harder to define and interpret the ethical responsibilities of businesses. This component is often referred to as a "grey area", as it "involves behaviours and activities that are not embodied in law but still entail performance expected of business by society's members" (Carroll, 1979, p. 30). Ethical responsibilities require that businesses abide by moral rules that define appropriate behaviours within a particular society. Another category of corporate responsibility is related to discretionary, voluntary or philanthropic issues. Corporate philanthropy is a direct contribution by a corporation to a charity or cause, most often in the form of cash grants, donations and/or in-kind services' (Kotler & Lee, 2005, p. 144). This category of social responsibility is totally dictated at the "discretion" of the organisation as there are no laws or codified expectations guiding the corporations' activities. "Discretionary responsibilities include those business activities that are not mandated, not required by law, and not expected of businesses in an ethical sense" (Carroll, 1979, p. 500). Practically, some examples where organisations meet their discretionary responsibilities, include; when they provide day-care centres for working mothers, by committing to philanthropic donations, or by creating pleasant work place aesthetics.

Carroll (1991) described these four distinct categories of activity by illustrating a "Pyramid of Corporate Social Responsibility". He maintained that his conceptualisation of the pyramid depicts the obligations of the business. Eventually, Schwartz and Carroll (2003) suggested an alternative approach that is based on three core domains (economic, legal and ethical responsibilities). The authors produced a Venn diagram with three overlapping domains; which were later transformed to seven CSR categories. This development was consistent with the relentless call on the part of the business community for the business case of CSR. Kotler and Lee (2005) demonstrated how a CSR approach had established a new way of doing business that led to the creation of value (Porter & Kramer, 2011; Wheeler, Colbert, & Freeman, 2003) with a respectful and proactive attitude towards stakeholders (Strand & Freeman, 2013).

Corporate citizenship continues to receive specific attention, particularly by those facilities that are operating outside their own domestic markets. At the same time, multinational corporations (MNCs) have been (and still are) under increasing pressure to exhibit "good corporate citizenship" in every country or market from where they run their business. MNCs have always been more closely monitored and scrutinised than the home country firms. No doubt this will continue to be the case in the foreseeable future.

6.4 Contemporary Corporate Citizenship Issues

In October 2015, the US Chamber of Commerce Foundation has hosted a corporate citizenship conference entitled; "*Connect the Dots: How Businesses Solve Global Challenges Locally*". This fruitful event was intended to provide solutions to businesses on how they could build positive engagements that align local impact to global strategy. This conference showcased successful business examples as it focused on inter- and intra-sector partnerships. The debate also progressed on how the U.N. Sustainable Development Goals (SDGs) could be aligned with corporate strategy and goals (SDGs, 2015). Interestingly, this event was characterised by an over-riding theme of imperatives as international corporations pledged to improve the conditions of their host communities. It has been argued that corporations could better adapt to local practices as they strive to uphold beneficial practices and policies of their businesses' very own value systems. It goes without saying that the corporations' decisions would normally rely on a set of operating principles that are acceptable to the host community, per se. Other issues that were reported during this conference included, employee rights, employee welfare in the form of job security, non-discriminatory practices, cooperation with host governments, disclosures of non-financial information, environmental protection, product safety, profitability, fair pricing, community interest, and legal and ethical behaviours.

A Boston College Center for Corporate Citizenship survey on corporate reputation that was carried out in collaboration with Ernst Young (EY) found that expanding transparency and reporting positive deeds were the two most important ways to build public trust in business (Swanson, 2014). Another EY (2013) survey revealed that more than 50% of respondents issuing sustainability reports indicated that corporate citizenship disclosures helped to improve their firm's reputation. Another study by EY and GreenBiz found that employees were a vital audience for sustainability reporting, with 18% of reporters citing employees as a report's primary audience (EY, 2013; Swanson, 2014). EY (2013) indicated that 30% of the respondents saw increased employee loyalty as a result of issuing a report. In a similar vein, the Boston College Centre for Corporate Citizenship (BCCC, 2015) in its quarterly magazine advocated how community involvement activities have contributed to achieve corporate goals when they aligned the company's business context with their stakeholders' interests. BCCC (2015) noted that companies are increasingly tying their employee volunteer and corporate giving programmes to their business strategy. As a result, businesses have prioritised certain community involvement projects, including; K12 education, youth programmes and health and wellness programmes among others (BCCC, 2015). In 2009 and 2011, matters topped the agenda of corporate citizenship (BCCC, 2015). The inclusion of health in the top three social goals implies that the US citizens are concerned on the rising costs of health care.

In the year 2015, the U.S. has spent 17% of its gross domestic product on health care. This figure is much higher than any other developed nation, and is projected to reach nearly 20% by 2024. Unsurprisingly, science, technology, engineering and math (STEM) education is also an area that is receiving increased investments from corporations. According to BCCC's (2015) study, nearly 40% of companies are focusing on STEM education in their community involvement programmes. Their corporate citizenship efforts ensure a future pipeline of talent and skills. In fact, OECD (2014) anticipated that there will be a 17% increase in STEM related jobs between 2014 and 2024 (OECD, 2014). Arguably, there is an opportunity for businesses to achieve greater returns on their discretionary investments. At the same time, they will close any skill gaps and identify mismatches within their labour market.

6.5 Reporting Corporate Citizenship Activities

US organisations have traditionally disclosed their environmental, social and corporate governance (ESG) behaviours in their annual reports. Moreover, some businesses are issuing separate, sustainability reports that exclusively deal with ESG disclosures (Eccles & Krzus, 2010; Morsing & Schultz, 2006). As a result, there are many different kinds of reports that report on non-financial issues, including; 'carbon reports', 'climate change reports', 'environmental reports', 'integrated reports' 'social reports', sustainability reports and 'triple bottom line reports' among others. Relevant research suggests that there are three main theories for reporting ESG practices: (a) to manage the perceptions of key stakeholders, i.e. the 'signalling theory' (Albinger & Freeman, 2000), (b) to convey the organisation's values to the public, i.e. the impression management theory' by (Neu, Warsame, & Pedwell, 1998), and (c) to establish that the organisation's activities are in line with social norms, i.e. the legitimacy theory (Garriga & Melé, 2013). In addition to the organisation's motivations for corporate citizenship disclosures, there is a growing demand for this non-financial information by stakeholders (Camilleri, 2015b).

Presently, European Union (EU) member states are transposing new EU directives on non-financial reporting and diversity information. On the 29th September 2014, the European Council has introduced amendments to Accounting Directive (2013/34/EU). The EU Commission has been mandated by the European Parliament to develop these non-binding guidelines on the details of what non-financial information ought to be disclosed by large "public interest entities" operating within EU countries. It is hoped that EU non-financial reporting will cover environmental, human rights, anti-corruption and bribery matters as expressed in the UN Guiding Principles on Business and Human Rights (the "Ruggie Principles") and OECD's Guidelines for Multinational Enterprises. Such corporate non-financial statements and ethical codes of conduct serve as a basic indication of the organisations' credentials on social and environmental responsibility (Camilleri, 2015b).

Very often, corporate businesses use non-governmental organisations' (NGOs) regulatory tools such as process and performance-oriented standards in corporate governance, human rights, labour standards, environmental protection, health and safety and the like. Many NGOs are offering certifications for compliance with proposed principles and guidelines—as they incorporate independent monitoring and assurance systems. The following are some of the most popular standards and reporting instruments: Accountability's AA1000, British Assessment's—OHSAS 18001, Eco-management and Audit Scheme (EMAS), Global Reporting Initiative (GRI), Fair Labor Association (FLA), International Standards Organisation's ISO 26000—Social Responsibility International Standards, Organisation's ISO 14001, Environmental Management System, Social Accountability's SA8000 and the United Nations Global Compact among others. Sustainability reporting instruments and standards for social and environmental performance including industry-based certifications (e.g., SA8000; ISO 14001) and product-based standards (e.g., Fair Trade) have grown in number. SA8000's focus on the establishment of management systems has been drawn on the experience of the well-acclaimed ISO 9000 and ISO 14000 standards. SA 8000 configures the requirements on social evaluation, as it specifically refers to forced labour, freedom of association, discrimination, working conditions as well as other issues. In many cases, these standards have been taken up voluntarily by businesses themselves. Such instruments signal the firms' responsibility credentials towards their stakeholders (Camilleri, 2015b).

6.6 An Analysis of U.S. Social Responsibility Policies

The U.S. government continuously reiterate their commitment to corporate social responsibility (CSR). This is exemplified in their comprehensive approach to providing support and guidance on areas of corporate conduct and sustainable behaviours. The U.S. secretary of state's agenda is to ensure effective coordination and partnerships with individual bureaus and offices in order to harness global economic tools that advance U.S. foreign policy goals on responsible initiatives. For example, the U.S. Bureau of Economic and Business Affairs (EB) leads a corporate social responsibility team. Its primary purpose is to promote responsible business practices and fostering sustainable development whilst building economic security (EB CSR, 2015). This team provides guidance to American companies and their stakeholders to engage in corporate citizenship. EB's CSR team supports major areas of responsible corporate conduct, including: 'good corporate citizenship', 'human rights', 'labour and supply chains', 'anticorruption'', 'anticorruption', 'health and social welfare', 'contribution to the growth and development of the local economy', 'innovation, employment and industrial relations', 'environmental protection', 'natural resources governance' including the Kimberley Process, 'transparency', 'transparency', 'trade and supply chain management' and supply chain management', 'intellectual property' and the 'women's economic empowerment' among other issues. Most of EB's corporate policies are drawn from the Organisation for Economic Co-operation and Development (OECD) 'Guidelines for Multinational Enterprises' and from U.S. national contact point for the guidelines (as explained hereunder). EB's CSR team also works with the U.S. National Contact Point (US NCP) and manages the Secretary of State's Award for Corporate Excellence (ACE) programme (EB CSR, 2015). The EB's role is to engage with business, trade unions and civil society to bring economic prosperity, respect for human rights and good corporate citizenship.

6.6.1 Good Corporate Citizenship and Human Rights

The Bureau of Democracy, Human Rights and Labour's (DRL's) offices of International Labour Affairs, Internet Freedom, and Business and Human Rights also work with companies, civil society including unions, NGOs and government agencies to implement policies that respect human and labour rights (DRL, 2015). The DRL team focuses on engaging stakeholders on key issues at the intersection of business and human rights. DRL has also implemented the United Nations (U.N.) Guiding Principles on Business and Human Rights. These principles are grounded in recognition of:

(a) "The states' existing obligations to respect, protect and fulfil human rights and fundamental freedoms;
(b) The role of business enterprises as specialised organs of society performing specialised functions, required to comply with all applicable laws and to respect human rights;
(c) The need for rights and obligations to be matched to appropriate and effective remedies when breached" (UNGBPHR, 2011).

In 1998, DRL set up a Human Rights and Democracy Fund (HRDF) to fulfil the bureau's mandate of monitoring and promoting human rights and democracy in the global context. The HRDF fund was designed to act as the department's "venture capital" fund for democracy and human rights issues, including; the promotion of democratic principles and personal liberties. Such programmes enabled the U.S., "to minimise human rights abuses, to support democracy activists worldwide, to open political space in struggling or nascent democracies and authoritarian regimes, and to bring positive transnational change". DRL's important efforts have brought positive change as its funding of HRDF has grown from $7.82 million in 1998 to over $207 million in 2010 (HRDF, 2015).

In parallel, an 'Office to Monitor and Combat Trafficking in Persons (TIP) works with business leaders to prevent and stop human trafficking. TIP does this by advancing the Luxor Guidelines, which focus on corporate policy, strategic planning, public awareness, supply chain tracing, government advocacy and transparency to reduce forced labour in supply chains. In 2015, TIP Office awarded over $18 million in grants and cooperative agreements to combat human trafficking. This office continues to fund an emergency global assistance project that provides services on a case-by-case basis for individuals that have been identified as trafficked persons. Moreover, TIP is involved in a number of other projects that comprise partnerships with governments, civil societies, and other key stakeholders. These collaborative agreements increase capacity and raise awareness of human trafficking. For example, TIP supported the new Child Protection Compact (CPC) in Ghana as it worked in liaison with Ghanaian ministries to address child trafficking. The TIP office also awarded $5 million to the International Organisation for Migration (IOM) and to the 'Free the Slaves' initiative (TIP, 2015).

In addition, TIP supported seven countries, including Bangladesh, Burma, Ghana, India, Philippines, Sierra Leone, and Timor-Leste as it funded victims of human trafficking in those locations. Other project activities are carried out in Kyrgyzstan, Mexico, Sub Saharan Africa, Ukraine and Uruguay (TIP, 2015).

Currently, many NGOs and international organisations are working in tandem as they support 27 projects that address prosecution, protection and prevention of sex and labour trafficking in different places around the globe (TIP, 2015). On the 28th October, 2015, the Partnership for Freedom in collaboration with the Department of State and four other federal agencies launched "*Rethink = Supply Chains: The Tech Challenge to Fight Labour Trafficking*", an innovation challenge that calls for technological solutions that identify and address labour trafficking in global supply chains for goods and services. The Partnership for Freedom has awarded $500,000 in prizes and services that are aimed to spur innovative solutions to end human trafficking, and to support victims of human trafficking in the United States.

6.6.2 Labour and Supply Chains

Even though the practice of slavery has been abolished, it is still present in many countries. There are different forms of slavery that span from forced labour in agriculture to sweatshops producing low-cost commodities for global supply chains. Individuals are illegally trafficked as 'property' or are required to work in the worst possible conditions; for example, in mines extracting raw materials that are used in electronic consumables. ILO (2015) estimated that around 21 million men, women and children around the world are in forced labour, human trafficking or in a form of slavery. Forced labour in the private economy generates US$150 billion in illegal profits per year. Almost 19 million victims are exploited by private individuals or by enterprises, and over 2 million by their state or by rebel groups. Around half of these victims are thought to be in India, many of them work in brick kilns, quarries or in clothing industry. Bonded labour is also common in parts of China, Pakistan, Russia and Uzbekistan, and is widespread in Thailand's seafood industry. A recent investigation by Verité, found that a quarter of all workers in Malaysia's electronics industry were in forced labour (Economist, 2015).

America made human trafficking illegal in 2000, after which it started to publish annual assessments of other countries' efforts to tackle it. But it has only slowly turned up the heat on offenders within its borders. Australia and the UK have recently passed light-touch laws requiring transparency in supply chains. This legislation required manufacturers and retailers that earn global revenues above the $100 million threshold to list their efforts on how they are eradicating modern slavery and human trafficking from their supply chains. For the time being, a firm can comply by simply reporting that it is doing nothing. But it seems that few corporations are willing to admit such a statement that will surely affect their CSR credentials. Hence, it seems that this issue is forcing its way on to managers' to-do lists. Moreover, the ILO has launched a fair-recruitment protocol which it hopes will be ratified by national governments. The ILO's intention is to cut out agents. In this light, TIP has partnered with Slavery Footprint to provide online tools to initiate marketplace action and ongoing dialogues between individual consumers and producers about modern slavery practices in supply chains (TIP, 2015). Similarly, DRL continues to promote labour rights throughout the supply chain as it enforces labour law and provides due diligence. DRL has also strengthened legal advocacy that expanded livelihood opportunities for many individuals, as it advanced multi-stakeholder approaches. EB, in cooperation with DRL and other stakeholders, has coordinated the U.S. Department of State's participation in the Kimberley Process to stem the flow of conflict diamonds and to address their traceability across supply chains.

6.6.3 Anti-corruption

The corruption undermines sound public financial management and accountability at all institutional levels: It deters foreign investment in many countries, it stifles economic growth and sustainable development, it distorts prices, and undermines legal and judicial systems (INL, 2006). The high-level, large-scale corruption by public officials is also referred to as kleptocracy. It can have a devastating effect on democracy, the rule of law, and economic development. Those who contribute to such corruption by paying or promising to pay bribes or by giving other undue advantages to foreign public officials will undermine good governance and alter fair competition. The U.S. has long led by example in its enduring fight against corruption. Through its Foreign Corrupt Practices Act (FCPA) in 1977, the U.S. became the first country to criminally penalise its nationals and companies that bribe foreign public officials in commercial transactions. In fact, the United States denies safe haven to egregiously corrupt officials and other public figures as specified in the Presidential Proclamation 7750 (of January 2004). Moreover, the

United Nations Convention Against Corruption (UNCAC) Convention Against Corruption (UNCAC) has also provided a framework for international cooperation against corruption, including preventative and enforcement measures. The U.S. government has participated in drafting U.N. legislative guide materials prior to its implementation and enforcement (INL, 2006). The USA is also member of the OECD's Anti-Bribery Convention where EB represents the U.S. Department of State within the OECD Working Group on Bribery in International Business Transactions.

The Bureau of International Narcotics and Law Enforcement Affairs (INL) promotes anti-corruption, internationally and supports CSR by fostering clean business practices; by engaging the business community in anti-corruption efforts and promoting a level playing field (INL, 2015). This bureau fights international crime, illegal drugs and instability abroad. It helps foreign governments to build effective law enforcement institutions that counter transnational crime spanning from money laundering, cybercrime, and intellectual property theft to trafficking in goods, people, weapons, drugs, or endangered wildlife. INL's remit is to combat corruption by helping governments and civil society build transparent and accountable public institutions. INL (2015) fights injustice and promotes laws and court systems that are fair, legitimate and accountable by:

- "Make courts and legal systems more fair and transparent;
- Develop judges, prosecutors, and investigators who are highly skilled and accountable;
- Improve correctional facilities and prisoner treatment standards;
- Encourage women to join law enforcement and legal fields;
- Combat gender-based violence and hate crimes, and aid survivors" (INL, 2015).

6.6.4 Health and Social Welfare

There is a wide array of U.S. governmental programmes that may have contributed directly or indirectly to health and social welfare. Many corporate citizenship programmes are concerned with the economic and social well-being of individuals and families. The term "social security" is used to cover a large portion of the field of social welfare. This term first came into general use in the United States in 1935, during the Great Depression, when the Social Security Act was passed. This particular act was included in the Atlantic Charter that was signed by the President of the United States and the Prime Minister of Great Britain on August 14, 1941. Later, in 1944, this act was adhered by 26 Allied governments at the International Labour Conference in the Declaration of Philadelphia. The terms "social security" and the "Federal Old-Age", "Survivors and Disability Insurance" (OASDI) have become synonymous with the US governments' programmes that are designed to prevent destitution; by providing protection against major personal economic hazards such as unemployment, sickness, invalidity, old age, and the death of the breadwinner. In a sense, social security is primarily an income maintenance programme which, in addition to providing cash benefits, may be accompanied by constructive social services in order to prevent or mitigate the effect of certain hazards (SSA, 2017).

In the United States, public education was not considered as a social welfare activity, probably because it is taken for granted, since its inception 125 years ago. On the other hand, public health and vocational rehabilitation are not included within the Social Security Act, but are present in separate Federal laws (SSA, 2017). However, medical care and cash benefits have always been provided under the workmen's compensation laws. These laws cover work-injuries and members of the armed forces and their dependents, and veterans who are entitled to medical care at public expense.

Interestingly, landmark reform on the Patient Protection and Affordable Care Act (PPACA), and the Health Care and Education Reconciliation Act (HCERA) of 2010 (H.R. 4872) was passed and enacted through two federal statutes. PPACA was signed in March 23, 2010. This act which is also known as 'Obamacare', provided the phased introduction over 4 years of a comprehensive system of mandated health insurance with reforms that were designed to eliminate "some of the worst practices of the insurance companies", including pre-existing condition screening and premium loadings, policy cancellations on technicalities when illness seems imminent, annual and lifetime coverage caps, among other issues. It also sets a minimum ratio of direct health care spending to premium income; and creates price competition that was bolstered by the creation of three standard insurance coverage levels to enable like-for-like comparisons by consumers; and a web-based health insurance exchange where consumers can compare prices and purchase plans (PPACA, 2010). This system preserves private insurance and private health care providers and provides more subsidies to enable the poor to buy insurance. Notwithstanding, the Health Care and Education Reconciliation Act of 2010 (H.R. 4872), which amended PPACA (that was passed a week earlier), was enacted by the 111th United States Congress and became law on March 30, 2010 (Reuters, 2010). This latter act (H.R. 3221) also incorporated the Student Aid and Fiscal Responsibility Act (SAFRA) expanded federal Pell Grants to a maximum of $5500 in 2010 and tied grant increases to annual increases in the Consumer Price Index, plus 1%. Therefore, SAFRA ended the practice of federal subsidisation of private loans. This has translated to cutting the federal deficit by $87 billion over a period of 10 years. Recently, there were other significant reforms and ideas that have been proposed, including a single-payer system and a reduction in fee-for-service medical care (New York Times, 2013).

