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**CORPORATE SOCIAL RESPONSIBILITY AND ITS IMPACT ON  
ORGANIZATION'S FINANCIAL PERFORMANCE**

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**ABSTRACT**

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<p>Corporate social responsibility (CSR) is no longer a new thing to companies; it has played an integral part in firms' strategies in recent years. This thesis aimed to analyze the importance of corporate social responsibility (CSR) and its correlation with the organization's financial performance. The roles of managers and stakeholders also influence CSR engagements and outcomes, so they were analyzed in the research. In addition, CSR benefits were emphasized to discover how it might add value to a business as well. Case studies were about two Finnish companies: Finnair and Kesko.</p> <p>The qualitative method was used in this research via interviews with managers from CSR and financial departments. The study materials were obtained from books, articles, journals from library and some online sources. To approach the result, accounting-based index (return on equity and return on assets) will be used. Research data were collected from annual reports and sustainability reports of the two enterprises.</p> <p>With the theoretical part and analysis, the thesis findings include that CSR significantly contributes to business and rewards for being more socially responsible are efficiency in daily operation, employee commitment, customer satisfaction, reputation and profits. Importantly, there is a positive connection between social responsibility and financial values of a company, even though it is difficult to find out the actual effect of CSR activities to the firms' annual earnings. Furthermore, managers are extremely important people whose role affects CSR engagements and outcomes of the company. This research gives companies, investors, stakeholders as well as future researchers better views in CSR and potential benefits from its engagement. Readers can know how important CSR is and its positive impact on the business's financial performance since CSR is likely to grow over time. Therefore, they can utilize better ideas, stretch relevant strategies to maximize their profitability, rational investments as well as future research developments.</p>		
<b>Keywords</b> Corporate social responsibility, financial performance, stakeholders, sustainability		

## CONCEPT DEFINITIONS

Corporate social responsibility (CSR)

The duty of a firm to conduct good ethical business, sustainable to the environment and protect resources.

Financial performance

The outcomes of an enterprise's operation in monetary terms, it is about profits and losses of a company in a period of time.

Stakeholders

People having an interest in the company and can influence the company's operation. They are customers, employees, investors, government, etc...

Sustainability

An ability to remain at a steady level but in business, it means as a framework to measure a firm's progress in economy, environment and society.

## **PREFACE**

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**ABSTRACT**

**CONCEPT DEFINITIONS**

**FOREWORD**

**CONTENTS**

<b>1 INTRODUCTION.....</b>	<b>1</b>
<b>2 AN OVERVIEW OF CORPORATE SOCIAL RESPONSIBILITY .....</b>	<b>3</b>
<b>2.1 CSR perception.....</b>	<b>3</b>
<b>2.1.1 Why is CSR important to a business? .....</b>	<b>6</b>
<b>2.1.2 The role of manager in CSR.....</b>	<b>7</b>
<b>2.1.3 CSR and stakeholders.....</b>	<b>9</b>
<b>2.2 Correlation between CSR and financial performance. ....</b>	<b>11</b>
<b>3 ANALYSIS OF TWO FINNISH COMPANIES - FINNAIR &amp; KESKO .....</b>	<b>16</b>
<b>3.1 Case Finnair Oyj - Corporate responsibility in aviation .....</b>	<b>16</b>
<b>3.1.1 Finnair’s background .....</b>	<b>16</b>
<b>3.1.2 Strategic development and sustainability .....</b>	<b>17</b>
<b>3.2 Case: Kesko Oyj .....</b>	<b>19</b>
<b>3.2.1 Introduction of K-group .....</b>	<b>19</b>
<b>3.2.2 Strategic development and sustainability .....</b>	<b>20</b>
<b>4 FINDINGS FROM MANAGERS’ PERSPECTIVE .....</b>	<b>22</b>
<b>4.1 Interviewees introduction .....</b>	<b>22</b>
<b>4.2 Findings.....</b>	<b>22</b>
<b>5 CONCLUSIONS .....</b>	<b>28</b>
<b>REFERENCES.....</b>	<b>30</b>
<b>FIGURES</b>	
FIGURE 1. Steps of social responsibility.....	4
FIGURE 2. Doing Well and Doing Good indicators.....	14
<b>TABLES</b>	
TABLE 1. Finnair’s financial performance indicators from 2013-2017 selected for the study.....	19
TABLE 2. Kesko’s financial performance indicators from 2013-2017 selected for the study.....	21