6.7 Analysing Policies for Environmental Sustainability

6.7.1 Energy and the Environment

Historically, the United States prides itself of a long tradition of environmental leadership, that dates back to President Teddy Roosevelt. As a matter of fact, in the 1960s and 1970s the U.S. established a series of progressive laws and institutions. For example, The National Environmental Policy Act (NEPA) of 1969 committed the United States to sustainability, declaring it a national policy "to create and maintain conditions under which humans and nature can exist in productive harmony that permit fulfilling the social, economic and other requirements of present and future generations" (NEPA, 1969).

The formulation of the Environmental Protection Agency's (EPA) policies and instruments have anticipated Brundtland's concept of "sustainable development" and his idea that generates clean prosperity today whilst preserving resources and ecological functions for use by future generations. Arguably, policies on social and environmental development are expected to reinforce responsible practices on resource management, energy efficiency and measures that mitigate climate change. In this regard, EPA has developed a variety of methods, tools and guidance programmes that are aimed at supporting the application of environmental sustainability. Table 6.1 features a non-exhaustive list of US laws and Executive Orders (EOs) that are there to safeguard the environmental protection and the health of US Citizens.

Moreover, the Bureau of Energy Resources (ENR) advances U.S. interests with regards to secure, reliable and ever-cleaner sources of energy. ENR promotes good governance and transparency in the energy-sector as it supports the Extractive Industries Transparency Initiative (EITI). Countries implementing the EITI disclose information on tax payments, licences, contracts, production and other key elements that revolve around resource extraction. This information is disclosed in an annual EITI Report. This transparent report allows citizens to see for themselves how their country manages its natural resources and it also specifies the revenue that they generate. The EITI Standard contains a set of requirements that countries, including the U.S., need to meet in order to qualify as an EITI Candidate or EITI Compliant country (EITI, 2015).

The Bureau of Oceans and International Environmental and Scientific Affairs (OES) articulates policy goals on climate change, science and technology, health, water, environmental protection, biodiversity, oceans and polar issues, fisheries and space policy. OES (2015) pursues responsible and sustainable initiatives in collaboration with the U.S. Water Partnership; the World Environment Centre and with private corporations. These stakeholders help businesses to improve their energy efficiency and to reduce their environmental impact. OES has also teamed up with UNEP, the Global Mercury Partnership and Chlor-alkali Partnership to encourage non-mercury processes. In the same way, the Local Governments for Sustainability (ICLEI) has helped business and industry to reduce their carbon emissions. ICLEI

Table 6.1 U.S. environmental legislation and executive orders

Atomic Energy Act (AEA)
Beaches Environmental Assessment and Coastal Health (BEACH) Act
Chemical Safety Information, Site Security and Fuels Regulatory Relief Act
Clean Air Act (CAA)
Clean Water Act (CWA) (original title: Federal Water Pollution Control Amendments of 1972)
Comprehensive Environmental Response, Compensation and Liability Act (CERCLA, or Superfund)
Emergency Planning and Community Right-to-Know Act (EPCRA)
Endangered Species Act (ESA)
Energy Independence and Security Act (EISA)
Energy Policy Act
EO 12898: Federal Actions to Address Environmental Justice in Minority Populations and Low-Income Populations
EO 13045: Protection of Children From Environmental Health Risks and Safety Risks
EO 13211: Actions Concerning Regulations That Significantly Affect Energy Supply, Distribution, or Use
Federal Food, Drug, and Cosmetic Act (FFDCA)
Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA)
Federal Water Pollution Control Amendments—See Clean Water Act
Food Quality Protection Act (FQPA)—See also FFDCA and FIFRA
Marine Protection, Research, and Sanctuaries Act (MPRSA, also known as the Ocean Dumping Act)
National Environmental Policy Act (NEPA)
National Technology Transfer and Advancement Act (NTTAA)
Noise Control Act
Nuclear Waste Policy Act (NWPA)
Occupational Safety and Health (OSHA)
Ocean Dumping Act—See Marine Protection, Research, and Sanctuaries Act
Oil Pollution Act (OPA)
Pesticide Registration Improvement Act (PRIA)—See FIFRA
Pollution Prevention Act (PPA)
Resource Conservation and Recovery Act (RCRA)
Safe Drinking Water Act (SDWA)
Shore Protection Act (SPA)
Superfund—See Comprehensive Environmental Response, Compensation, and Liability Act
Superfund Amendments and Reauthorization Act (SARA)—See Comprehensive Environmental Response, Compensation, and Liability Act
Toxic Substances Control Act (TSCA)

Source: EPA (2015a, 2015b)

USA's first programme, namely; Cities for Climate Protection (CCP) has supported cities in their climate action planning. For example, one of CCP's initiatives involved a "Five Milestone" framework that offered; a systematic approach for cities; to analyse their baseline greenhouse gas emissions, to develop emissions reduction targets, to develop and implement a climate action plan, and to monitor emissions reduction progress.

6.8 Conclusions

Arguably, the social and environmental responsibility is the only way forward for all nations, particularly for big economies like China, the U.S., Russia and India. These countries are the largest producers of emissions and greenhouse gases in the world. This article shed light on the US governmental institutions and agencies' credentials on socially and environmentally responsible policies. It described in detail relevant instruments including relevant legislation and executive orders that were intended to unlock corporate citizenship among business and industry. At the same time, it reported how many commentators including academia are suggesting that the United States is lagging behind many other countries, in developing more sustainable economic processes and energy infrastructure. Environmental lobbyists argue that in the past years, average temperatures in the continental U.S. rose five times as much than in a century-long period. A new report from the Worldwatch Institute, entitled; "Creating Sustainable Prosperity in the United States: The Need for Innovation and Leadership" called for a broad range of policy innovations in the areas of renewable and non-renewable resource use, waste and pollution, and population. This NGO purports that U.S. leaders have not implemented adequate and sufficient reforms on social and environmental responsibility. Arguably, at the moment many businesses are still characterised by their unsustainable practices such as linear flows of materials, heavy dependence on fossil fuels, disregard for renewable resources, and resource use. According to Columbia University's Environmental Sustainability Index (ESI), the US has merely scored 38 out of 100 in "global stewardship" and 27 out of 100 in "reducing stresses".

These results suggest that the US's poor performance in mitigating air and water pollution and ecosystem stresses is the outcome of the country's minimal responsibility and sensitivity toward global environmental institutions (and international treaties). Notwithstanding, in a recent survey among 17 countries by National Geographic, the American consumers ranked among the last in their green consumption habits (Greendex, 2012). Moreover, Chen and Bouvain (2009) reported that the percentage of U.S. companies that were members of the Global Compact was much lower than in the other countries. This finding could indicate that certain aspects of the Compact may not be acceptable to the U.S. corporations. Maybe, the relatively low environmental credentials among U.S. businesses and individual citizens transcends from the political arena. Although, the U.S. regularly attends to the annual conferences of the parties (COPs) that are organised by to the United Nations Framework—Convention on Climate Change (UNFCCC), (UNFCCC), yet consecutive governments, since Clinton's administration did not transpose Kyoto's protocol. One of the strengths of the Kyoto treaty was the establishment of an international emissions trading system, where countries can earn credits toward their emission target; by investing in emission clean-ups outside their own country.

This case study reported that there are a number of corporate citizenship and social responsibility policies that are still evolving in the US context. Arguably, national institutional structures are creating both challenging opportunities and threats for businesses. US corporations are already operating in various contexts where they could be mandated by law to abide by national legislation and regulation. Notwithstanding, there are different CSR communications and stakeholders' evaluations of given firms across countries. Despite the growing commitment to corporate citizenship, past research did not sufficiently link this notion with CSR policy (Knudsen & Brown, 2015). This contribution has reported how different U.S. institutions, including bureaus, agencies and other stakeholders are pushing forward the social responsibility, environmental sustainability as well as the responsible corporate governance agenda. The US CSR policies and instruments are generally (1) based on sound theoretical arguments (2) tackle the economic, legal, ethical, and discretionary dimensions. However, these regulatory tools could contain disclosure guidelines and reporting mechanisms for the monitoring and controlling of corporate responsible behaviours in the U.S.

The U.S. Government to trigger companies to invest in more efficient technologies by subsidising cleaner production and circular economies. Alternatively, businesses can be penalised when they do not conform to regulatory requirements on responsible behaviours (e.g. reducing environmental impact). For instance, with carbon pricing, governments cannot interfere with management decisions. The businesses themselves ought to decide on effective ways on how they cut their emissions. Carbon markets are there and are expanding (e.g. The EU's Emissions Trading Scheme—ETS). There are many lessons to be learned from the countries' that have resorted to ETS to curb their pollution on the environment. Perhaps, one of the challenges for policymakers is the monitoring and controlling of carbon markets. Indeed, it is in the businesses' interest to anticipate the reinforcement of extant regulatory instruments or any mandatory compliance procedures to new legislation. The firms' proactive corporate citizenship behaviours will inevitably lead them to a sustainable competitive advantage, particularly at times when the labour market is not responding to the employers' requirements.

6.9 Future Research Avenues

Although there have been many contributions on corporate citizenship practices (Fifka, 2013; Matten & Crane, 2005; Pinkston & Carroll, 1994), there is still considerable potential for research that focuses on regulatory policy, in this regard (Knudsen & Brown, 2015). Future research could measure the comparability of policy frameworks for corporate citizenship in the US with other states. Notwithstanding, CSR policies, procedures, and activities necessitate considerable discretionary investments, in terms of time and resources by policy makers, civil authorities, businesses and non-governmental organisations. The underlying question is to establish whether both companies and non-for profit organisations perceive a business or a political case for corporate citizenship, as there potential to create value for themselves and for society as they pursue the sustainable path.

The increased quality of life has brought unsustainable consumption behaviours among customers. Notwithstanding, increased productivity levels are rapidly depleting the world's natural resources. This research has indicated that on paper there are several policies frameworks and initiatives that are pushing forward the corporate citizenship agenda in the U.S. However, the proof is in the pudding. Debatably, the U.S. government and its agencies should ensure that the true ecological cost of environmental degradation and climate change is felt in the market. In this light, there is scope in promoting circular economies that are characterised by resource efficiencies through recycling, reducing and reusing. Moreover, organisations should be urged to find alternative ways for sustainable energy generation, energy and water conservation, environmental protection and greener transportation systems.

Corporate citizenship policies should be promoting socially-responsible investing (SRI), responsible supply chain management and the responsible procurement of sustainable products. Fiscal policies and tools could encourage consumers to purchase sustainable, eco-labelled products, standardised items and 'fair-trade' goods.

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Chapter 7
Case Study 2: Environmental, Social and Governance Reporting in Europe

7.1 Introduction

Corporate social responsibility (CSR) has become a well-established concept "whereby companies integrate social and environmental concerns in their business operations and in their interaction with stakeholders on a voluntary basis" (EU, 2002). CSR is now being adopted by more companies, investors and business schools. At the same time, the civil society, academia and media are also becoming very familiar with the CSR agenda. CSR necessitates legal compliance as well as "customary ethics" (Carroll, 1991). In this context, it may appear that a motivation for CSR may be borne out as a necessity to offset the threat of regulation. Evidently, many companies prefer to be one step ahead of government legislation or intervention to anticipate social pressures. Arguably, there is always scope for business and government to become more aligned with regards to the regulatory aspect of CSR. Governments can take an active leading role in triggering CSR behaviour among its stakeholders. The businesses themselves will realise that appropriate CSR regulation can possibly bring in economic value as well (Porter & Kramer, 2011).

This is also consonant with the European Union's (EU) Lisbon Strategy (2000) and the Gothenburg Sustainability Strategy (2001). According to the European Council's Lisbon Summit: CSR can make a contribution towards achieving the strategic goal of becoming, the most competitive and dynamic knowledge-based economy (referring to the EU) in the world, capable of sustainable economic growth with more and better jobs and greater social cohesion (Eurofound, 2003). In 2001, the Gothenburg Sustainability Strategy became the latest strategic goal for the EU, which supplemented the Lisbon Strategy. The environmental protection has

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been given its due importance and was added to the previous two pillars of economic growth and social cohesion (EU, 2014a). On that occasion, there was mention of other trends; including climate change, public health, natural resources, sustainable transport, aging population, social exclusion, among other issues, have also been recognised and addressed.

However, as it was the case for the Lisbon Strategy, there were significant implementation failures. To respond to these deficits, the EU Commission had proposed to reaffirm the "new approach to policy making and policy coherence" to strengthen its ownership and to improve co-operation with public and private actors, at all levels. EU (2011) had reiterated the importance of CSR as it put forward a new definition for this notion. The term CSR has now been described as the enterprises' responsibility for their impacts on society. The EU recommended that the norms of CSR ought to be considered as appropriate model bases for applicable legislation and for collective agreements between social partners.

The Organisation for Economic Cooperation and Development (OECD) (OECD) Guidelines, the United Nations Global Compact (UNGC) and the International Labour Organisation (ILO) Declaration have also received prominent recognition by the governments of the eight largest economies (G8) countries and other states. Their instruments or initiatives are often referenced in academia, or used by business practitioners (Rasche, 2009). Therefore, this case study sheds light on the latest government-initiated policies on CSR in a European context. It reiterates some of the EU member states' priorities for CSR, whilst making specific reference to recent publications on CSR public policies. It focuses on CSR, sustainability reporting and disclosure.

7.2 The CSR Language

Although the subject of CSR is quite contemporary, it may still be considered as an inherently complex concept by some commentators. It may appear that this dynamic and holistic notion conveys a wide variety of meanings in different contexts. CSR has evolved to meet changing demands in complex environments. Notwithstanding, this concept is context-dependent, as it is often embedded in different historical and cultural traditions. This is particularly evident in Europe, where institutions had long been renowned for their "implicit CSR" much before the concept of CSR was even discussed in an explicit manner. Moreover, CSR often embraces and connects to the triple bottom-line issues: the economy, society and the environment. Nowadays, CSR is actively pursued and applied by business practitioners, society and government. It may appear that European governments are increasingly using CSR as a vehicle for their public policy goals. Despite its complex nature, the Anglo nations and some other European countries were among the first in the world to adopt public policies that promoted CSR among their businesses. In 2006 and 2007, the EU Commission had taken stock of these policies and published two editions of the "Corporate Social Responsibility: National public policies in the European Union". These compendiums had provided rich information on the member states' approaches to CSR. Lately, EU policy has put forward an action agenda that covered the following eight areas:

- *Enhancing the visibility of CSR and disseminating good practices*: This includes the creation of a European award, and the establishment of sector-based platforms for enterprises and stakeholders to make commitments and jointly monitor progress.
- *Improving and tracking levels of trust in business*: The Commission will launch a public debate on the role and potential of enterprises, and organise surveys on citizen trust in business.
- *Improving self- and co-regulation processes*: The Commission proposes to develop a short protocol to guide the development of future self- and co-regulation initiatives.
- *Enhancing market reward for CSR*: This means leveraging EU policies in the fields of consumption, investment and public procurement to promote market reward for responsible business conduct.
- *Improving company disclosure of social and environmental information*: The new policy confirms the Commission's intention to bring forward a new legislative proposal on this issue.
- *Further integrating CSR into education, training and research*: The Commission will provide further support for education and training in the field of CSR, and explore opportunities for funding more research.
- Emphasising the importance of national and sub-national CSR policies.
- Better aligning European and global approaches to CSR:
  - the Commission highlights the OECD Guidelines for Multinational Enterprises;
  - the 10 principles of the UN Global Compact;
  - the UN Guiding Principles on Business and Human Rights; Guiding Principles on Business and Human Rights;
  - the ILO Tripartite Declaration of Principles on Multinational Enterprises and Social Policy; and
  - the ISO 26000 Guidance Standard on Social Responsibility (EU, 2011).

7.3 CSR Made in Europe

In the past, CSR has offered a voluntary complement to traditional hard regulation by persuading private businesses to tackle both domestic and global issues. This way, CSR has supported public goals and helped to close governance gaps. Notwithstanding, the EU is recognising that there are economic and financial measures which can facilitate CSR engagement by corporate businesses. For instance, the use of financial incentives and market forces may include tax rebates and abatements, subsidies and awards (EU, 2008). In addition, informational instruments can raise awareness through the dissemination of knowledge during campaigns, conferences, seminars, training courses and websites. Businesses are urged by governments to reduce their potentially negative impact of their operations on society and the environment (Kotler, 2011). For this reason, there are instances where CSR practices started to be mandated through legislative and binding regulations. Therefore, it may appear that the EU indicated that the public policy case for CSR can pay off for national governments (Knopf et al., 2010), just as the business case can benefit companies (Carroll & Shabana, 2010). Consequently, this contribution maintains that ever more EU member states should forge relationships with key stakeholders in industry and civil society to enhance their socially responsible and sustainable behaviours (Camilleri, 2015).

In the light of significant differences in mentalities across different member states and within particular economic sectors, the current EU framework on the disclosure of the non-financial reports still does not provide a specific "one-size-fits-all" solution (EU, 2011). For the time being, the instruments for sustainable reporting are not compulsory, although quite a lot of CSR tools and standards have already been developed by many stakeholders, including non-governmental organisations. Arguably, such initiatives may have directed enterprises to laudable CSR behaviours by providing good guidance for best-practice through workshops, formal policy guidelines and media releases (EU, 2011). Nonetheless, the European governments' perception is also being drawn from a myriad of intelligent, substantive and reflexive tools and guidelines for responsible business practices that are continuously being drawn from EU institutions.

7.3.1 The EU's Directive on the Disclosure of Non-financial Information

On 29 September 2014, the European Council has introduced amendments to Accounting Directive (2013/34/EU). The EU Commission has been mandated by the European Parliament to develop these non-binding guidelines on the details of what non-financial information ought to be disclosed by large "public interest entities" operating within EU countries It is hoped that non-financial reporting will cover environmental, human rights, anti-corruption and bribery matters, as expressed in the UN Guiding Principles on Business and Human Rights (the "Ruggie Principles") and OECD's Guidelines for Multinational Enterprises (ECCJ, 2014).

This recent, directive has marked a step forward towards the hardening of human rights obligations for large organisations with more than 500 employees. At the moment, there are approximately 6000 large undertakings and groups across the EU. Public interest entities include all the undertakings that are listed on an EU stock exchange, as well as some credit institutions, insurance undertakings and other businesses, so designated by member states.

In a nutshell, these non-financial disclosures should shed light on the corporate businesses' social and environmentally responsible policies and practices. They will feature a brief description of the undertaking's business model, including their due diligence processes resulting from their impact of their operations. This EU directive encourages corporates to use relevant non-financial key performance indicators on environmental matters, including greenhouse gas emissions, water and air pollution, the use of (non-)renewable energy and on health and safety.

With regards to social- and employee-related matters, large organisations ought to implement ILO conventions that promote fair working conditions for employees. The corporate disclosure of non-financial information can include topics such as social dialogue with stakeholders, information and consultation rights, trade union rights, health and safety, gender equality, among other issues. Businesses should also explain how they are preventing human rights abuses and/or fighting corruption and bribery.

Through this directive, the EU commission emphasises materiality and transparency in non-financial reporting. It also brought up the subject of diversity at the corporate board levels. It has outlined specific reference criteria that may foster wider diversity in the composition of boards (e.g. age, gender, educational and professional background). The EU Commission has even suggested that this transparency requirement complements the draft directive about women on boards.

This new directive will still allow a certain degree of flexibility in the disclosures' requirements. As a matter of fact, at the moment it does not require undertakings to have policies covering all CSR matters. Yet, businesses need to provide a clear and reasoned explanation for not complying with this directive. Therefore, non-financial disclosures do not necessarily require comprehensive reporting on CSR matters (although this is encouraged by the Commission), but only the disclosure of information on policies, outcomes and risks (ECCJ, 2014). Moreover, this directive gives undertakings the option to rely on international, European or national frameworks (e.g. the UN Global Compact, ISO 26000) in the light of the undertaking's characteristics and business environment. It is envisaged that the first CSR reports will be published in financial year 2017 (ECCJ, 2014).

7.3.2 The EU's Directive on Disclosure of Transparency

On 12 June 2013, the EU adopted Directive 2013/50/EU that amended the previous transparency directive (2004/109/EC). This latest revision has also addressed stakeholders' concerns regarding their disclosure of environmental and social information. Therefore, it also mentions environmental, social and governance (ESG) disclosures alongside financial reporting obligations of listed companies. This directive is focused on the transparency requirements for corporations. Hence, it may be considered as a disclosure directive with mandatory requirements on corporate performance.

7.3.3 The EU's Energy Efficient Directive

The EU member states are required to draft National Energy Efficiency Plans that report on adopted measures (or on those that are planned to be adopted) to implement the main elements of the Energy Efficiency Directive (EED, 2012/27/EU). All EU countries are required to achieve a certain amount of final energy savings over the period (1 January 2014–31 December 2020) by using energy efficiency obligations schemes or other targeted policy measures that drive energy efficiency improvements in households, industries and transport sectors. The EED entered into force on the 4 December 2012 to establish a common framework of measures for energy efficiency within the EU. EED laid down specific rules to remove barriers in the energy market and to overcome certain market failures that impede energy efficiency (EU, 2012b). It also provides for the establishment of indicative national energy efficiency targets for 2020. All the EU-28 countries are urged to use energy more efficiently at all stages of the energy chain—from the transformation of energy, through its distribution until its final consumption.

These EED measures may also translate to significant energy savings for consumers themselves. For instance, this directive has proposed that consumers ought to access easy and free-of-charge data on their real-time (and historical) energy consumption patterns. Moreover, this directive also recommended that large enterprises should carry out an energy audit at least every 4 years, with the first energy assessment should be held before the 5 December 2015. Arguably, the EU's EED is not quite specific on its disclosure requirements as, for example, the Australian's governments "Building Energy Efficiency Disclosure Regulations" (ComLaw, 2010).

Yet, the EU's very own EED also promotes energy efficiency disclosures among small and medium enterprises (SMEs). As a matter of fact, small businesses are incentivised to undergo energy audits to help them identify the potential for reduced energy consumption. As from 1 January 2014, this directive advised the public sector to lead by example by renovating 3% of its buildings and by including energy efficiency considerations in public procurement. EED has even set realistic deadlines for further improvements in energy efficiencies in energy generation, the monitoring of efficiency levels of new energy generation capacities, national assessments for co-generation and district heating potential and measures.

It goes without saying that the requirements laid down in the EED directive are minimum requirements that do not prevent any member state from maintaining or introducing even more stringent measures. As from 2013, every member state has to report on the progress achieved towards national energy efficiency targets in accordance with Part 1 of Annex XIV (EU, 2012b).

7.3.4 Integrated Pollution Prevention and Control Directive

The Integrated Pollution Prevention and Control (IPPC) Directive has recently been codified (Directive 2008/1/EC of the European Parliament and of the Council of 15 January 2008 concerning integrated pollution prevention and control). On 21 December 2007, the EU has adopted a proposal for industrial emissions. This legislative instrument still offers the highest level of protection for the environment and human health (IPPC, 2014) The IPPC directive requires industrial and agricultural activities with a high pollution potential to have a permit. This permit can only be issued if certain environmental conditions are met, so that the companies (hailing from the energy industries, production and processing of metals, mineral industry, chemical industry, waste management, livestock farming, etc.) bear responsibility for preventing and reducing any pollution they may cause. To receive a permit, an industrial or agricultural installation must comply with certain basic obligations. In particular, it must: use all appropriate pollution-prevention measures, namely, the best available techniques (which produce the least waste, use less hazardous substances, enable the substances generated to be recovered and recycled, etc.); prevent all large-scale pollution; prevent, recycle or dispose of waste in the least polluting way possible; use energy efficiently; ensure accident prevention and damage limitation; return sites to their original state when the activity is over (IPPC, 2013). In addition:

> [...] the decision to issue a permit must contain a number of specific requirements, including: emission limit values for polluting substances (with the exception of greenhouse gases if the emission trading scheme applies); any soil, water and air protection measures required; waste management measures; measures to be taken in exceptional circumstances (leaks, malfunctions, temporary or permanent stoppages, etc.); minimisation of long-distance or trans-boundary pollution; release monitoring and all other appropriate measures (IPPC, 2013).

7.3.5 European Pollutant Release and Transfer Register (E-PRTR)

E-PRTR Regulation 166/2006/EC came into force in February 2006 (EU, 2014c). This regulation requires operators of facilities to report on emissions and specific substances. The E-PRTR is serving as a Europe-wide register of industrial and non-industrial emissions into air, water and land, and off-site transfers of waste water and waste. It also includes pertinent information from specific and diffuse sources.

The E-PRTR is the Europe-wide register that provides easily accessible key environmental data from industrial facilities in EU member states and in Iceland, Liechtenstein, Norway, Serbia and Switzerland. It replaced and improved upon the previous European Pollutant Emission Register. This new register contains data reported annually by more than 30,000 industrial facilities covering 65 economic activities across Europe (EU, 2014c).

For each facility, information is provided concerning the amounts of pollutant releases to air, water and land as well as off-site transfers of waste and of pollutants in waste water from a list of 91 key pollutants including heavy metals, pesticides, greenhouse gases and dioxins from 2007 onwards. Some information on releases from diffuse sources is also available and will be gradually enhanced.

The register contributes to transparency and public participation in environmental decision-making. It implements for the European Community the UNECE (United Nations Economic Commission for Europe) PRTR Protocol to the Aarhus Convention on Access to Information, Public Participation in Decision-making and Access to Justice in Environmental Matters (EU, 2014c).

7.3.6 The European Union's Emissions Trading Scheme (EU ETS)

The EU ETS combats climate change as it is a tool that aims to reduce industrial greenhouse gas emissions, cost effectively. EU ETS is an international system for trading greenhouse gas emission allowances. It covers more than 11,000 power stations and industrial plants in 31 countries, as well as airlines (EU ETS, 2014). A "cap and trade" principle sets the total amount of certain greenhouse gases that can be emitted by factories, power plants and other installations in the system. This capping has been reduced over time, so that the total emissions fall. Hence, the price of carbon is very low and there are huge excessive allowances on the market. In fact, many experts in the field argue that this trading scheme is currently dysfunctional (Hartmann, Perego, & Young, 2013).

Nevertheless, it is envisaged that in 2020, emissions from sectors covered by the EU ETS will be 21% lower than those reported in 2005. By 2030, the Commission proposes that they would be 43% lower (EU ETS, 2014). Within the cap, companies receive or buy emission allowances that they can trade with one another, as required. They can also buy limited amounts of international credits from emission-savings projects around the world. The limit on the total number of allowances available ensures that they have a value.

After each year, a company must surrender enough allowances to cover all its emissions, otherwise heavy fines are imposed. If a company reduces its emissions, it can keep the spare allowances to cover its future needs or else sell them to another company that is short of allowances. The flexibility that trading brings ensures that emissions are cut where it costs least to do so. By putting a price on carbon and thereby giving a financial value to each tonne of emissions saved, the EU ETS has placed climate change on the agenda of company boards and their financial departments across Europe. The EU ETS also acts as a major driver of investment in clean technologies and low-carbon solutions, particularly in developing countries (EU ETS, 2014).

7.3.7 Eco-Management and Audit Scheme

Eco-Management and Audit Scheme (EMAS) was initially established in 1995 and has been re-examined in 2009, in accordance with Regulation EC No. 1221/2009. EMAS is a reporting tool for companies and other organisations that necessitate continuous improvements in their environment performance. One of the aims of the latest revision (which came into force in January 2010) was to strengthen the rules on reporting through core performance indicators. Hence, environmental statements needed to become more relevant and comparable, as organisations are reporting their environmental performance on the basis of generic and sector-specific performance indicators. An important aspect of this audit scheme is that for the moment, the eco-management disclosures are entirely voluntary in nature.

7.3.8 The Modernisation Directive

The EU Accounts Modernisation Directive 2003/51 had amended the Accounting Directives. It stipulated that as from the year 2005 onwards, European companies should include both financial and, where appropriate, non-financial key performance indicators that are relevant to the particular business, including relevant information relating to environmental and employee matters (Mullerat, 2013; Van Wensen, Broer, Klein, & Knopf, 2011). However, this directive also maintained that SMEs could be exempted from the non-financial reporting obligations in their annual statements (EU, 2012a, 2012b). Another amendment of the Accounting Directives (Directive 2006/46) had introduced an obligation for listed companies to include a corporate governance statement within their annual reports (FRC, 2012). By November 2009, all member states had “transposed” the Modernisation Directive and Directive 2006/46 within their national laws (Habek & Wolniak, 2013). Nevertheless, the Modernisation Directive itself did not stipulate any specific requirements in relation to the type of indicators that could be included in annual reports. However, individual EU governments have already undertaken relevant initiatives to provide companies with further guidance to comply with the statutory requirements.

7.4 National Frameworks for CSR Policy

To a certain extent, all EU countries have already implemented the Modernisation Directive. Some EU states have clearly distinguished between several subtypes of ESG reporting, such as "Environment in general", "Environment & Health & Safety", "Environment & Social", "Environment & Health & Safety & Community", "Corporate Social Responsibility", "Sustainability", "Integrated", "Social and Community" and "Other" (Van Wensen et al., 2011). Interestingly, there were many EU countries that have developed some form of mandatory requirements for ESG disclosures (Ioannou & Serafeim, 2014).

For instance, France was a pioneer in this regard when it enacted the "New Regulations" in 2001 (BSR, 2012; Whiteside, Boy, & Bourg, 2010). Similarly, in Denmark, the 1100 biggest companies as well as state-owned companies, institutional investors, mutual funds and listed financial businesses are expected to provide information about their CSR policies on a "comply or explain" basis in their annual financial reports (DCCA, 2010). Likewise, in Sweden, all state-owned companies have to publish their sustainability report (Ioannou & Serafeim, 2014). The management boards of stock-listed companies and the largest state-owned companies in The Netherlands are also required to report and be accountable to the supervisory board and their stakeholders on CSR issues (DCGC, 2014; Ioannou & Serafeim, 2014).

Evidently, other countries have followed suit as they developed their own voluntary standards or guidelines to support companies or other organisations. The latter countries often provide guidance on the integration of social and environmental issues in financial reporting or support certain rankings or awards that are related to sustainability reporting. Generally, it seems that there is a trend towards more government-driven initiatives that are related to reporting. This trend has also been exposed in a recent study that was carried out by KPMG in collaboration with Global Reporting Initiative (GRI), United Nations Environment Programme and the University of Stellenbosch Business School.

The UK Companies Act 2006 is an example of the successful implementation of the Modernisation Directive (Clark & Knight, 2008). All UK companies other than small ones have been mandated to provide information in their annual reports on their strategies, performance and risks (the so-called Business Review). Moreover, quoted companies (as defined in Section 385 of the UK Companies Act) ought to disclose information on environmental, workplace, social and community matters in their annual reviews. They are also expected to report relevant information about their companies' policies in relation to these matters and about their effectiveness. Recently, there were developments in specific thematic areas that were taking place in the UK context. For instance, this "business review" has been superseded with the strategic reporting requirement in the UK Companies Act. Following significant changes to the Companies Act (2013), which were introduced in time to affect 30 September 2013 year-ends; all big companies are now required to include information about environmental matters (including the impact of the company's business on the environment), the company's employees and social, community and human rights issues in their strategic report; Companies Act, 2013).

The Climate Change Act was enacted in the UK in 2008 (CCA, 2008). Government legislation on corporate reporting had mandated companies to measure and report on their emissions. The British Government has also reviewed how the reporting on greenhouse gas emissions was successful in addressing the previously set climate change objectives. The UK Government had committed itself to carbon reduction as it introduced certain regulations that required disclosures by companies (Kolk, Levy, & Pinkse, 2008). This new regulation has made it mandatory for all incorporated and listed companies in the UK; that are officially listed in a European Economic Area or admitted to trading on either the New York Stock Exchange (or NASDAQ) to include emissions data in their annual reporting. The UK has made a commitment to cut its carbon emissions to 50% of the 1990 levels by 2025. The British Department for Environment, Food and Rural Affairs has estimated that this reporting will contribute to reducing CO_2 emissions by 4 million tonnes before the year 2021 (Gov.uk, 2012).

Moreover, the CRC Energy Efficiency Scheme (CRC) required some companies to measure all their emissions which were related to energy use (DECC, 2014). These businesses were required to report their emissions to the Environment Agency. Therefore, British organisations were obliged to comply with CRC and also had to submit a Footprint Report of their total energy and emissions, together with their annual reports.

In addition to the Modernisation Directive, a number of European countries have adopted certain laws and regulations that went beyond their requirements. Most of the EU member states have used a "comply or explain" approach rather than giving the option of not reporting.

Recently, the Danish government has published its "Action Plan for Corporate Social Responsibility". The aim of this action plan was twofold: to promote CSR among Danish businesses, and to promote sustainable growth both domestically and internationally (Danish National Action Plan, 2014). The action plan comprised 30 initiatives in four key areas: propagating business-driven social responsibility, promoting businesses' social responsibility through government activities, the corporate sector's climate responsibility and marketing Denmark for responsible growth. With its action plan, Denmark was among the forerunners in issuing a CSR strategy (Danish National Action Plan, 2014). The central strategic document has helped to focus and re-emphasise existing instruments and to formulate clear priorities. The Danish action plan was characterised by three strengths. Firstly, it has presented a smart mix of CSR instruments, ranging from informational web tools like the CSR Compass or partnering instruments like the Council on Corporate Social Responsibility to legal instruments, such as the much-debated legislation on reporting (CSR Compass, 2014). The CSR Compass does not mandate ESG disclosures. However, this instrument assists SMEs to understand how compliance to Danish legislation meets international CSR requirements. Secondly, it describes CSR as a means for improving the enterprises' competitiveness. Thirdly, Denmark is a very strong supporter of international CSR initiatives, as it is particularly evident from its ongoing support to the UN Global Compact and the UN Principles for Responsible Investment.

The government of Denmark reported on the businesses' compliance with its national initiatives. Van Wensen et al. (2011) reported that both the Danish and Swedish governments have contributed to a stronger uptake of sustainability reporting. At the same time, many companies in these Scandinavian countries had already started reporting about their corporate social and environmental responsibility, much before they were coerced to do so. For instance, since 1996, polluting companies were required to publish stand-alone "green accounts" in Denmark. In 2001, environmental disclosures became mandatory in Danish businesses' annual accounts. During these past 3 years, "human rights" and "diversity in the board" were also included as reporting requirements for Danish entities (CBS, 2013). In Finland, the Ministry of Employment and the Economy, the Ministry of the Environment and different businesses organise annual competitions on ESG reporting (KPMG, 2010). Since 2008, these competitions have been broadened in scope. Now, they also include the term CSR in addition to environmental reporting.

The Swedish state-owned companies were required to publish their sustainability report since January 2008. The sustainability reports that complied with the GRI guidelines had to be quality-assured by independent checks. It transpired that 55 state-owned companies had published their sustainability reports based on the "comply or explain" principle (Van Wensen et al., 2011). The state-owned companies' financial reports had to explain how the GRI guidelines were being applied as they were also expected to justify themselves on any significant deviations. ESG reporting of state-owned companies has increased dramatically. As a matter of fact, more than 94% of these companies had issued their GRI reports. Sweden is now the second country in Europe with the highest number of GRI reports. A recent study by Uppsala University (commissioned by the Swedish Ministry of Enterprise) that has investigated the actual effects of the government's reporting requirements on the state-owned companies' sustainability performance revealed that the introduction of the new guidelines have affected the companies to varying degrees (Knopf et al., 2010). It transpired that the companies that lacked previous experience in sustainability reporting have gone through a more extensive process of change than those that were already submitting sustainability reports. The study has indicated that the reporting requirements have led to increased commitment and awareness, more structured work and more structured processes. Moreover, it was more evident that the sustainability issues have moved up the agenda of organisations, as they were given higher priority by managements and boards.

In The Netherlands, CSR reporting had become mandatory in 2008 (Ioannou & Serafeim, 2014). The Dutch stock-listed companies were expected to report their non-financial performance on the basis of "comply or explain" (Knopf et al., 2010). All stock exchange-listed companies registered in The Netherlands and with a balance sheet of more than 500 million were mandated to do so. These provisions were integrated into the Dutch code for corporate governance, which has been legally anchored in the Dutch Civil Code (DCGC, 2014). These obligations required companies to explain how they were implementing international best practice for their management and supervisory boards. An independent Monitoring Committee for Corporate Governance was also set up to ensure that the businesses complied with specific provisions of this code (DCGC, 2014). The Monitoring Committee also published regular reports on compliance in English.

Other existing instruments include sustainable public procurement policies whereby the governments, as buyers, can create a positive climate for sustainability reporting. The Dutch government had mandated the disclosure of ESG as a requirement for its suppliers in 2010 (Ioannou & Serafeim, 2014). Another example of a Dutch instrument that combined aspects of both economic and informational instruments is the recently updated Transparency Benchmark. Since 2004, it has been continuously developed and updated by the Ministry of Economic Affairs in The Netherlands. There was continuous dialogue with stakeholders that have translated to lower information costs for both companies and readers of CSR reports. To achieve this outcome, the Ministry had incurred the initial development costs of the transparency benchmarks and limited the participation to less than 100 companies (Knopf et al., 2010). In 2010, this instrument was extended to a total of 500 companies. These included a number of state-owned companies, at the request of the Ministry of Finance.

In France, Article 53 of the first Grenelle Law of 3 August 2009 had set the target of extending the New Economic Regulation Act to large listed enterprises (Whiteside et al., 2010). The regulation had extended the reporting obligation to majority-owned public companies. Some of the government's parastatal organisations had harmonised the sectoral indicators at the community level. Generally, they agreed with the principle of the recognition of the responsibility of parent companies over their subsidiary companies—in the event of serious environmental damage. Interestingly, France had also proposed a working framework (at the EU level) for the establishment of social and environmental standards that allowed companies to benchmark their non-financial performance with other organisations (Whiteside et al., 2010).

Spain opted for additional legislation that was primarily directed at state-owned companies. Reporting by state-owned companies was mandated in Spain's Sustainable Economy Law, which was approved by the cabinet in March 2010 (Kessler & Cuerpo, 2011). This law also included various other disclosure requirements such as the remuneration of company directors. It is now compulsory for the Spanish state-owned companies to publish sustainability reports in accordance with commonly accepted standards. Spain had created incentives for companies to include or develop CSR policies, including reporting. Article 37 of the Sustainable Economy Law stipulates that: "the government shall provide companies, especially SMEs, with guidance and indicators that provide support for self-assessment in relation to their social responsibility, as well as reporting models or references that are in line with international reporting frameworks" (Knopf et al., 2010).

The definitions of CSR indicators as well as their reporting mechanisms were developed in cooperation with the State Council (Kessler & Cuerpo, 2011). Moreover, the Spanish Law suggests that the companies that achieve the defined minimum threshold can qualify as socially responsible companies, if they decide to request recognition. Moreover, the official Spanish Credit Institute has partnered with a Caja Navarra (a regional savings bank) to promote reporting among SMEs. Caja Navarra has even offered its clients simple electronic tools that helped them to produce a standardised CSR report. Curiously, since there was this initiative more than 1100 SMEs have prepared their first CSR report following the launch of this campaign in 2009 (Knopf et al., 2010).

In Portugal, the Ministers' Council had adopted a resolution on the principles of good corporate governance of state companies. The Minister of Finance has been entrusted with its annual assessment and its implementation (Kessler & Cuerpo, 2011). Other related examples of legal initiatives also included mandatory reporting in specific areas of sustainability performance. For instance, in 2006, the Portuguese Department of Transportation and Communications had mandated the companies that are under its guardianship to publish a sustainability report (KPMG, 2010). Similarly, Ireland's Credit Institutions Act (2008) stipulated that financial services companies have to issue a CSR report of their activities through the Irish Banking Federation. As from 2007 onwards, the companies that were listed in the alternative market were instructed to report their non-financial performance on a "comply or explain" basis (Knopf et al., 2010).

The Czech Republic has implemented an award for CSR and quality management. To qualify for the National Prize of Quality, participants may publish a CSR report and submit it to government (Knopf et al., 2010). This CSR report had to be developed according to a specific framework, which is readily available (and free) for download. All the reports are assessed by independent evaluators, who will adjudicate the best report and have it published.

The German Ministry of Labour and Social Affairs, in collaboration with the German Council for Sustainable Development, has also participated in a project that ranked the sustainability reports of industrial and service companies in Germany (Transparency International, 2012). Since 2009, there has also been a classification of the best sustainability reports that were prepared by SMEs (Knopf et al., 2010). Some of the underlying objectives of such competitions are to benchmark best practices in sustainability reporting, to improve constructive competition between companies and to foster dialogue between different stakeholder groups. The ranking of the best sustainability reports is carried out by independent research organisations.

A number of upcoming initiatives are either in the planning phase or may still have to be approved by the EU governments. For example: The Spanish State Council on Corporate Social Responsibility has set up a "Working Group on Transparency, Reporting and Standards" (Knopf et al., 2010). It is hoped that this working group will provide a professional guidance to organisations that are/shall be publishing their sustainability reports. Perhaps, there is a need to regulate further in the area of ESG reporting.

The Italian National Contact Point, the Italian Bankers' Association and the Italian National Business Association have been cooperating to define a set of standards for non-financial reporting. Therefore, the organisations that are reporting a true and fair view of their socially responsible, environmentally sustainable or corporate governance practices may have their credit ratings appraised by Italian banks (Knopf et al., 2010).

The German CSR strategy (2008) maintained that the Federal Ministry of Employment and Social Affairs and the Federal Ministry for the Environment, Nature Conservation and Nuclear Safety had to publish CSR reports based on GRI and the EMAS declaration (Progress Report, 2008). These reports were published in the first reporting year following the launch of the strategy.

In Belgium, the federal government decided to carry out a trial project concerning the application of ISO 26000 in government agencies (Knopf et al., 2010). This initiative was linked to sustainability reporting that was also based on the guidelines of the GRI and was piloted with the Federal Public Planning Services Division for Sustainable Development.

In Poland, CSR will be advanced in the form of an inter-ministerial working group (Martinuzzi, Krumay, & Pisano, 2011). Extensive discussions have been taking place on the future of reporting in the Polish context. The working group has recently submitted its recommendations on increasing transparency and reliability, which will form the basis for future activities in the area of developing policy measures for ESG disclosure.

7.5 Conclusions and Implications

Organisations are increasingly using a wide array of instruments, tools and channels to communicate their ESG reports to stakeholders. Most of the EU's new rules on non-financial reporting will only apply to some large entities with more than 500 employees. This includes listed companies as well as some unlisted companies, such as banks, insurance companies and other companies that are so designated by member states because of their activities, size or number of employees. The scope includes approximately 6000 large companies and groups within the EU bloc (EU, 2014a, 2014b, 2014c). This chapter reported that the most prevalent reporting schemes were often drawn from; the G3 Guidelines of the GRI and the UNGC. In addition, several platforms and organisations that promote corporate sustainability reporting reporting have developed partnerships with AccountAbility, OECD, UNEP, Carbon Disclosure Project and with many governments and sector organisations (Kolk et al., 2008; Van Wensen et al., 2011).

When one explores the key topics that companies reported on, it transpired that carbon emission disclosures have become quite a common practice (Kolk et al., 2008). Moreover, recently there was an increased awareness on the subject of human rights and the conditions of employment (Lund-Thomsen & Lindgreen, 2013). Curiously, online reporting has offered an opportunity for accountability and transparency as information is easily disseminated to different stakeholders (Zadek, Evans, & Pruzan, 2013). This has inevitably led to increased stakeholder engagement, integrated reporting and enhanced external verification systems. This subject has also been reported by Simnett and Huggins (2015), who have also presented a number of interesting research questions which could possibly be addressed through engagement research.

At this point in time, stakeholders are considering reporting schemes as a valuable tool that can improve the quality of their reporting, particularly as it enables them to benchmark themselves with other companies (Adams, Muir, & Hoque, 2014). GRI is often regarded as “a good starting point” for this purpose. Moreover, the provision of a UNGC communication on progress is a new global trend that has become quite popular among business and non-profit organisations. Some of the European organisations are gradually disclosing environmental information or certain other key performance indicators that are of a non-financial nature in their reporting (Zadek et al., 2013). Generally, public policies are often viewed as part of the regular framework for social and employment practices. Therefore, a considerable commitment is made by local governments who act as drivers for stakeholder engagement (Albareda, Lozano, Tencati, Midttun, & Perrini, 2008). One way to establish a CSR-supporting policy framework is to adopt relevant strategies and actions in this regard. Such frameworks may be relevant for those countries that may not have a long CSR tradition or whose institutions lack accountability and transparency credentials (Zadek et al., 2013). It may appear that EU countries are opting for a mix of voluntary and mandatory measures to improve their ESG disclosure. While all member states have implemented the EU Modernisation Directive, they have done so in different ways. While the Modernisation Directive ensured a minimum level of disclosure, it was in many cases accompanied by intelligent substantive legislation. National governments ought to give guidance or other instruments that support improvements in sustainability reporting. Lately, there was a trend towards the development of regulations that integrate existing international reporting frameworks such as the GRI or the UN Global Compact Communication on Progress. These frameworks require the engagement of relevant stakeholders to foster a constructive environment that brings continuous improvements in ESG disclosures. Regular stakeholder engagement as well as strategic communications can bring more responsible organisational behaviours (Camilleri, 2015). Many corporate businesses use non-governmental organisations’ regulatory tools, processes and performance-oriented standards with a focus on issues such as labour standards, human rights, environmental protection, corporate governance, and the like. Nowadays, stakeholders, particularly customers expect greater disclosures, accountability and transparency in corporate reports. Although regulation is desired to limit the pursuit of exploitative, unfair or deceptive practices, this contribution has shown that in some cases regulation (and legislation) is taking the form of “comply or explain” mandates.

This chapter posited that it is in the businesses’ self-interest to anticipate such regulatory intervention. It may be argued that any compulsory reinforcement of the regulatory measures may possibly yield operational efficiencies and cost savings for businesses, in the long term. In this light, more communication and dialogue between stakeholder groups, including business shareholders will help to raise awareness of the public policy and business cases of CSR. Many EU governments are realising that there is potential for laudable social and environmental behaviours that can ultimately bring economic growth, social cohesion and sustainable environmental practices.

7.6 The Way Forward

More proactive European governments are increasingly addressing societal, environmental, governance and economic deficits. It reported how governments' regulatory roles with stakeholders are intrinsically based on relational frameworks with civil society and commercial entities. Governments have a vital role to play in improving on the environmental and social practices of business and industries operating from their country (Camilleri, 2015). This case study has reported how regulatory changes in certain EU countries involve the efficient and timely reporting of non-financial performance of corporate business. It indicated that ESG reporting is primarily aimed at the larger businesses rather than SMEs. Undoubtedly, the EU is acting as a driver of CSR policy. To a certain extent, it is providing structured compliance procedures. On the other hand, national regulatory authorities are expected to explain their strategic objectives to business stakeholders and NGOs. The CSR practices and their measurement, their reporting and audit should be as clear and understandable as possible for businesses. Very often, the European governments' reporting standards and guidelines are drawn from the international reporting instruments (e.g. GRI, Compact, ISO, SA and AA). Nevertheless, it must be recognised that there are different businesses out there which consist of various ownership structures, sizes and clienteles. In addition, there are many stakeholder influences which may possibly affect the firms' level of social and environmental engagement.

At the moment, we are witnessing regulatory pressures toward mandatory changes on CSR reporting in Europe. The ESG disclosures are a function of the level of congruence between the government departments' regulatory environment and the use of voluntary performance measures (Adams et al., 2014). Of course, firms may respond differently to the reporting regulations as there are diverse contexts and realities. Somehow, EU regulatory pressures are responding to energy crises, human rights issues as they are addressing contentious matters such as resource deficiencies including water shortages. Notwithstanding, big entities are also tackling social and economic issues (e.g. anti-corruption and bribery) as they are implementing certain environmental initiatives (e.g. waste reduction, alternative energy generation, energy and water conservation, environmental protection, sustainable transport, etc.). In this light, there are implications for practitioners and assurance providers of integrated reports, standard setters and regulators (Simnett & Huggins, 2015). Future engagement research can possibly consider how report content and reporting formats, might impact on organisations' decision-making (Correa & Larrinaga, 2015). This chapter indicated that practice and policy issues would benefit from additional empirical evidence which analyse how the European disclosure regulations may positively or adversely affect the corporations' stakeholders.

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Chapter 8
Case Study 3: The Responsible Corporate Governance of the European Banks

8.1 Introduction

The corporate social responsibility (CSR) practices of huge multinationals affect millions, perhaps billions of people across the world, through the products they supply, the people they employ, the communities they locate in or the natural environments they affect. Over the last few decades, the resurgence of corporate governance could have been triggered by corporate irresponsibility and scandals.

Debatably, corporations are not only strategically-rational; they are also morally-obliged to uphold their stakeholders' interests, at all times. While corporate scandals have given considerable mileage to business ethics and CSR issues; businesses ought to focus their energies on their core economic functions of producing goods and services, whilst maximising returns for their primary legitimate interest groups, namely shareholders (Donaldson & Preston, 1995; Friedman, 1970; Harford, Mansi, & Maxwell, 2012; Shleifer & Vishny, 1997). Notwithstanding, the latest European Union's (EU) guiding policies are encouraging big businesses and state-owned organisations to provide a fair and truthful view of their respective entities' environmental, social and governance (ESG) performance. At present, European member states are transposing directive 2014/95/EU on non-financial reporting. The EU's "comply or explain" approach has presented a significant step forward toward the corporations' active engagement on corporate governance disclosure and transparency. In this light, responsible corporate governance determines the systems, principles, and processes by which large firms or state-owned entities are governed.

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The corporate governance principles and codes have been developed to guide large organisations (with more than 500 employees) to balance the distribution of rights and responsibilities of all stakeholders. During these last decades the big entities were constantly reminded that they had obligations towards; shareholders, employees, investors, creditors, suppliers, local communities, customers, and policy makers. Moreover, organisational leaders were instructed on their duties and responsibilities pertaining to the composition of the board of directors as they had to respect their shareholders' rights. Notwithstanding, sound corporate governance demanded corporate officers and board members to give life to an organisation's guiding values, to create an environment that supports ethically sound behaviours, and to instil a sense of shared accountability among employees (Paine, 1994). Therefore, the driving force for corporate governance ought to be characterised by integrity, honesty and organisational ethics. Ethical values shape the search for opportunities, the design of organisational systems, and the decision-making processes. These responsible principles help to define what a company is and what it stands for. They provide a common frame of reference and serve as a unifying force across different functions, lines of business, and employee groups (Paine, 1994). Stakeholders expect accountability and transparency from large organisations. Hence, organisations are expected to clarify and make publicly known the roles and responsibilities of the board and management. Corporate entities are encouraged to implement procedures to independently verify and safeguard the integrity of the company's financial reporting. Such disclosures of material matters concerning the organisation should be timely and balanced in order to ensure that all investors have access to clear and factual information.

This contribution explains how corporate governance is not an end in itself. It is a means to create market confidence and business integrity. Responsible corporate governance is essential for companies that need access to equity capital for long term investment. Access to equity capital is particularly important for future oriented growth companies, particularly in the financial services industry. This case study presents a review of some of the international corporate governance principles as it reports about the voluntary guidelines on non-financial reporting in the EU. This is followed by a content analysis of the corporate governance practices of three major European banks hailing from different contexts. More specifically, this research evaluates formal and informal structures, as well as the processes and disclosures procedures that exist in oversight roles and responsibilities within the financial services sector. The underlying objective of this analysis is to scrutinise the banks' corporate governance micro/macro dimensions as they need to respond to regulatory pressures and stakeholder demands. The discussion of the three banks provides a useful illustration of how corporate governance practices can be implemented, and it does provide an indication of how some practices may differ from institution to institution (and by country). Yet, there are also certain practices that remain similar across the EU countries.

Therefore, the following case studies shed light on the principles and good practices of corporate governance in three major European banks, namely; ING Bank, Deutsche Bank and UniCredit. It addresses the rights of directors, managers, shareholders and employees among other interested parties. In many cases, they have anticipated any regulatory, legal, contractual, social and market-driven obligations as they helped stakeholders to exercise their rights. This research critically evaluates how these stakeholders are engaging in corporate decision making, in the light of the latest developments in corporate governance policy.

8.2 Corporate Governance Regulatory Principles and Codes

The corporate governance principles have initially been articulated in the "Cadbury Report" (Jones & Pollitt, 2004) and have also been formalised in the "Principles of Corporate Governance" by the Organisation for Economic Cooperation and Development (Camilleri, 2015a; Lazonick & O'Sullivan, 2000). Both reports have presented general principles that help large organisations in corporate governance decisions. Subsequently, the federal government in the United States enacted most of these principles that were reported in the Sarbanes-Oxley Act in 2002 (Abbott, Parker, Peters, & Rama, 2007). Different governments and jurisdictions have put forward their very own governance recommendations to stock exchanges, corporations, institutional investors, or associations (institutes) of directors and managers, sometimes with the support of intergovernmental organisations. With regards to social and employee related matters, large organisations could implement the International Labour Organisation (ILO) conventions that promote fair working conditions for employees (Fuentes-García, Núñez-Tabales, & Veroz-Herradón, 2008).

The corporate disclosure of non-financial information includes topics such as; social dialogue with stakeholders, information and consultation rights, trade union rights, health and safety and gender equality among other issues (EU, 2014). The compliance with such governance recommendations is usually not mandated by law. Table 8.1 presents a selection of corporate governance principles:

Most of these principles have provided reasonable recommendations on sound governance structures and processes. In the main, these guidelines outlined the duties, responsibilities and rights of different stakeholders. In the pre-globalisation era, non-shareholding stakeholders of business firms were in many cases sufficiently protected by law and regulation (Schneider & Scherer, 2015). In the past, the corporate decisions were normally taken in the highest echelons of the organisation. The board of directors had the authority and power to influence shareholders, employees and customers, among others. This board consists of executive and non-executive directors. The organisations' ownership structure, and the composition of the top management team could influence corporate social performance (Lau, Lu, & Liang, 2014). Notwithstanding, the non-executive directors could also have a positive impact on CSR reporting (Sharif & Rashid, 2014). However, these assumptions have become partly untenable with the diminution of public steering

Table 8.1 Prevalent corporate governance principles

The Cadbury Report (1992)
International Corporate Governance network (1995)
OECD's Principles of Corporate Governance 1999 (revised in 2004)
Sarbanes-Oxley Act (2002)
World Business Council for Sustainable Development (2004)
The International Finance Corporation and the UN Global Compact (2009)
Equator principles (2010)
EU's Directive on Disclosure of Transparency 2013/50/EU (2013)
EU's Directive on Non-Financial Disclosures 2014/95/EU (2014)
(Compiled by the author)

power and the widening of regulation gaps (Lau et al., 2014). In many cases, stakeholders of business firms lack protection by national state legislation. Notwithstanding, with the inclusion of stakeholders, corporate governance may compensate for lacking governmental and regulatory protection and could contribute to the legitimacy of business firms (Miller & del Carmen Triana, 2009). Schneider and Scherer (2015) argued that the inclusion of stakeholders in organisational decision processes (on a regular basis) can be regarded as the attempt of business firms to address the shortcomings of a shareholder-centred approach to corporate governance. This casual consultation with stakeholders could often be characterised by unequal power relations (Banerjee, 2008).

Previous research may have often treated the board as a homogeneous unit. However, at times there could be power differentials within boards (Hambrick, Werder, & Zajac, 2008). Boards are often compared to other social entities, in that they possess status and power gradations. Obviously, the chief executive will have a great deal of power within any organisation. In addition, the directors may include current executives of other firms, retired executives, representatives of major shareholders, representatives of employees and academics. Who has the most say? Is it the directors who hold (or represent) the most shares or does it reflect the directors' tenures? It could be those who hold the most prestigious jobs elsewhere, or the ones who have the closest social ties with the chairman or chief executive. These power differentials within the echelons of top management teams could help to explain the firms' outcomes. Ultimately, the board of directors will affect processes and outcomes.

A more macro perspective on informal structures opens up new questions regarding the roles of key institutional actors in influencing the public corporation (Hambrick et al., 2008). Although researchers have long been aware of different shareholder types, there has been little consideration of the implications of shareholder heterogeneity for the design and implementation of governance practices. Managers and shareholders, as well as other stakeholders, have wide variations of preferences within their presumed categories. For instance, there are long-term and short-term-oriented shareholders, majority and minority shareholders, and active and passive shareholders (Hambrick et al., 2008). In addition, the rise of private equity funds may have created a whole new shareholder category. This group is becoming more and more influential. The idea of heterogeneity within stakeholder categories, including diversity among equity shareholders, will become a popular topic in future governance research (Miller & del Carmen Triana, 2009). Growing shareholder activism raises questions that could have been overlooked in the past. Who runs, and who should run the company? Corporate governance does not begin and end with principals, agents, and contracts. Beyond the obvious roles of regulatory authorities and stock exchanges, we are witnessing an increasing influence from the media, regulatory authorities, creditors and institutional investors, among others. These various entities may have a substantial effect on the behaviours of executives and boards of public companies.

Arora and Dharwadkar (2011) had suggested that effective corporate governance could discourage violation of regulations and standards. Jizi, Salama, Dixon, and Stratling (2014) examined the impact of corporate governance, with particular reference to the role of board of directors, on the quality of CSR disclosure in US listed banks' annual reports after the US sub-prime mortgage crisis. Jizi et al. (2014) implied that the larger boards of directors and the more independent ones are in a position to help to promote both shareholders' and other stakeholders' interests. They found that powerful CEOs may promote transparency about banks' CSR activities for reputational concerns. Alternatively, the authors also pointed out that this could be a sign of managerial risk aversion. Recently, many businesses have linked executive pay to non-financial performance. They tied executive compensation to sustainability metrics such as greenhouse gas (GHG) reduction targets, energy efficiency goals and water stewardship; in order to improve their financial and non-financial performance (CERES, 2012). In a similar vein, Jo and Harjoto (2011) have found that CSR is correlated with governance characteristics, including board independence and institutional ownership. They posited that this finding supports the conflict-resolution hypothesis as opposed to the overinvestment and strategic-choice arguments as CSR engagement positively influences operating performance and firm value. Jizi et al. (2014) also indicated that the two board characteristics usually associated with the protection of shareholder interests (board independence and board size) are positively related to CSR disclosure. Manasakis, Mitrokostas, and Petrakis (2013) suggested that businesses should recruit socially-responsible CEOs and delegate them to instil their CSR ethos on the organisations' stakeholders. They contended that these individuals could act as a commitment device for the firms' owners and toward consumers.

Moreover, Lau et al. (2014) have examined the effects of corporate governance mechanisms on CSR performance to gain legitimacy in a changing institutional context. They maintained that Chinese firms had to adopt global CSR practices in order to remain competitive. Adaptive governance ought to incorporate strategic and monitoring activities that determine the way companies enact their responsibilities toward shareholders and other stakeholders (Young & Thyil, 2014). Relevant contextual factors including; the economic environment, national governance system, regulation and soft law, shareholders, national culture, behavioural norms and industry impacts could affect corporate governance. In their philosophical stance, Lau and Young (2013) held that there are different realities that affect corporate governance. They went on to suggest that it is important to explore hybrid solutions into an integrated framework to lessen the possibility of bottlenecks and any emerging incongruities. Rahim and Alam (2014) also argued that corporate self-regulation in less vigilant environments could be incentivised by regulators and other stakeholders. Notwithstanding, the firms who voluntarily disclose more CSR information had better corporate governance ratings (Chan, Watson, & Woodliff, 2014). Such businesses are usually larger; belong to higher profile industries; and are highly leveraged. Mason and Simmons (2014) suggested a holistic approach to corporate governance and social responsibility that integrate companies, shareholders and wider stakeholder concerns. They argued that this is attainable if companies delineate key stages of the governance process and align their profit-centres and social responsibility concerns to produce a business-based rationale for minimising risk and mainstreaming CSR.

Interestingly, the latest European Union (EU) Directive 2014/95/EU on non-financial disclosures has encouraged large undertakings to use relevant non-financial key performance indicators on environmental, social and governance matters (Camilleri, 2015b).

8.3 European Corporate Governance Guidelines

On the 29th September 2014, the European Council has introduced amendments to its previous Accounting Directive (2013/34/EU). The EU Commission has been mandated by the European Parliament to develop non-binding guidelines on the details of what non-financial information ought to be disclosed by large "public interest entities" operating within EU countries. It is hoped that non-financial reporting will cover social and environmental issues, including; human rights, anti-corruption and bribery matters as expressed in the UN Guiding Principles on Business and Human Rights (the "Ruggie Principles") and OECD's Guidelines for Multinational Enterprises (ECCJ, 2014). This recent, directive has marked a step forward towards the hardening of human rights obligations for large organisations with a staff count of more than 500 employees. At the moment there are approximately 6000 large undertakings and groups across the EU. Public interest entities include all the undertakings that are listed on an EU stock exchange, as well as some credit institutions, insurance undertakings and other businesses so designated by the EU's member states. Their disclosures are expected to feature a brief description of the entities' business models, including their due diligence processes resulting from their impact of their operations. Corporations (or state owned organisations) should also explain how they are preventing human rights abuses and/or fighting corruption and bribery.

This EU directive has emphasised materiality and transparency in non-financial reporting. It also brought up the subject of diversity at the corporate board levels. It has outlined specific reference criteria that may foster wider diversity in the composition of boards (e.g. age, gender, educational and professional background). The EU Commission has even suggested that this transparency requirement complements the draft directive about women on boards. Of course, this new directive will still allow a certain degree of flexibility in the disclosures' requirements. As a matter of fact, at the moment it does not require undertakings to have policies covering all CSR matters. Yet, businesses need to provide a clear and reasoned explanation for not complying with the EU's directive. Therefore, non-financial disclosures do not necessarily require comprehensive reporting on CSR matters, but it encourages the disclosure of information on policies, outcomes and risks (ECCJ, 2014). Moreover, this directive gives undertakings the option to rely on international, European or national frameworks (e.g. the UN Global Compact, ISO 26000) in the light of the undertaking's characteristics and business environment. It is envisaged that these revised non-financial reporting requirements will be published as from financial year 2017. However, many European corporations, including multi-national banks are already following these voluntary corporate governance principles.

8.4 Analysis of the Non-financial Disclosures of Corporations in Financial Services

8.4.1 ING Bank

ING Groep N.V. (that is being referred to as ING) is a global financial institution with its base in Amsterdam, Netherlands. At the time of this study, the company had more than 52,000 employees in over 40 countries. Every year, ING reports about its corporate governance policies and practices to the Monitoring Committee (also known as the 'Frijns Committee'). For the record, the Monitoring Committee's "Dutch Corporate Governance Code" became effective as of the 1st January 2004. This "Code" consists of the principles and related best-practice provisions that are intended for all companies whose registered offices are in the Netherlands and whose shares or depositary receipts for shares have been admitted to a listing on a stock exchange, or more specifically to trading on a regulated market or a comparable system. This Code is intended for all large undertakings (with a balance sheet value $>$ 500 million euros) and whose shares or depositary receipts for shares have been admitted to trading on a multilateral trading facility or a comparable system (DCGC, 2016).

The Code contains principles and best practice provisions that regulate relations between the management board, the supervisory board and the shareholders (i.e. the general meeting of shareholders). Compliance with the Code's principles is in accordance with the 'apply or explain' principle. In other words, the principles and best practice provisions of the Code must be applied unconditionally or an explanation ought to be given for any departure from them. The Code is divided into five chapters: compliance with and enforcement of the Code; the management board; the supervisory board; the shareholders and the general meeting of shareholders; the audit of the financial reporting and the position of the internal audit function and the external auditor.

ING Group complies with these provisions on an annual basis. In its General Meeting, ING expressly indicates to what extent it has applied the best-practices in this code. If it did not do so, the company is bound to explain why and to what extent it has not applied these provisions. ING has a two-tier board structure consisting of the Executive Board and the Supervisory Board. ING's Executive Board (Management Board) is responsible for day-to-day management of the business as well as its long-term strategy. ING's management board is accountable to the supervisory board and to the general meeting, whilst taking into consideration the interests of the company's stakeholders (ING, 2014). It is responsible for managing the risks associated with the company activities, for financing the company, and to control systems (for monitoring and reporting) in liaison with the supervisory board and the audit committee.

The Supervisory Board is responsible for controlling management performance and advising the Executive Board. It comprises outside directors who are involved in five permanent committees: The Audit Committee, the Risk Committee, the Remuneration Committee, the Nomination Committee and the Corporate Governance Committee. All committees are totally independent of ING as each committee has its own charter which describes the powers and duties that have to comply with applicable regulation, such as the US Sarbanes-Oxley Act. For example, one of the remits of the supervisory board is to determine the level and structure of the remuneration of the members in the management board. This board also takes into account; the results, the share price performance and non-financial indicators that are relevant to the long-term objectives of the company, with due regard to relevant risks.

The shareholders are not only interested in getting their return on investment, but they also have a say in the decision-making of ING bank. In fact, they are entitled to voting rights. Each share in the capital of ING Groep N.V. gives entitlement to cast one vote. Shareholders and depositary-receipt holders may exercise their voting rights even if they do not attend a shareholders' meeting. They can enable a proxy to a third party to do so on their behalf. The shareholders have the right to appoint and dismiss members in the executive and supervisory boards during ING's general meeting. According to the Dutch Financial Supervision Act, the shareholders and holders of depositary receipts of ING Groep N.V. are required to provide updated information on their holdings once they cross threshold levels of 3%, 5%, 10%, 15%, 20%, 25%, 30%, 40%, 50%, 60%, 75% and 95%. The shares granted to the members in the management board members shall be retained for a period of at least 5 years or until at least the end of their employment (if this period is shorter). The number of shares to be granted is dependent on the achievement of their previously set targets.

The corporate audit services (CAS) is ING's internal audit group that services ING Bank and the ING Group. It reports to the Executive Board and the Audit

Committee and is present at the meetings of the Audit Committee. CAS's mission, its scope of work, its authority and responsibilities are laid down in the Internal Audit Charter that is endorsed by the CEO or Executive Board. Finally, it is also approved by the Audit Committee. CAS's mission is to provide an independent assessment of the design and effectiveness of internal controls over the risks to ING's business performance. In carrying out this work CAS provides specific recommendations toward improving the governance, risk management, internal control systems and regulatory compliance processes. The budget for CAS operations is approved by the Audit Committee on an annual basis. CAS's annual risk-based audit plans for ING Bank and ING Group are reviewed by the Executive (Management) Board and approved by the Audit Committee. CAS also initiates a periodic exchange of its risk analysis and audit planning results with the external auditor. It submits periodic reports, with key performance indicators (including audit plan realisation and implementation of recommendations) to the Audit Committee and Executive (Management) Board. This includes an annual report on the adequacy and effectiveness of ING's systems of control, which comprise a summary of internal audit activity results and key issues. CAS is subject to an independent quality review at least every 5 years.

The Dutch law requires that the company's external auditors should be appointed at the general meeting and not by the audit committee. The external auditor performs the audit on the consolidated financial statements of ING Groep N.V., ING Bank N.V. and the statutory financial statements of their subsidiaries. In this role, the external auditor attends meetings of the Audit Committee and is present during the annual General Meeting of Shareholders (AGM). As part of the audit engagement, the external auditor issues a management letter to the Executive (Management) Board and the Audit Committee, which identifies (potential) issues pertaining to the adequacy and effectiveness of the governance, risk and control framework. ING's Supervisory Board will make recommendations to the AGM once every 4 years for the appointment of a prospective external auditor. ING's policy requires the auditor to provide the Audit Committee with a full overview of all services provided to ING Group, including related fees that should be supported by detailed information. This overview is evaluated on a quarterly basis by the Audit Committee.

In contrast to the Sarbanes-Oxley Act of 2002, the Dutch Corporate Governance Code contains a 'comply-or-explain' principle. This is consistent with the latest EU (2014) directive. Therefore, any deviations to the code are permissible as long as they are reasonably explained. When these deviations are approved by the general meeting, the company is deemed to be in full compliance with the Code.

8.4.2 Deutsche Bank

Deutsche Bank AG is a global financial services corporation that has its headquarters in Frankfurt, Germany. It is a listed company and has more than 100,000 employees in over 70 countries. Therefore, Deutsche Bank is subject to the essential statutory regulations of the German Corporate Governance Code. This Code describes the legal regulations for management and the supervision of German listed companies, as per Aktiengesetz (German Stock Corporation Act). Other elements of the Code are derived from international and national-acknowledged standards for good and responsible corporate governance.. These are presented as principles in the form of recommendations and suggestions that are not mandatory. For instance, the Deutsche Corporate Governance Kodex recommends that the amount of compensation for the Management Board members is to be capped, both overall and with regard to variable compensation components. In 2014, Deutsche Bank AG did not set a cap (limit) for the pay-out amount of the deferred equity-based compensation, so it has not complied with the Code's recommendation in No. 4.2.3 (2) sentence 6. Any deviations from the recommendations ought to be explained and disclosed with the annual declaration of conformity (as per the EU's Comply or Explain principle). Besides giving reasonable recommendations and suggestions that reflect the best practice of corporate governance, the Code aims at enhancing the German corporate governance system's transparency and comprehensibility, in order to strengthen the confidence of international and national investors, clients, employees and the general public in the management and supervision of German listed companies (DCGK, 2016).

Deutsche Bank complies with the German Corporate Governance Code as per section 161 of the German Stock Corporation Act. The Code clarifies the obligation of the Management Board and the Supervisory Board to ensure the continued existence of the enterprise and its sustainable creation of value in conformity with the principles of the social market economy (interest of the enterprise). The Supervisory Board appoints, supervises and advises the members of the Management Board and is directly involved in decisions of fundamental importance to the enterprise. The members of the Supervisory Board are elected by the shareholders at the General Meeting. The Supervisory Board of Deutsche Bank must be composed in such a way that its members as a group possess the knowledge, ability and expert experience to properly complete its tasks. In particular, the Supervisory Board members should have sufficient time to perform their mandates. The composition of the Supervisory Board shall have an adequate number of independent members and shall not have more than two former members of the Management Board of Deutsche Bank AG. The Supervisory Board has established the following seven standing committees, including; a Chairman's Committee; a Nomination Committee: An Audit Committee; a Risk Committee,; a Risk Committee, an Integrity Committee; a Compensation Control Committee and a Mediation Committee (Deutsche Bank, 2015).

The Management Board submits to the General Meeting the Annual Financial Statements, the Management Report, the Consolidated Financial Statements and the Group Management Report. The General Meeting resolves on the appropriation of net income and the discharge of the acts of the Management Board and of the Supervisory Board and, as a rule, elects the shareholders' representatives to the Supervisory Board and the auditors. Furthermore, the General Meeting resolves on the content of the Articles of Association, including: the purpose of the company; inter-company agreements and transformations; the issuance of new shares, convertible bonds and bonds with warrants; as well as the authorisation to purchase own shares. It also authorises the remuneration system for the members of the Management Board.

The shareholders exercise their rights before or during the General Meeting. In principle, each share carries one vote. There are no shares with multiple voting rights, preferential voting rights (golden shares) or maximum voting rights (Deutsche Bank, 2015). When new shares are issued, shareholders, in principle, have pre-emptive rights corresponding to their share of the equity capital. Each shareholder is entitled to participate in the General Meeting to take the floor on matters on the agenda and to submit materially relevant questions and proposals. At least once a year the General Meeting is to be convened by the Management Board giving details of the agenda. The convening of the meeting, as well as the reports and documents, including the Annual Report, required by law for the General Meeting are to be made easily accessible to the shareholders on the company's internet site together with the agenda. If a postal vote is offered, the same applies to the necessary forms. Deutsch Bank facilitates the personal exercising of shareholders' voting rights and the use of proxies. The Management Board could arrange for the appointment of a representative to exercise the shareholders' voting rights in accordance with relevant instructions. This representative should also be reachable during the General Meeting. The company also makes it possible for shareholders to follow the General Meeting using modern communication media (e.g. through the Internet). Beyond Deutsche Bank's statutory obligations to report and disclose dealings in shares of the company without delay, the ownership of shares in the company or related financial instruments by the Management Board and Supervisory Board members shall be reported if they exceed 1% of the shares issued by the company. If the entire holdings of all members of the Management Board and Supervisory Board exceed 1% of the shares issued by the company, these shall be reported separately to the Management Board and Supervisory Board in the Corporate Governance Report.

Prior to submitting a proposal for election, the Supervisory Board or, respectively, the Audit Committee shall obtain a statement from the proposed auditor stating whether, and where applicable; which business, financial, personal and other relationships exist between the auditor and its executive bodies and head auditors on the one hand, and the enterprise and the members of its executive bodies on the other hand, that could call its independence into question. This statement shall include the extent to which other services were performed for the enterprise in the past year, especially in the field of consultancy, or which are contracted for the following year. The Supervisory Board shall agree with the auditor that the Chairman of the Supervisory Board or, respectively, the Audit Committee will be informed immediately of any grounds for disqualification or partiality occurring during the audit, unless such grounds are eliminated immediately. The Supervisory Board commissions the auditor to carry out the audit and concludes an agreement on the latter's fee. The Supervisory Board shall arrange for the auditor to report without delay on all facts and events of importance for the tasks of the Supervisory Board; which arise during the performance of the audit. Deutsche Bank's Supervisory Board shall arrange for the auditor to inform it if during the performance of the audit, the auditor comes across facts which show a misstatement by the Management Board and Supervisory Board on the Code. The auditor takes part in the Supervisory Board's deliberations on the Annual Financial Statements and Consolidated Financial Statements and reports on the essential results of its audit (Deutsche Bank, 2015).

8.4.3 UniCredit

UniCredit S.p.A is an Italian commercial bank operating in 17 countries with over 144,000 employees, in an international network that spans 50 markets. Its joint stock company adopts the so-called traditional management and control system. This system is based on the existence of two corporate bodies; the Board of Directors and the Board of Statutory Auditors. The Board of Directors supervise and manage the company, whereas the Board of Statutory Auditors oversees the management. Moreover, the accounting supervision is entrusted to an external auditing firm. UniCredit's overall corporate governance framework has been defined in its current provisions that reflect the recommendations of the Corporate Governance Code for listed companies (Borsa Italiana, 2015). Each Italian company with listed shares (the "issuer") follows this "Code". They are expected to disclose their corporate governance report and proprietary shareholdings with accurate, concise, exhaustive and easily understandable information. This is synonymous with the EU's (2014) comply or explain directive as each single recommendation contained within the principles and criteria ought to be implemented during the period covered by the report. The corporate governance disclosures should; (a) explain in what manner the company has departed from the recommendation; (b) describe the reasons for the departure, whilst avoiding vague and formalistic expressions; (c) describe how the decision to depart from the recommendation was taken within the company; (d) where the departure is limited in time, explain when the company envisages complying with a particular recommendation; (e) if it is the case, describe the measure taken as an alternative to the relevant non-complied recommendations and explain how such alternative measure achieves the underlying objective of the recommendation or clarify how it contributes to their good corporate governance (Unicredit, 2015).

The main principles of the Italian code specify the rights, duties and responsibilities of various stakeholders, including; the directors, statutory auditors and shareholders among others. All the members of the Board of Directors and the Board of Statutory Auditors are appointed by the Shareholders Meetings on the basis of a proportional representation mechanism (*voto di lista*). This voting system features lists of candidates competing against one another in order to ensure the election of minority shareholders representatives. UniCredit's boards have to comply with specific rules concerning the appointment of their members in accordance with the gender composition criteria provided for by law (see Clauses 20 and 30 of the Articles of Association). They also cover professional experience, integrity and independence requirements. As regards the appointment and the requirements of the Board of Statutory Auditors members, it must be pointed out, inter alia, that: UniCredit's Articles of Association stipulate that two permanent auditors as well as two stand-in ones are reserved to the minorities and that the Chairman is appointed by the Shareholders' Meeting among the auditors elected by the minorities. In addition, at least two permanent auditors and one stand-in auditor must be listed in the national Rolls of Auditors; which must have carried out the legal auditing of accounts for a period of no less than 3 years (Unicredit, 2015).

The Directors' term of office spans three operating years, except where a shorter term is established at the time they are appointed, and ends on the date of the Shareholders Meeting that is convened for the approval of the accounts (relating to the last operating year in which they were in office). The Executive Management Committee has been set up to ensure the effective steering, coordination and control of the group's undertakings. The Ordinary Shareholders' Meeting appoints five permanent Statutory Auditors, from whom it also elects the Chairman and four substitute Auditors. The permanent and substitute Auditors may be re-elected. The Chairman of the Board of Statutory Auditors is appointed by the Shareholders' Meeting from among the permanent Auditors that are elected by the minority shareholders. The Supervisory Body pursuant to Legislative Decree 231/2001 prescribes the establishment of an internal Supervisory Body. Its duty is to supervise the organisation's compliance with responsible corporate governance.. The Supervisory Body of UniCredit consists of five members, including two external members and three executives in "apical" positions with guidance, support and control functions.

The Internal Control System (ICS) involves a set of rules, procedures and organisational structures. ICS aims to ensure that corporate strategy is implemented through effective corporate processes. It strives to ensure the reliability and integrity of accounting and management data. UniCredit's Group Risk Management (GRM) function ensures that there is regulatory compliance as it manages risk, including; credit risk, market risk, liquidity risk and operational and reputational risk. UniCredit's Internal Audit Department verifies the conformity of the group companies' conduct with the Parent Company's guidelines as it monitors the effectiveness of internal control systems.

The shareholders' meetings are called on to pass resolutions pursuant to the terms and conditions that are laid down in the bank's Articles of Association. In Ordinary Sessions, the shareholders' meetings are convened at least once per year, within 180 days of the end of the financial year, to pass resolutions on topics over which they have jurisdiction. Specifically, in an ordinary session, the shareholders' meetings are called upon to approve the balance sheet and to resolve on the allocation of the profit, appoint directors and statutory auditors, and appoint external auditors for statutory certification of the accounts. Additionally, the shareholders' meetings are called upon to pass resolutions on any early termination of the directors or auditors, or on the termination of the appointment of external auditors for the statutory certification of the accounts. Moreover, ordinary session shareholders' meetings also approve: (1) the remuneration policies for supervisory, management and control bodies as well as for employees; (2) equity-based compensation schemes. Shareholders meetings are convened in extraordinary sessions as and when required to pass resolutions on any of the issues over which they are empowered (pursuant to applicable law). Specifically, in extraordinary sessions, the shareholders' meetings pass resolutions on amendments to the Articles of Association and on transactions of an extraordinary nature such as capital increases, mergers and demergers.

Both ordinary and extraordinary shareholders' meetings are convened, according to law, via a notice published on the company's website and through the other methods envisaged by both legal and regulatory provisions. The Board of Directors shall publish a report at the Company's registered office, on its website, and through the other channels on each item on the agenda and make the said report publicly available. The Chairman of the Shareholders Meeting is fully empowered to moderate the meeting proceedings in compliance with the principles, terms and conditions established by the provisions in force, as per the General Meeting Regulations. All those who hold voting rights are eligible to attend the shareholders' meetings. Any person that is entitled to vote may choose to be represented in a shareholders' meeting by proxy. These shareholders have to indicate the name of one or more possible representative's substitutes.

Shareholders who, even jointly, represent at least 0.50% of the UniCredit share capital, may ask for the shareholders' meeting agenda to be integrated and/or to submit resolution proposals on items already on the agenda (according to the cases, methods, terms and conditions outlined in Section 126-bis of the Legislative Decree no. 58/98 and in the Articles of Association). The requests, together with the documentation certifying the ownership of the shareholding, must be submitted in writing. Shareholders requesting additions to the agenda must prepare a report stating the reasons for their resolution proposals on the new matters they propose for discussion; such report shall be forwarded to the Board of Directors by the final deadline for the submission of the request for addition. Questions received by the Company prior to the Meeting shall be answered - subject to the right thereto being ascertained - during the Meeting itself at the latest. The Company is entitled to provide a single answer to questions on the same subject matter (Unicredit, 2015).

8.5 Evaluation

These European banks are following specific national provisions that have introduced industry codes of conduct. Notwithstanding, these financial institutions are also complying with the EU's directive 2014/95/EU. The comply or explain directives can be seen as providing market-based solutions that may suit the companies and their shareholders without the need for regulatory intervention.

This voluntary instrument is based on shared beliefs and institutional arrangements with stakeholders. The corporations that do not comply with the codes are expected to explain how their actual practices are consistent with responsible corporate governance and the achievement of their business objectives.

In a similar vein, institutional arrangements need to ensure that explanations are credible to the regulatory authorities. These arrangements may relate to different corporate governance matters, including; ownership issues, the role of intermediaries, shareholder rights and engagement, stock markets and the incentives that all these arrangements create. Institutional arrangements will determine whether shareholders will play the stewardship role expected of them in a comply-or-explain scenario. They are expected to challenge companies' explanations and engage with boards if they are unconvincing to them. For example, there are provisions (pertaining to the comply-or-explain methodology) which suggest that the roles of the chairman and chief executive should not be exercised by the same individual; the board should appoint a senior independent director; at least half the board, excluding the chairman should comprise independent non-executive directors; there should be nomination, audit and remuneration committees and separate sections of the annual report to describe the work of the nomination and audit committees; and the directors should have access to independent professional advice and the services of the company secretary, among other issues.

Therefore, the comply or explain is an approach that positively recognises that an alternative to a provision is justified if it achieves good governance. At the same time, companies are prepared to be as accountable and transparent as possible. Departures from a code provision are not presumed to be breaches because accompanying explanations should provide insight into how companies think about improving their corporate governance. Reportedly, the three European banks did not specify the details on certain matters, including; the remuneration benchmarking exercise, data collection regarding high earners, assessment of the suitability of members of the management body and key function holders, and their internal governance matters.

In this light, the European Banking Authorities (EBA) will shortly collect data on remuneration benchmarking, as it shall gather relevant information on the number of natural persons earning 1 million euro or more per financial year (EBA, 2014a, 2014b). This data collection aims at ensuring a high level of transparency regarding the remuneration practices within the EU. These guidelines will be used to benchmark trends and practices. In addition, there are other guiding principles that set out the process, criteria and minimum requirements for assessing the suitability of members of the management body and key function holders (EBA, 2015). These recommendations followed EBA's (2011) guidelines on internal governance of institutions and the banking systems, as a whole. This document was primarily aimed at enhancing and consolidating supervisory expectations, and to ultimately improve the sound implementation of internal governance arrangements. In this case, this research reported how the three banks have thoroughly explained their organisational structure with well defined, transparent disclosures about their board members' lines of responsibility. They also demonstrated that they had set effective processes to identify, manage, monitor and report the potential risks that they might be exposed to. Notwithstanding they all described their internal control mechanisms to a certain extent. Perhaps, there were minor reporting deficiencies in terms of oversight of the supervisory function, risk management and internal control frameworks coupled with the riskiness of the products and services they offer. Nevertheless, the three banks have provided details on their sound administrative and accounting procedures. They also shed light on how they determine and structure their remuneration policies.

Arguably, further reforms may help to strengthen the oversight and management of European banks. For instance, the potential conflicts of interest of directors and controlling shareholders in governing bodies as well as the cross-appointments within financial institutions could be deterred and prevented with clearly laid-out policies in this regard. Responsible corporate governance necessitates due diligence at all times, particularly on controlling shareholders. These case studies have shown that at the moment there are stringent regulations on lending parties among other issues. There was mention of certain requirements for board qualification and composition. Interestingly, the latest EU directive has also brought up the subject of diversity at the corporate board levels. It has recommended specific criteria that were aimed at fostering wider diversity in the composition of boards (e.g. age, gender, educational and professional background). The EU Commission has even suggested that this transparency requirement complements the draft directive about the presence of women on boards.

Debatably, most of the recent provisions could be perceived as 'over-prescriptive' by certain European entities; as large undertakings are expected to incorporate externalities to enhance activism toward responsible corporate governance (Acharya & Volpin, 2009). Of course, any restrictions on ownership and voting rights (one member-one vote) could possibly weaken market diligence and the bank's capacity to raise capital from outside sources. For this reason, many jurisdictions are increasingly protecting their minority shareholders. For example, in the Netherlands, the minority shareholders are entitled to present lists of Board candidates when they own a minimum amount of share capital. In the Italian context, the banks' by-laws will establish relevant mechanisms according to how the board seats are distributed among slates (Borsa Italiana, 2015). Generally, the slate receiving the highest number of votes takes all the board seats, but the quota reserves at least one seat for the minority shareholders. In this case, the representative of the minority shareholders chairs the internal control body in Italy. There are instances where corporations could decide to get around responsible corporate governance requirements relating to fiduciary duties, executive salaries, and the divulgation of the entities shareholders' identity and their voting rights, tax incentives, loyalty dividends, among other issues. Notwithstanding, there are other contentious matters including; preventing human rights abuses and/or fighting corruption and bribery (EU, 2014).

8.6 Conclusions and Implications

The past EU directives and recommendations on corporate governance disclosure requirements; shareholder rights and non-financial accounting for the listed companies were implemented across all European states. Moreover, many states, including Germany, Italy and the Netherlands have recently transposed the latest EU (2014) directive. The underlying rationale behind such a European directive was that corporate governance policies have an important role to play in achieving the broader economic objectives with respect to investor confidence, capital formation and allocation. Responsible corporate governance affects the cost for corporations to access finance for their growth prospects. Notwithstanding, the responsible principles could safeguard the stakeholders' rights (particularly shareholders' rights). Ideally, all stakeholders ought to be treated in fair, transparent and equitable terms.

The EU's corporate governance principles are providing a comprehensive framework that reassures shareholders that their rights are protected. This is of significant importance in today's globalised capital markets. International flows of capital enable companies to access financing from a much larger pool of investors. If companies and countries are to reap the full benefits of the global capital market, and if they are to attract long-term "patient" capital, corporate governance arrangements must be trustworthy, well understood across borders and adhere to internationally accepted principles. Even if corporations do not rely on foreign sources of capital, a credible corporate governance framework, supported by effective supervision and enforcement mechanisms; will help foster confidence in domestic investors, reduce the cost of capital, strengthen the good functioning of financial markets, and ultimately induce more stable sources of financing.

There is no single model of good corporate governance. However, the guiding principles including the EU's Directive on Disclosure of Transparency 2013/50/EU and the EU's Directive on Non-Financial Disclosures 2014/95/EU (2014) underpin responsible corporate governance in Europe. However, responsible corporate governance principles are non-binding and are not intended as prescriptions for national legislation. These principles seek to identify objectives as they suggest various means for achieving them. The European corporate governance principles aim to provide a robust, yet flexible reference for policy makers and market participants to develop their own frameworks for corporate governance. To remain competitive in a changing world, corporations must innovate and adapt their corporate governance practices. This way, they can meet new demands and grasp new opportunities. The European governments have an important responsibility for shaping an effective regulatory framework that provide sufficient guidelines and flexibility that allow markets to respond to new stakeholders' expectations. The EU directives are widely used as a benchmark by individual European states. The principles themselves are evolutionary in nature and are reviewed in the light of significant circumstantial changes that may arise in corporate governance. This case study suggests that effective corporate governance frameworks are critical to the proper functioning of the banking sector and the respective macro economy as a whole. It reported how the three major European banks and their supervisors are operating to achieve robust and transparent risk management as they promote public confidence in their board committees. This way they uphold the safety and soundness of the European financial services industry.

8.7 Limitations and Future Research Avenues

There are many factors that could influence the companies' active engagement in corporate governance behaviours and their adequate disclosure in annual reports. The composition of the decision-making bodies and the way how they define their activities could be considered as challenging in terms of both accountability and transparency toward stakeholders.

Although, all member states are transposing new EU directives; to date, there are no specific, obligatory requirements in relation to the type of non-financial indicators and metrics that should be used as a yardstick for corporate governance disclosures. Moreover, there is a need for further empirical evidence that should analyse how the European principles may (or may not) affect other large undertakings, including state-owned organisations or non-governmental organisations. For instance, IMF (2013) reported a challenging issue facing many financial services firms. It reported that foundations constitute one of the major shareholders in banks. Apparently, they hold 20% or more of bank capital in Italy. Therefore, these foundations can control boards with a small share of ownership, often through shareholders' agreements. On the other hand, in Anglo-Saxon countries, foundations are increasingly investing in a broadly diversified range of sectors and are not inextricably linked to the ownership of the banks' shares (IMF, 2014). Their board members typically include investment experts, professors, researchers, and professionals, thereby allowing for a wide range of specific knowledge. They often mandate an Investment Committee that is made up of investment professionals, that are supervised by the Boards; to draft investment policies as they set investment targets (IMF, 2014).

In sum, this exploratory research shed light on the corporate governance policies of three major international banks, operating in the European context. Hence, further research may use other methodologies and sampling frames. Future research avenues exist on corporate governance disclosures in different industry sectors. This research has analysed three corporate governance codes out of 28 member countries within the European Union. A wider selection of countries could have probably given a better understanding of how different contexts could have transposed the EU's (2014) directive. This contribution has clearly indicated that there are external forces, including institutional factors that can influence and shape responsible corporate governance and their disclosures. Further research could also explain how internal pressures such as shareholder activism could restrain or alter the organisations' actions.

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Chapter 9
Case Study 4: Corporate Sustainability and Responsibility: Creating Value in Business and Education

9.1 Introduction

During their learning journey, individuals acquire competences that ought to be relevant for their career endeavours. The provision of quality education and its assurance is the responsibility of national governments. Very often, policy makers are expected to respond to challenging issues such as skill shortages and mismatches where candidates lack certain competencies although they could have attended compulsory education (Allen & De Weert, 2007). Yet, business and industry also offer training to human resources that supplements formal education (McKenzie & Woodruff, 2013). Arguably, the employees' knowledge and skills may be too deep to bridge through corporate training sessions. The constraints on their growth may be halted by the broad impact of inadequate education and training in some industries or regions. On the other hand, corporations can easily shift their operations where it is viable for them to tap qualified employees.

This chapter contends that there is a possibility that big businesses could become key players in addressing unmet needs in education. It reconceives the private sector's role in education as there are win-win opportunities for companies and national governments whenever they nurture human capital. It may appear that there is a gap in extant academic knowledge, in this regard. Therefore, this contribution raises awareness on how businesses could become key stakeholders in aligning educational programmes with their human capital requirements in the labour market. It posits that CSR programmes could reconnect the firms' economic success with societal progress and advancement.

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Firstly, this contribution reports on relevant theoretical underpinnings and empirical studies revolving on socially-responsible human resources management practices. Previous findings have indicated that CSR-oriented organisations who cared about their social impact have reaped the benefits of improved employee engagement in their workplace environments, through; increased motivation and higher morale, job satisfaction, lower turn-over rates as they enhanced their productivity levels and minimised staff turnover. In the second part of this chapter, numerous case studies reveal that there is scope for corporations to forge fruitful relationships with educational institutions, governments, and non-profits. This contribution posits that an increased collaboration with these stakeholders could help them to better re-align education with the unmet training needs of business and industry. It argues that socially responsible businesses could lead educators to address relevant job mismatches and skill gaps in the labour market. Thirdly, the following research implies that big businesses could help improve the much desired standards for educational effectiveness across borders. Numerous cases provide evidence on how corporate philanthropy, stewardship and laudable investments in the realms of education could create shared value to both business and society, in general (Camilleri, 2015; Porter & Kramer, 2011).

9.2 Corporate Social Responsibility Programmes that Add Value to the Business

Several companies have the resources and the political influence to help improve curricula and their educational outcomes; which will in turn help them cultivate local talent. Arguably, leading businesses are already devising corporate social responsibility (CSR) programmes that are actively supporting education across many contexts (Preuss, Haunschild, & Matten, 2009). Such a strategic approach may result in cross-sector collaborations that will inevitably lead to significant improvements to the firms' bottom lines (Porter & Kramer, 2011). Notwithstanding, the businesses' involvement in setting curricula may also help them improve the effectiveness of learning outcomes.

9.2.1 Redirecting Corporate Social Responsibility Efforts Toward Human Resources

Today's cause marketing is often concerned with the company's strongest ambassadors—its employees (Kotler & Lee, 2008). Undoubtedly, responsible and sustainable businesses are increasingly contributing to the well-being of their human resources and toward their surrounding communities. At the same time, firms often engage in CSR activities to generate publicity and positive impressions among stakeholders (Visser, 2011). Many academics, argue that the most successful CSR strategy is to align a company's social and environmental activities with its business purpose and values (Porter & Kramer, 2011; Visser, 2011). Arguably, the first step towards developing a CSR mentality is to re-define the principles of the company. In a way, the role of senior management is crucial in instilling an ethos for CSR behaviours among employees (Preuss et al., 2009).

Businesses know that prospective employees consider a variety of factors when they evaluate future careers. Some individuals value financial incentives; including high salaries, bonus potential and benefits (Gerhart & Fang, 2014). Others focus on professional development, advancement opportunities and location (Kehoe & Wright, 2013). Recently, multinational companies are increasingly realising that they can better engage with their employees through CSR (Bhattacharya, Sen, & Korschun, 2008). Evidently, CSR can provide certain incentives (to employees) that may be even more alluring than money (Branco & Rodrigues, 2006). Socially Responsible Human Resources Management (HRM) affects the employees' performance and their altruistic behaviours (Korschun, Bhattacharya, & Swain, 2014; Shen & Benson, 2014). In fact, past empirical studies indicated that internal CSR engagement that is directed toward employees is an indirect predictor of individual task performance and extra-role helping behaviour. Another study by Deloitte (2004) has yielded very similar results. Seventy-two percent of US respondents indicated that they would opt to work for companies that also support charitable causes; if they had to choose between jobs offering the same location, job description, pay, and benefits. According to this study, the majority of the youngest survey participants have indicated that their decision to work for their current employer was based on company culture or reputation (Deloitte, 2004). Evidently, these respondents also valued the opportunities for growth and development, as well as their salary and benefits package. This Deloitte study has shown that the corporate social responsibility agenda is an important subject for tomorrow's business leaders.

These findings seem to suggest that employees want to belong to an organisation that stands for more than financial performance (Korschun et al., 2014; Tang, Hull, & Rothenberg, 2012; Vanhamme, Lindgreen, Reast, & van Popering, 2012). Employees are attracted by companies that are truly CSR-oriented. In addition, the businesses' genuine intentions and goodwill can help them improve the brands' image among stakeholders. Thus, even if employees do participate in CSR initiatives, they still want to be associated with organisations that care about their social impact (Shen & Benson, 2014). Therefore, it is in the companies' self-interest to underline their CSR performance during public relations events that are aimed to attract top talent. Apparently, more companies are realising that CSR is a great opportunity to engage with employees and to illustrate their commitment to the community at large. Past empirical studies have measured both the employees' attitudes and work-behaviours of those who actively participated in their respective companies' CSR programmes.

Many studies indicate that the employees that were actively taking part in charitable causes and philanthropic initiatives felt a sense of identification with their respective companies (Kotler & Lee, 2008; Vanhamme et al., 2012). Interestingly, other studies have reported that corporate social performance was also correlated to an improved job performance (Tang et al., 2012). Therefore, it transpired that those employees that were emotionally connected with their company were more likely to remain committed toward their employer. It may appear that the CSR initiatives often reveal the companies' underlying credentials. Hence, social responsibility can be considered as part of the employees' value proposition; that can be described as the balance of benefits that employees receive in return for their performance at work (Korschun et al., 2014). Moreover, the employment value proposition can also be a plausible way for companies to retain their employees; as CSR can help to augment the employers' reputation and image for job prospects (Kiessling, Isaksson, & Yasar, 2015; Melo & Garrido-Morgado, 2012). Interestingly, relevant research suggests that when the job candidates' values match those of their employer, they would feel more satisfied in their prospective job (Korschun et al., 2014). It will be very likely that they remain longer with their employer. Another survey had also mirrored these findings. It found that the employees engagement in CSR have led to a sense of pride in the company (De Roeck & Delobbe, 2012). This was in turn positively correlated to employee performance (Singhapakdi, Lee, Sirgy, & Senasu, 2015) and negatively related to intention to quit (Ghosh & Gurunathan, 2014). Moreover, other findings indicated that employee engagement was also positively related to customer focus and pro-company citizenship behaviours (Harter, Schmidt, & Hayes, 2002).

Those companies that possess high CSR credibility often experience a lower turnover rate than their competing firms (Lee, Park, & Lee, 2013). Curiously, the companies that pride themselves in experiencing the highest retention of employees will also have the greatest customer retention (Harter et al., 2002). Such findings could possibly be attributed to many issues. For instance, the employees' CSR engagement could also be connected with their leaders' CSR ethos (Fombrun, 2005). Therefore, management could be considered as the main actors and drivers for socially responsible behaviours. Many studies have indicated that the managements' values and beliefs will inevitably effect employee engagement in CSR as well as their companies' competitiveness. For example, Jenkins (2006) posited that employees looked up to their senior management as they championed CSR issues. Similarly, Entine (2003) argued that corporations are continuously judged on how employees are treated. Their external CSR is positively related to organisational commitment and that the contribution of CSR to employee morale and commitment is as great as job satisfaction (Brammer, Millington, & Rayton, 2007; Fida et al., 2014).

Undoubtedly, CSR initiatives will affect an organisation's human environment within any organisation (Porter & Kramer, 2006). Corporate responsibility initiatives can be a possible reason why prospective employees decide to join and remain at a particular company. The businesses that are socially responsible with their human resources are noticing an improved job satisfaction and higher morale among employees (Fida et al., 2014). A major concern in many industry sectors is attracting quality employees and retenting them. Lately, many employers are becoming more sensitive to the work-life balance of their human resources. The personal circumstances of employees may demand flexible working times or reduced working hours. For instance, employees may need to look after their children or to family members in need of care. Notwithstanding, employees could ask for sponsorships to pursue professional training courses (McKenzie & Woodruff, 2013). Their studies often necessitate their temporary absence from work.

Unfortunately, the work-life balance may not always be a viable option for businesses. Due to the particular nature of work across many industries, the employees may be required to work unsocial hours. Perhaps, there are further research avenues in these promising fields of study, relating to the subject of human resources management. The size of a company could possibly affect the employees' engagement in CSR practices (Baumann-Pauly, Wickert, Spence, & Scherer, 2013; Orlitzky, Siegel, & Waldman, 2011). Surprisingly, the smaller organisations are increasingly promoting the use of sustainable actions (Jamali, Lund-Thomsen, & Jeppesen, 2015). Several studies suggest that both large and small businesses are equally effective in their CSR engagement (Jenkins, 2006). However, Nielsen and Thomsen (2009) held that the internal communications may be uniquely important to small and medium-sized enterprises (SMEs) that frequently do not afford significant PR budgets to communicate externally.

Moreover, CSR engagement may prove the most challenging among businesses with diverse cultures and complex supply chain networks (Ciliberti, Pontrandolfo, & Scozzi, 2008). Some of the smaller companies may have less bargaining power to persuade their suppliers to alter their sustainable and socially responsible practices. Sometimes, employees are inspired to implement given initiatives at their own homes. Another aspect is the businesses' responsibility in managing the safety and well-being of staff within their premises' (Cornelius, Todres, Janjuha-Jivraj, Woods, & Wallace, 2008). Generally, many multinational organisations may have made suitable arrangements for health, safety and welfare issues, as big businesses are expected to comply with the relevant national legislations in this regard. It is the corporation's responsibility to ensure that the workplace environment complies with the relevant laws, rules and regulations. Very often the multinational organisations appear to behave responsibly. The majority of them adhere to ethical norms and internationally recognised standards that are monitored and controlled by third parties.

Management may also engage with employees as they can involve them on the companies' different issues, including CSR. When the human resources are delegated with certain duties and responsibilities they may become motivated in their workplace environment. Continuous communication and dialogue with employees are some of the key elements for a successful workplace (Camilleri, 2015). Generally, businesses can get more from their staff in terms of ideas, commitment and loyalty (Bhattacharya et al., 2008). In a sense, CSR can create a good working atmosphere, where there are better relationships and trust through internal participation, motivation and high spirits (Jenkins, 2006; Preuss et al., 2009).

In a similar vein, Pedersen (2010) remarked that managers need to express their broader responsibilities in treating employees with dignity and respect as they strive to stimulate an inspiring, fun and dynamic workplace. Indeed, CSR has the potential to instil 'a sense of belonging' among employees (Murillo & Lozano, 2006). Hence, certain employers could offer incentives and employee reward schemes which are aimed at boosting their employees' productivity (Gerhart & Fang, 2014). Such initiatives can nurture greater employee commitment and motivation (Tang et al., 2012). Therefore, engagement with employees is not necessarily acquired through financial compensation. Companies are no longer assuming that salaries and financial benefits alone will buy employee commitment (Tang et al., 2012).

9.2.2 Corporate Social Responsibility in Education and Stakeholder Engagement

Businesses and governments play essential roles in overcoming regional skill gaps and skill mismatches. However, they rarely engage with each other in meaningful ways. Businesses that transcend these matters can make a profound impact on their own human resource needs and on their wider societal needs of the region. Business could allocate scarce resources to educational and training institutions in order to strengthen their long-term workforce needs. Nowadays, there are many successful collaborative agreements involving corporations and government. Numerous corporations are increasingly forging stronger ties with policy makers to improve the quality of human capital:

1. The 'New Employment Opportunities Initiative' (NEO) that consists of five Latin American leading employers (including; Walmart, Caterpillar, Microsoft, CEMEX and McDonalds) have joined forces with the Inter-American Development Bank (IDB) and the International Youth Foundation (IYF) with the underlying objective to train one million youth in Latin America and the Caribbean, by 2022 (FSG, 2014). Across the region today, 32 million young people (one in every five aged 15–29) are neither in employment nor at school. Half of the employers in this region struggle to find qualified employees. Evidently, this NEO initiative has already helped to address these crises by launching large-scale training programmes that include; technical and life skills, internships and job placement services. NEO's founding partners have jointly committed \$37 million in cash and in-kind resources. Every company has contributed \$5 million, and provided technical expertise on workforce needs, internships, and entry-level jobs for programme graduates (FSG, 2014). IDB and IYF have also been key brokers of this initiative, as they worked with companies to define common job competencies. It transpired that they engaged more than 300 training partners. As a result of their collective effort, these companies have benefited from a new talent pool that has addressed their labour requirements.
2. This research investigated how ICT conglomerates were actively engaging in socially responsible HRM. Cisco, a provider of networking equipment, has

created more than 10,000 networking academies across 165 countries (Camilleri, 2014). More than 4.75 million individuals have improved their employment prospects as they attended training to become network administrators. At the same time, these individuals have increased the demand for Cisco's equipment. Similarly, SAP and Verizon have partnered with local universities and education institutions in order to deliver courses, career coaching and customised degrees on site for employees (Camilleri, 2014). These companies have discovered that employees that pursue such programmes are more likely to remain loyal to their company. Naturally, employees realise that these educational programmes may ultimately lead to their career progression and better prospects for them (Kehoe & Wright, 2013). Evidently, such laudable behaviours are being taken on board by numerous multinational corporations.

For instance, another multinational corporation, Intel has invested in training programmes and partnerships that also strengthen education (Camilleri, 2014). The company has recognised that its business growth is constrained by a chronic shortage of talent in science, technology, engineering, and math (STEM) disciplines. Through programmes like Intel Math and Intel Teach, the global company has delivered instructional materials, online resources, and professional development tools for hundreds of thousands of educators across the United States. As a result, many students' have acquired STEM and other twenty-first century skills, including critical thinking with data, as well as scientific inquiry. This is a relevant example of a corporate business that has successfully addressed its workforce needs. Intel has recognised specific skill gaps in its central areas like technology and engineering (Camilleri, 2014). Intel has committed itself for further discretionary investments in education. The company has created higher education curricula in demand areas like microelectronics, nanotechnology, security systems and entrepreneurship. Undoubtedly, Intel's efforts affected millions of US students (Camilleri, 2014) as the company has increased its productivity and competitiveness.

3. Many big businesses are also contributing in stewardship, charitable and philanthropic causes (Vanhamme et al., 2012). For instance, the GE Foundation has supported systemic improvements in urban school districts that were close to GE's business. These investments have surely helped to close the interplay between corporate sustainability and responsibility (CSR) and corporate philanthropy (Porter & Kramer, 2002), while strengthening GE's long-term talent pipeline. Many NGOs are capable of developing better connections between education and employment. In Africa, the Rockefeller Foundation has invested $100 million in its Digital Jobs Africa initiative to connect one million disadvantaged youth with jobs in the growing technology sector (Camilleri, 2014). Equally important, the Foundation has acted as a neutral broker by convening the private sector and government to create long term partnerships and new pathways to employment. NGOs play an essential role in helping companies implement shared value initiatives (Camilleri, 2015; Porter & Kramer, 2011). When companies enter new markets, NGOs can help them understand the local needs and context. They can also help implement educational programs in

circumstances where normal corporate profit margins are unattainable. In turn, NGOs that adopt a shared value approach can access the full range of business resources and expertise beyond philanthropy to better serve their constituents (Porter & Kramer, 2002). For example, Education for Employment (EFE) has partnered with companies in the Middle East and North Africa. Since 2006, EFE has provided job training and placement for more than 10,000 unemployed youth; nearly half of whom were women (FSG, 2014; Rockfeller Foundation, 2013). EFE has partnered with companies to help them fill their talent needs. Recently, there was an increase in traditional forms of employee volunteerism as a plausible avenue for CSR engagement (Peloza, Hudson, & Hassay, 2009). Very often, some corporate programmes lead to more employee volunteerism when employees are off from work.

4. Several corporations, including; Charles Schwab, Dell, General Mills, Google, Hewlett Packard, Johnson & Johnson, Medtronic, Merrill Lynch, Nationwide, REI, and Target had partnered with VolunteerMatch, a national online volunteer matching service that help employees find volunteer opportunities in their neighbourhoods (VolunteerMatch, 2007). Many of these multinational firms have brought volunteering within their facilities. Timberland had even inaugurated an in-house day-care centre. This company maintained that CSR is inextricably linked to the company's core business. Other businesses have also initiated volunteering programmes that involved the utilisation of their employees' skills and competences. Deloitte created IMPACT Day, where the company dedicated a day in a year to carry out community service. Deloitte maintained that its professionals engage themselves in skill-based projects (Deloitte, 2015). Its employees have applied their expertise in mentorship, consulting and business issues. Moreover, the international audit firm also claimed they it has created valuable societal opportunities based on individual skill development. Skill-based CSR allow employees to volunteer and make a difference in their communities. Nonetheless, it also provides them with numerous opportunities to practice the precise skill sets that are needed in their workplace.

9.3 Conclusions and Implications

Generally, these exemplary firms have distinguished themselves for their responsible behaviours toward human resources. The findings indicate that there is scope for businesses to engage in corporate social responsibility (CSR) initiatives, through the provision of educational programmes and continuous professional training of workers, as they face talent shortages. Very often these businesses' underlying objective is to improve their employees' competences, whilst minimising the skill gaps and mismatches in the labour market. This inquiry posits that CSR and stakeholder engagement could boost the employees' morale and job satisfaction, which may in turn lead to an improved corporate reputation, lower staff turnover rates and greater productivity levels in workplace environments. It implies that there is potential for the organisational cultures and their business ethos to become more attuned with the governments' educational policies. In conclusion, this study's contribution lies in promoting socially-responsible behaviours, including the provision of education that will ultimately create shared value for business and society. The companies' socially responsible initiatives demand a common framework that enables companies, governments, multilaterals, private foundations and NGOs to combine their different strengths in mutually reinforcing ways (Camilleri, 2014; Porter & Kramer, 2011).

This contribution maintains that it is in the private sector's interest to actively participate in reconceiving education for societal wellbeing. It posits that there are win-win opportunities for companies and national governments as they cultivate human capital. Indeed, companies can create synergistic value for both business and society. Such a strategic approach can result in new business models and cross-sector collaborations that will inevitably lead to operational efficiencies, cost savings and significant improvements to the firms' bottom lines. The CSR initiatives in education can also help organisations to improve the recruitment and retention of talented employees. These case studies have reported that employees want to be part of organisations that genuinely demonstrate their concern for society. There was mention of strategic philanthropic initiatives that manifest corporate behaviours that also satisfy much of the stakeholders' aspirations. Organisations can always make use effective CSR communications to attract the best employees and talent pool from the labour market. Ideally, businesses ought to treat employees as internal customers as it is critical for their long term success. In a sense, the organisational culture and its commitment for CSR engagement can play an integral role, in this regard. In fact, CSR and environment sustainability issues are increasingly becoming ubiquitous practices in different contexts, particularly for the youngest work force.

This research indicated that there is a business case for corporate sustainable and responsible behaviours. Besides, minimising staff turnover, CSR may lead to systematic benefits including employee productivity, corporate reputation and operational efficiencies. This implies that CSR is an antecedent for an optimal financial performance (towards achieving profitability, increasing sales, return on investment et cetera). At the same time, the businesses' CSR engagement could create significant value to society as well. The corporations' involvement in setting curricula and relevant course programmes may also help to improve the effectiveness of education systems across many contexts. It is imperative that businesses become key stakeholders in the provision of education and training. There is a possibility that CSR programmes could reconnect the businesses' economic success with societal progress. Proactive companies who engage in strategic CSR behaviours could uncover new business opportunities and achieve competitive advantage (Porter & Kramer, 2006). Indeed, businesses are in a position to nurture employees by enhancing their knowledge and skill sets. This will inevitably lead to more competent staff and to significant improvements in work productivity among other benefits.

CSR can be reconceived strategically for business and educational outcomes. This research has given specific examples of how different organisations were engaging in responsible behaviours with varying degrees of intensity and success. It has identified cost effective and efficient operations. It reported measures which were enhancing the human resources productivity. Other practices sought to engage in philanthropic practices and stewardship principles. Indeed, there are positive outcomes that represent a leap forward for the CSR agenda. This contribution reiterated that it is in the businesses' self-interest to maintain good relations with employees. Evidently, there is more to CSR than public relations, greenwashing and posturing behaviours. Businesses need to engage with stakeholders and to forge long lasting relationships with them. Corporate responsible behaviours bring reputational benefits, enhance the firms' image among external stakeholders and often lead to a favourable climate of trust and cooperation within the company itself. A participative leadership will also boost the employees' morale and job satisfaction. This will also lead to lower staff turnover rates and greater productivity levels in workplace environments (Fida et al., 2014). Notwithstanding, there are many businesses that still need to align their organisational culture and business ethos in order to better embrace responsible behavioural practices.

Governments also have an important role to play. They can take an active leading role in triggering corporate responsible behaviours in education. Greater efforts are required by policy makers, the private sector and other stakeholders. The governments could give reasonable incentives (through financial resources in the form of grants or tax relief) and enforce regulation in certain areas where responsible behaviour is necessary. They need to maintain two-way communication systems with stakeholders. This contribution posited that the countries' educational outcomes and their curriculum programmes should better respond to the employers' requirements. Therefore, educational programmes ought to instil students with relevant knowledge and skills that are really required by business and industry. Several governments, particularly those from developing nations ought to step up with their commitment to develop new solutions to help underprivileged populations and subgroups. New solutions could better address the diverse needs of learners and prospective employees. This research indicated that there is scope for governments to work in collaboration with corporations in order to improve the employability of tomorrow's human resources.

9.4 Future Research Avenues

It must be recognised that there are various forms of businesses out there, hailing from diverse sectors and industries. In addition, there are many stakeholder influences, which can possibly affect the firms' level of social responsibility toward education. It is necessary for governments to realise that they need to work alongside business practitioners in order to reconceive education and life-long learning for all individuals in society. The majority of employers that were mentioned in this research were representative of a few corporations that are based in the most developed economies. Yet, there could be different CSR practices across diverse contexts. Future research could consider different sampling frames, methodologies and analyses which may yield different outcomes.

This contribution has put forward the 'shared value' approach in education (Camilleri, 2014; Porter & Kramer, 2011). It is believed that since this relatively 'new' proposition is relatively straightforward and uncomplicated; it may be more easily understood by business practitioners themselves. In a nutshell, this synergistic value notion requires particular focus on the human resources' educational requirements. At the same time, 'shared value' also looks after the stakeholders' needs (Camilleri, 2015). This promising concept could contribute towards bringing long term sustainability by addressing economic and societal deficits in the realms of education. A longitudinal study in this area of research could possibly investigate the long term effects of involving the business and industry in setting curriculum programmes and relevant learning outcomes. Presumably, shared value can be sustained only if there is a genuine commitment to organisational learning for corporate sustainability and responsibility, and if there is the willingness to forge long lasting relationships with key stakeholders.

The corporations' social responsibility in the provision of education has potential to create shared value as it opens up new opportunities for business and society. There are competitive advantages that may arise from nurturing human resources (Kehoe & Wright, 2013; McKenzie & Woodruff, 2013). As firms reap profits and grow, they can generate virtuous circles of positive multiplier effects. In a way, businesses could create value for themselves as well as for society by sponsoring educational institutions, specific courses and individuals.

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Chapter 10
Case Study 5: Closing the Loop of the Circular Economy for Corporate Sustainability and Responsibility

10.1 Introduction

Economic models are mostly built on the premise of 'take-make-consume and dispose patterns of growth (EU, 2015a). Business and industry have customarily followed such a linear model that assumes that resources are abundant, available and cheap to dispose of; as every product is usually bound to reach its 'end of life' at some stage. When products worn out or are no longer desired, they are often discarded as waste. Their improper disposal in landfills may cause inconvenience and could pose health risks to nearby communities. In addition, the incineration of waste products creates the need to dispose of residual toxic metals which in turn bring problems of groundwater contamination. Moreover, the plastic waste that is dumped into the ocean is responsible for the deaths of millions of fish, seabirds and sea mammals, annually. At the same time, land degradation is constantly impacting on the natural environment, as arable land continues to disappear. Furthermore, the warming of the earth's climate, that is one of the outcomes of carbon emissions from fossil fuels, is yet another serious problem facing today's society.

Industrial and mining activities are causing pollution problems as well as exhausting the world's resources. The world's growing populations and their increased wealth is inevitably leading to greater demands for limited and scarce resources. Notwithstanding, it is envisaged that the reserves of some of globe's key elements and minerals shall be depleted within the next 50 years or so (Shrivastava, 1995). Boulding's famous paper from 1966, "The economics of the coming spaceship Earth" had anticipated that man will need to find his place in a cyclical ecological system which is capable of continuous reproduction of material. He described the econosphere as a material process involving the discovery and mining of fossil fuels. He went on to suggest that at the other end, the effluents of the system are passed out into noneconomic reservoirs, including the atmosphere and the oceans. These ecological environments are not appropriated and do not enter

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into the exchange system (Boulding, 1966). Twenty-five years ago, Granzin and Olsen (1991) reported that the US municipalities were already running out of landfills. These contentious issues underline the perennial conflict between economic development and environmental protection. It may appear that extant economic models seem to rely too much on resource extraction and depletion. If solutions are to be found, the public must be encouraged to alter a number of its irresponsible behaviours (Williams & Zinkin, 2008).

This contribution argues that there is scope in using resources more efficiently; as better eco-designs, waste prevention as well as the reuse and recycling of materials can possibly bring net savings to businesses, while also reducing emissions. In fact, WEF (2014) indicated that a shift towards the circular economy can generate over US$500 million in material cost savings, 100,000 new jobs and prevent 100 million tons of waste globally, within 5 years. Therefore, the efficiencies in the use of resources could bring a new wave of smart, sustainable growth and competitiveness. Arguably, closed loop systems could minimise the cost of dealing with pollution, emissions and environmental degradation (Stubbs & Cocklin, 2008). Hence, this research reports how four multinational corporations, namely; Philips, Vodafone, H&M and Recoh have extracted the embedded costs of resources; through re-using, repairing, refurbishing, recycling and restoring materials and products throughout their life cycle. In a nut shell, this contribution suggests that both businesses and policy makers are in a position to elicit behavioural changes that could close the loop of the circular economy.

10.2 The Conceptualisation Behind the Circular Economy Construct

There are many expansive terms within the literature that could provide a decent framework for the circular economy concept (Cooper, 1999, 2012; Kotler & Zaltman, 1971; Porter & Van der Linde, 1995; Yuan, Bi, & Moriguichi, 2006). For instance, environmental marketing (Baker & Sinkula, 2005; Kärnä, Hansen, & Juslin, 2003; Leonidou & Leonidou, 2011; Polonsky, 1995), ecological marketing (Lindridge, MacAskill, Gnich, Eadie, & Holme, 2013), green marketing (Cronin, Smith, Gleim, Ramirez, & Martinez, 2011; Kalafatis, Pollard, East, & Tsogas, 1999; Prakash, 2002) and sustainable marketing (Hunt, 2011) are closely related constructs. Debatably, the circular economy is a possible strategy that companies of all sizes might adopt in order to engage in new sustainable approaches such as extending the producers' liability, life-cycle analyses, material-use and resource flows and eco-efficiencies (EMF, 2013). In its most basic form, a circular economy can be loosely defined as one which balances economic development with environmental and resource protection (UNEP, 2006). In this form, the circular economy appears to be inseparable from the industrial ecology term, as it safeguards environmental sustainability (Prakash, 2002; Prothero et al., 2011). However, for the time being, there has been little formal academic debate with regards to the circular economy notion (EU, 2015a, 2015b).

Firms are encouraged to continuously re-examine their extant operations, management systems and production processes as they need to identify value-added practices (Porter & Van der Linde, 1995). There is a possibility that industrial operations can be improved through redesigned processes, the elimination of some of them, the modification of certain technologies and/or inducting new technology. Businesses could adopt management systems that create the right conditions that will reduce their negative impact on the natural environment. Prakash (2002) hinted that this could take place in the following ways: (1) repair—extend the life of a product by repairing its parts; (2) recondition—extend the life of a product by significantly overhauling it; (3) remanufacture—the new product is based on old ones; (4) reuse—design a product so that it can be used multiple times; (5) recycle—products can be reprocessed and converted into raw material to be used in another or the same product, and (6) reduce—even though the product uses less raw material or generates less disposable waste, it could still deliver benefits that are comparable to its former version. It could even be better than its competing products. For example, American carpet maker, Interface procures its materials from used fishermen's nets and recycles them into carpet tiles. The company pays for the nets' nylon that would otherwise be thrown away. This practice has reduced marine pollution and helped the company to improve its environmental performance (Eco-Business, 2015). The efficacy of such environmental behaviours could be difficult to quantify if not accompanied by appropriate performance measures. Firms can make verifiable claims about their environmental impact of their management systems by having measurable performance indicators (Prakash, 2002).

The word 'circular' has an inferred, descriptive meaning which relates to two types of cycles: the (1) biogeochemical cycles and (2) product recycling (EMF, 2013). UNEP (2006) indicated that the circular economy does not necessitate a high consumption of energy. Therefore, closed loop systems will emit lower emissions of pollutants. This results in high efficiencies for an industrial economy which is by design or intention, restorative in nature. It may appear that, UNEP's (2006) alternative economic model aimed to 'design out' waste, return nutrients, recycle durables and use renewable energy. In industrial symbiosis firms use each other's waste as resources (EMF, 2013). Moreover, circular economic models could involve the slowing down of cycles, in order to delay waste output within the service economy. By increasing the longevity of products through better manufacturing and maintenance, the rate of replacement decreases, and so the use of resources is reduced. In a similar vein, Cooper (2012) held that individual consumers would prefer to use longer-lasting products. Such products would appear to provide added value for money to customers. Yet, the longevity in product design could not always be efficient, in ecological terms. At present, most of the durable products consume more useful energy than those that are designed towards more environmentally-friendly outcomes (UNEP, 2006). For example, paper and cardboard items are more sustainable than plastics in landfills. On the other hand, the products that are made out of natural nutrients are more easily re-assimilated back into the environment. Notwithstanding, long-lasting materials may eventually prove harder to break down into key components for further recycling.

Very often the unwanted outputs of one industrial process could be used as raw materials in other industrial processes. In a sense, the circular economy is a mode of economic development that is based on ecological circulation of natural materials; often requiring compliance with ecological laws coupled with the sound re-utilisation of natural resources (Feng, Mao, Chen, & Chen, 2007). There is more to the circular economy's model than improving resource utilisation. Hu et al. (2011) stressed that the focus of the circular economy is on resource productivity and eco-efficient improvement, through reducing, reusing, recycling and recovering. The circular economy approach encourages the re-organisation of economic activities with feedback processes which mimic restorative ecosystems. This happens through a process where natural resources are transformed into manufactured products and by-products that could be re-used as resources in other contexts. Hence, the throughput of energy and raw material is considerably reduced (Cooper, 1999, p. 10).

The circular economy also aims to repair previous damage by re-designing better operational systems. It draws on concepts such as resource efficiency where industries reduce their environmental impact by being waste-free (Anastas & Zimmerman, 2003). For example, Rolls Royce has improved its manufacturing processes and technologies to reduce waste and keep resources in circulation. The British car and aerospace engine maker has boosted its efficiency and productivity levels by reducing the number of processes and items that are required to make turbine discs. This translated to significant savings in terms of costs, time and operational efficiencies for the facility (Eco-Business, 2015). The circular economy optimises manufacturing and supply systems as it informs industrial processes and industrial ecology by focusing on the positive restoration of the environment within the industry (Cooper, 1999; Martens, Gutscher, & Bauer, 2011). It may appear that this approach pushes forward the agenda for the greening of products. It involves developing systems that avoid waste and resource depletion as small improvements in eco-design, waste prevention and waste reuse can bring net savings to business and industry. Hence, the concept of the circular economy focuses on the redesign of manufacturing and service systems, for the benefit of the bio-sphere.

On the other hand, this notion is virtually silent on the social dimension. The circular economy devotes its undivided attention to environmental issues. There is no explicit recognition of the social aspects that have been inherent in other conceptualisations of sustainable development. Moreover, the circular economy approach can also be critiqued for its over-simplistic goals as well as its unintended consequences. At times, positive sustainable initiatives could also bring negative outcomes. For instance, the alternative fuel that is produced from palm oil or soybeans has inevitably led to the loss of large forested areas around the world. Equally, green energy production often necessitates large stretches of arable land and puts huge pressures on the food supply chain, particularly in the poorest countries. Notwithstanding, the production of Ethanol is yet another example that requires more fossil fuel than it produces (Farigone, Hill, Tilman, Polasky, &

Hawthorne, 2008). In addition, environmentally-friendly technologies, including wind farms and solar panels do rely on certain minerals that are also difficult to recycle. These green structures will invariably require servicing and replacement.

10.3 Policy Formulation on Closed Loop Systems

The circular economy represents one of the most recent attempts for the integration of economic activity with environmental wellbeing. This promising concept is a response to the aspiration for sustainable growth in the context of increased regulatory pressures toward controlled operations management and environmentally responsible practices. Therefore, the setting of coherent policy frameworks and appropriate legislation could help to raise the bar for more responsible behaviours amongst public and private organisations (Prothero et al., 2011).

Initially, the circular economy was implemented in certain western countries where it was championed by a number of environmental NGOs (EMF, 2013; WEF, 2014). However, this economic system has also been featured in the last two ‘Five Year Plans’ that were drawn up by the Chinese government (Zhijun & Nailing, 2007). Notwithstanding, China actively collaborated with Asia Pro Eco Programme, the United Nations Environment Programme (UNEP) and the European Commission in formulating a ‘Policy Reinforcement for Environmentally-Sound and Socially-Responsible Economic Development’ (PRODEV). These stakeholders have supported the relatively, underdeveloped city of Guiyang. This city was chosen by the Chinese government as a pilot city to implement the circular economic approaches. In 2005, PRODEV supported Guiyang’s policy frameworks and financial systems that were intended to help the development of the private sector development. PROVDEV facilitated technology transfers and sustained infrastructural developments. It also specified the best environmentally-sound practices that led to cleaner production processes (UNEP, 2005). Guiyang’s businesses have learned how to increase their operational efficiencies through a better use of resources. These developments also brought significant cost savings, and improvements in the firms’ bottom lines. At the time, China needed a new sustainable development model which had the ability to ‘achieve improvements in resource productivity and eco-efficiency’ (Yuan et al., 2006, p. 7).

There are similar examples of other jurisdictions that have adopted a circular economy approach. For example, Japan enacted a recycling law entitled, “The Basic Act for Establishing a Sound Material-Cycle Society” (Japanese Act 110/2000, 2002) and even Germany has legislated on the sustainable closed substance cycle (Schnurer, 2002). The European Union Commission (EU, 2014) has encouraged firms to reuse, recycle and reduce resources to prevent the loss of valuable materials. Most European citizens believe that a more efficient use of resources could have a positive effect on their quality of life (86%) as well as on economic growth (80%) (EU, 2014). The Commission explained that, “new business models, eco-designs and industrial symbiosis can move the community towards zero-waste; reduce greenhouse emissions and environmental impacts" (EU, 2014, p. 4). Europe has already started to prepare the ground work toward this transition. In fact, the 'Resource Efficient Europe' was one of the EU2020's flagship ideas. This particular EU initiative involved the coordination of cross-national action plans and policies on the formulation of sustainable growth. The EU's circular economy proposition was intended to bring positive environmental impacts, real cost savings, and greater profits. EU (2014) indicated that improvements in waste prevention and eco-designs, the use and reuse of resources, and similar measures could translate to a net savings of 600 billion euros, or 8% of annual turnover (for European businesses); while reducing total annual greenhouse gas emissions by 2–4%. This EU (2014) communication anticipated that the markets for eco-industries will double between 2010 and 2020. It also posited that internationally, resource-efficiency improvements are in demand across a wide range of industrial sectors. Evidently, recycling behaviours have always been considered (by the EU Commission) as a constituent part of corporate sustainability and responsibility practices, for many years.

Lately, the EU has even published a call for researchers in the circular economy, specifically in; (1) CIRC-01-2016: Eco-innovative approaches for the circular economy: large-scale demonstration projects, (2) CIRC-02-2016: Water in the context of the circular economy, (3) CIRC-03-2016: Smart specialisation for systematic eco-innovation/circular economy, (4) CIRC-04-2016: New models and economic incentives for circular economy business and (5) CIRC-05-2016: Unlocking the potential for urban organic growth (EU, 2015b). Moreover, the European Fund for Strategic Investments (EFSI) has also announced a new financing avenue for future investments in infrastructure and innovation, that could be relevant for circular economy projects and closed loop systems (Stubbs & Cocklin, 2008).

Across the Atlantic, the US and Canada have also endorsed the circular economy perspective. The US Chamber of Commerce Foundation described the circular economy as a model that focuses on the careful management of material flows through efficient product designs, reverse logistics, business model innovation and cross-sector collaboration (UCCF, 2015). The US Foundation recognised that this regenerative model offers viable business opportunities that tackle environmental issues whilst stimulating economic growth and development. Similarly, Canada's 'Circular Economy Working Group' has also encouraged the wider adoption of circular approaches (CEWG, 2015). This working group maintains that the circular economy unlocks value to businesses and the communities. In a sense, this proposition mirrors Porter and Kramer's (2006, 2011) very own 'creating shared value' perspective. Hence, CEWG (2015) supports knowledge sharing on the circular economy through a series of webinars and other avenues. They also feature numerous case studies that present the benefits of key circular business models that were drawn from Accenture's (2014) report, entitled; 'Circular Advantage'. In sum, CEWG (2015) strive to raise awareness of the circular economy model as there is potential to use waste as a valuable resource. Waste could be used to generate renewable energy from disposed products or by-products that are either bio-based, or fully recyclable input material that replaces single-lifecycle inputs. Accenture's (2014) rationale was to extend the working lifecycle of products and components by repairing, upgrading and reselling. Moreover, they suggest that sharing platforms could bring enhanced utilisation rates of products. They postulated that stakeholders could internalise the benefits of circular resource productivity as they become knowledgeable of shared use, access and ownership of alternative resources (Accenture, 2014).

The circular economy was also endorsed by the World Economic Fora in Davos (2014, 2015 and 2016). A WEF (2014) report, entitled; 'Towards the Circular Economy' has also communicated the business case for circular economic practices. This report highlighted 'Project Mainstream', an initiative that was aimed to accelerate cross-sector engagement towards the closed loop practices. Business leaders have acknowledged that the circular economy led to a competitive advantage, and helped them build better relationships with customers and suppliers (WEF, 2014).

10.4 Analysing Closed Loop Economic Models

As businesses sell products, their demand for materials and components continues to grow as minerals and resources are finite. In this light, the circular economy and closed loop thinking underpin innovative operations management as the manufacturing of products involves reusing and recycling extant resources. The following case studies suggest that there are numerous opportunities for businesses to generate value through circular flows of materials and resources:

1. Koninklijke Philips N.V. (Royal Philips, commonly known as Philips) is a diversified technology company that is based in the Netherlands. The multinational firm is focused on improving the people's lives in the areas of healthcare, consumer lifestyle and lighting. The company claims that it is moving toward closed loop initiatives as it continuously innovates in its circular model in terms of material, component and product reuse. On the business side it is reviewing its operational design rules, ease of reparability, upgradeability and modularity (EMF, 2013). In addition, the company has expanded its refurbished systems in healthcare and is also working on implementing similar models in other sectors. On the enabling side, Philips is raising awareness about the circular economy in the wider business community. The Dutch company has also developed training modules in collaboration with its internal Philips University. In a recent interview with McKinsey (2014), Philip's CEO reiterated that his company's circular economic model helped his company to improve its resource efficiency and financial attractiveness. In 2012, Philips has embedded closed loop thinking in its strategic vision and mission, primarily as a necessity to resolve the problem of resource constraints. The company is aware that the

circular economy can generate superior margins through considerable savings in resource reutilisation. For instance, Philips sells lighting as a service to customers. This way, the company is responsible for its investments' technology risk. Philips install their lighting equipment, maintain it, and make sure that it runs for a very long time. Eventually, the company will reclaim back its equipment when it's the right moment to recycle materials. Alternatively, they upgrade its infrastructure for reuse, elsewhere (McKinsey, 2014). Normally, local municipalities tend to be frugal and price-sensitive in their procurement of products. They tend to overlook the total cost of owning technological products and their ecological impact. Philips recognised that there was an untapped opportunity to retain ownership its products as it engaged in legislative issues with different stakeholders. This way, customers don't have to pay high upfront costs for the lighting equipment (including street lighting). At the same time, Philips always ensured an increased energy efficiency as well as consistent lighting performance to its customers. The Dutch multinational committed itself to sound environmental management as it disposed of the street lighting infrastructure and its constituent parts at their end of life. Philips low materials' footprint ensures that the company is congruent with its sustainability goals.

Philips applies the circular-economy principles within healthcare environments where it has established leasing relationships for the use of its medical infrastructure. Again, the company will eventually reclaim back its equipment and upgrades it when necessary. Most of Philips products are recyclable, upgradable and maintainable (McKinsey, 2014). When the medical equipment is refurbished with state-of-the art technology, the multinational firm sends it to another customer; it provides a warrantee cover and guarantees its products as new. Therefore, the Dutch company has become a valued technology partner of many hospitals and clinics as it provides a comprehensive after sales service. Moreover, Philips also engages with internal stakeholders including its marketing team as well as its suppliers so that it remains co-creative. The company strives for continuous improvements in its value chains in order to better respond to its stakeholders' requirements. Philips maintains that the circular economic practices are intrinsic in the company's end-to-end value chain as it is embedded in all processes, metrics, and structures (McKinsey, 2014).

2. Other companies encourage customers to recycle their used products as they persuade them to purchase their latest offerings. Vodafone Group plc, a multinational telecommunications company, aims to reduce its environmental impacts by capturing the benefits of 'access over ownership' business model. Vodafone claim that they encourage stakeholders to make sustainable choices by reducing the impacts of products across their lifecycle. In 2013/2014, Vodafone joined the Circular Economy 100, a global platform that brings together some of the leading companies that accelerate the transition toward a circular-based economy.

   Vodafone has provided incentives to customers to return their old phones for reimbursement via its mobile phone buy-back and leasing schemes. The company's "Buy Back" programme has been running across all Vodafone markets, whilst its "New Every Year" offer was available in four markets (UK, Greece, the Netherlands and Ireland). Vodafone offered attractive incentives (including discounts on new devices, charity donations or store credit) to consumer and business customers to induce them to return their used phones and tablets. The returned mobile phones are refurbished and resold. WEF (2014) estimated that the cost of manufacturing mobile phones (from used phones) could be reduced by up to 50% per device. This means that it is in the manufacturer's interest to improve the reverse cycle and to create phones that could be easier to take apart. In cases where equipment cannot be refurbished or resold, Vodafone has collaborated with specialist partners to separate and recycle their products' components. Buyback is a great example of how operating responsibly can directly support the circular economy perspective. Customers are given the option to return unneeded equipment that has a significant commercial benefit to the telecommunication business.

Vodafone's Eco-Rating scheme that was launched across 12 markets has helped customers to assess their mobile phones on a scale between 0 and 5; with 5 being the most ethical and environmentally responsible. In 2013/2014 Vodafone engaged with the International Telecommunications Union and with GSMA to standardise how Eco-Ratings are measured. Basically, these Eco-Ratings cover the environmental and social impacts of each and every phone across its lifecycle; from the mining of raw materials that are used to make components through consumer use and disposal. Vodafone and its partners maintain that they continuously assess the level of the manufacturers' commitment to managing their environmental impacts (on an annual basis). Moreover, Vodafone has teamed up with Delft University of Technology in a research project that is expected to help the company to incorporate its circular economy principles into its business model, from the development of new products, to reuse and recycling parts at their end of life.

3. In the UK alone, each tonne of used clothing can generate revenues of up to US $1975, or a gross profit of US$1295 from reuse opportunities (WEF, 2014). These figures are the aggregate of the impact of gathering and reusing fabric materials. Clothes could be worn again. Textiles may be reused by cascading down to other industries that could use this resource to make insulation or upholstery stuffing, or by simply recycling materials into yarn to make fabrics that save virgin fibre. One of the world's largest fashion brands, H&M Hennes & Mauritz AB (better known as H&M) has recently implemented a closed loop system for textiles (through recycled denim) to create new apparel. In 2013, the Swedish multinational has also launched a global in-store clothing collection programme to encourage customers to bring in end-of-use clothes in exchange for a voucher. Interestingly, this initiative was also taken by Marks & Spencer with Oxfam in the UK.

   H&M collaborated with I:CO, an apparel reverse logistics service to manage its downstream processing of over 18,000 tonnes of unwanted clothing from its global customers (Guardian, 2015). Both H&M and I:CO have been working on increasing upcycling and functional recycling for re-wear, reuse, recycling or energy generation. I:CO estimated that between 40 and 60% of second hand clothes could be re-worn (WEF, 2014). At the next loop level, between 5 and 10% of the textiles could not be worn. However, this material may be cascaded into other products, including cleaning cloths, with very limited upcycling of fibres into textile yarns. Between 30 and 40% of used clothes could not be reused as textile fibres. This alternative resource could be transformed into damping and insulating materials for the auto industry. When these three options have been exhausted, the remaining material could be used to produce energy. I:CO estimates that between 1 and 3% of used clothes will ultimately go to the outermost loop of thermal utilisation.

H&M's long-term aim is to find a solution to reuse and recycle all textile fibre. The Swedish multinational maintained that any surplus from its collection programme is donated to the H&M Conscious Foundation. This foundation funds innovations in the areas comprising reverse capabilities of textiles. The main revenue streams for I:CO come from the resale of clothing (especially the high-value garments, including vintage), and from material cascading. For H&M, the benefits of this programme include greater in-store traffic as well as an increase in customer loyalty. For the production of its jeans, H&M partners with a Pakistani supplier to close the loop on fibres. Collected end-of-use jeans are shipped to its partner facilities to be crushed and transformed into fibres that will eventually be used as inputs to make new jeans. This resource has replaced up to 25% of virgin materials (Guardian, 2015).

Recently, H&M has launched a 1 million euro ($1.16 million) recycling prize in an effort to engage innovators, technologists, scientists and entrepreneurs to find a solution to the apparel industry's unwanted waste and pollution (Guardian, 2015). The Swedish firm is increasingly minimising is textile waste, whilst also reducing the need for virgin resources. Nevertheless, there are critics who argue that the company is side stepping the knottier issues of overproduction and worker rights by emphasising technological innovations on resource management.

4. Ricoh Company Ltd is another successful technology company that reduces its environmental impact by re-designing and manufacturing products that could be recycled or reused. Ricoh is a Japanese multinational that produces hardware, software and environmental solutions including managed document services, production printing, office solutions and IT services. Its GreenLine label which is available in six major European markets, is a concrete expression of its genuine commitment to recirculating resources. Ricoh's recycled products allow the company to reach niche market segments such as smaller businesses, whilst offering compelling discounts to bigger businesses. The company prides itself for its transparency, integrity and compliance policies as it advances the standards of ethical business practices. In fact, the renowned Ethisphere Institute has featured Ricoh among the world's most ethical companies in 2015. Notwithstanding, the company has also been named in the Dow Jones Sustainability Indices (DJSI) for the third year in a row for obtaining industry best scores in four categories: "Innovation Management," "Privacy Protection,"

"Environmental Policy/Management System" and "Climate Strategy." DJSI which is compiled by Dow Jones and Robeco SAM Group; was the first global sustainability index to assess the company's corporate sustainability from the economic, environmental, and social development aspects. Ricoh's efficient use of materials and resources has resulted in significant cost savings to the company; this has translated to lower prices to customers. The recycled components in Ricoh's products have stabilised the company's financial performance in a market that is often characterised by heavy price competition.

Apart from remanufacturing products, the company also refurbishes and upgrades pre-owned machines (WEF, 2014). The company has pledged its commitment to ambitious targets to reduce the input from new resources by 25% in 2020 and by 87.5% by 2050 (these figures are compared to 2007 levels). Ricoh intends reducing the use of input materials that are currently at a high risk of depletion. These include resources such as crude oil, copper and chromium among others.

10.5 Conclusions and Implications for Business and Industry

There is a business case for the implementation of the circular economy and its intended measures, which have potential to increase resource productivities and efficiencies. Arguably, businesses could forge collaborative agreements with stakeholders (including competitors) to share any unwanted resources, materials or by-products. This way, they could internalise the benefits of the circular economy as they restore or recycle resources. Academia and policy makers should continue in their endeavors to push forward corporate sustainable and responsible behaviours including the circular economic practices. Initially, this contribution reported how several national governments, non-governmental organisations and intergovernmental organisations have formulated policies on how the circular economy could minimise wasteful consumption. Secondly, the four case studies indicated that the closed-loop systems have resulted in lower and less volatile costs. Notwithstanding, the circular economy could even lead to a competitive advantage as it holds huge potential for innovation and job creation. Evidently, the multinational corporations have resorted to sustainable resource consumption that resulted in significant operational efficiencies and cost savings in the long run.

Operational efficiency and economy makes the companies more competitive. Hence, it is the businesses' interest to identify circular economic designs that close the loops, including selecting the right source materials and inputs that could be reused and recycled. Companies are in a position to reduce their environmental impact whilst improving their bottom lines. Businesses are increasingly realising that 'waste' is an asset as they can harvest materials and parts that could be reused. Very often, waste is an alternative to raw material that is otherwise procured through mining activities or from forested areas. This circular economic proposition mimics the form, movements and systems of nature—called biomimicry. In fact, nature is a closed loop system. In a nutshell, this contribution suggests that environmental responsibility ought to be embedded in the overall process of improving organisational productivity and competitiveness. It is hoped that the circular economy approach will be taken on board by businesses themselves, as managers are encouraged to measure their direct and indirect environmental impacts. Everyone has a responsibility for their products' disposal at their end of the life. Therefore, businesses are encouraged to collaborate with other marketplace stakeholders in their value chain. They could build fruitful relationships with suppliers, customers and other industry players, including competitors in order to create closed loop opportunities that are sustainable in the long term (Stubbs & Cocklin, 2008). This research has indicated that there is more to the circular economy than process benefits. There are significant operational efficiencies and cost savings resulting from closed loops systems.

When businesses reduce, reuse or recycle their inputs and outputs, they can increase process yields. These case studies reported that most of the industrial by-products including wasteful materials could be converted into valuable resources for businesses. Waste reductions could translate to lower costs for the businesses as they do not need to handle, transport and store waste prior to its disposal. As a result, businesses will consume lower energy during the production process. Notwithstanding, the closed loop systems could also bring process improvements and product benefits. For example, there could be lower product costs, lower packaging costs and lower net costs of product disposal to customers. Moreover, there are better chances for higher product resale and scrap values for used materials and resources.

There are opportunities as well as serious issues facing our environment and society in the foreseeable future. Over-simplified goals that are based on weak foundations could pose significant risks to the usefulness of the circular economy in the sustainability agenda. This research has indicated that there is a real need to forge collaborative partnerships (Porter & Kramer, 2011). Policy developments and adequate financial support toward research and development could foster a climate for more engagement in the circular economy agenda (Prothero et al., 2011). Within this proposed model, the production of goods operates like a natural system where waste becomes the source of growth for something new.

Therefore, these case studies envisage that the circular economy will become a popular topic among stakeholders, particularly among the business practitioners themselves. Indeed, circular economic systems can bring better resource efficiencies and utilisation rates through continuous improvements in planning, resourcing, procurement, production and reprocessing. This proposed economic model makes sense to business as closed loop systems are restorative by design as they optimise processes and outputs. In a way, the circular economy model resonates Boulding's (1966) argumentation; where he predicted that in future, man must find his place in a cyclical ecological system which is capable of continuous reproduction of material. Today, a global population of more than 7.2 billion requires food, clothing, housing, and everything else that is essential for a good life. Most of the world's economies are thriving as they are more intertwined than ever. At the same time, several corporations have bargaining power over national institutions that are supposed to control them. We are living in an era where humanity has become a geologically significant player through its impact on the biosphere. Hence, all these economic and environmental challenges demand pre-emptive corporate responsibility.

In this light, policy makers are urged to become key drivers of sustainability initiatives. Up to now, environmental protection has been grudging from policy frameworks and hard legislation because of the lingering belief that environmental regulations erode competitiveness (Porter & Van der Linde, 1995). Yet, governments could raise awareness of the business case for the circular economy among business and industry. Principles and regulatory guidelines could promote certain responsible behaviours that will also bring improvements in the organisations' operational procedures and their bottom lines.

10.6 The Way Forward

The circular economy is different from the other schools of sustainable thought. Given that the circular economy notion addresses the economic and environmental pillars of triple bottom line, the researcher believes that there is not enough emphasis on the social perspective. The circular economy concept has the potential to maximise the functioning of global eco-systems. There are implications for the re-alignment of economic and management practice with well laid-out ecological and social models. Future research should begin to incorporate the latest ecological knowledge into our understanding of naturalistic economical models and systems, without silencing the social and human dimension.

Despite the circular economy construct offers a more sustainable way of doing business; in reality, the transition toward a zero-waste model is still a very difficult endeavour for businesses. However, in the face of an ongoing depletion of natural resources and the ever-growing demands from the global population, businesses are increasingly questioning their linear economic model of "take, make, waste". Moreover, there are potential challenges for the implementation of closed loop systems. Macro-environmental factors, including political, economic, social and technological issues could also impact on corporate sustainable and responsible behaviours. Policy makers and regulators may not necessarily support the transition towards the circular economy. Business and industry would probably resent any mandatory changes in their established behaviours. It is very likely that they would opt to remain in their status quo, where they are 'locked-in' to their traditional linear model. For the time being, many companies are still not knowledgeable enough about the circular economy. Notwithstanding, the prices of green technologies do not necessarily reflect the real costs of resources and raw materials. Current infrastructural systems, business models and technologies could also constrain the present economy. Although financial investments in new technologies could possibly improve operational yields and efficiencies, there could still be a low demand for them, particularly if these new systems require behavioural changes by their users.

This contribution reported that the long term investments in sustainable practices could result in significant improvements in operational efficiencies and economies. Yet, the circular economic approach could be perceived as novel, risky and complex.

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