## 1 INTRODUCTION

Corporate Social Responsibility (CSR) is no longer a new aspect with any organizations when business ethics, nowadays, are mostly concerned. It is the duty of a company to conduct good ethical business, sustainable to the environment and protect the resources. Corporations, non-profit organizations, government realize the long-term benefits of sustainability and being ethical. CSR brings benefits and affects the sustainability of the whole company. There is no doubt that CSR becomes one of the new organizational challenges when viewed from the perspective of the growing needs and obligations of sustainability (Jonker & Witte 2006, 2). Sustainability consists of environment, society and economy factors. A firm wants to sustain and develop in the market; it needs to consider those three factors. It needs to implement strategies for environmental stewardship, social and economic values to achieve sustainable goals. These days, customers prefer purchasing and using more eco-friendly, caring and rational products. If companies produce and sell eco-products in the markets, they will attract more loyal customers meaning boosting sales, profits and reputation. Otherwise, lack of responsibility can result in some problems for firms and going out of business shortly when denying the CSR.

There might be a connection between CSR and financial performance. The relationship of them has been researched in a numerous number of studies. Increasing implementation of CSR can lead to better financial performance or vice versa, cause unhealthy finance due to high expenditures and additional costs in the area. It is extremely crucial for managers to know how CSR is related to their enterprise's financial performance, which assists them to think up relevant business strategies to maximize profitability. Managers have responsibilities to balance the pursuit of profit with the commitment to behave ethically and improving the quality of life of the workforce, and society in general. Maintaining the effects of business and avoiding harming the environment and social community are the main goals of any sustainable organizations. Additionally, CSR plays an important role that affects a firm's stakeholders. According to Jonker & Witte (2006), not only do enterprises take responsibility for delivering high-quality products and services, but they also need to meet internal and external stakeholders' demands likewise to ensure minimum impacts on society and environment.

From previous researches, the impact of CSR on financial performance has not been clear and there is not much evidence supporting this direct relation. Many enterprises still invest a large amount of money and efforts on social responsibilities. Hence, this thesis aims to analyze the importance of CSR and study

the impact of CSR on the organization's financial performance. The purpose is to help firms and investors have a better perception of CSR and its benefit to a business. Two Finnish companies, Finnair and Kesko are used as business cases to analyze the literature views. Internal stakeholders are concentrated as primary factors and then, external stakeholders, which are environment, society, competitions, customers and government, are next concerns to evaluate CSR. In this study, qualitative methods are conducted to reach the outcomes. Managers from CSR and finance departments in the two mentioned companies are interviewed and data is collected from annual reports in the five latest years to investigate the research questions. The thesis main questions are why CSR becomes important to a business and how CSR potentially impacts the organization's financial performance (Positive/negative/non-neutral).

This thesis consists of five parts. The first section introduces background and purpose along with research tasks. To answer the research questions, the thesis will guide readers via a chapter on the perception of CSR. This chapter includes two main parts, which emphasize concepts and importance of CSR and the role of managers, followed by a presentation on the correlation between CSR and organization's financial performance. Subsequently, a chapter describing two specific business cases, Finnair and Kesko, are presented. Thereafter, study results are reviewed in the fourth chapter. Finally, a conclusion will analyze the outcomes where the theoretical part is applied to the findings.

## 2 AN OVERVIEW OF CORPORATE SOCIAL RESPONSIBILITY

In recent years, management trends follow sustainable development goals. Three dimensions of business activity are economy, society and environment, which are the most concerns in a firm's strategies in order to reach sustainability goals in the current market. In a word, sustainability is an ability to maintain firms' operations and systems environmentally, socially and economically. Besides that, having social responsibility will help firms reach sustainability goals, which CSR is closely connected to with the sustainable development principle. Hence, what is CSR and why has it become an important part of the management of a company?

### 2.1 CSR perception

Corporate social responsibility (CSR) is a concept that becomes an integral part of firms' strategies. There are plenty of different ways to comprehend what CSR is. Marrewijk (2003) described CSR as firm activities, voluntary demonstrated social and environmental concerns in business operations and interactions with stakeholders. It also depends on the company and industry leading to CSR will have different meanings. CSR has been defined in different words and themes in a different period time. At first, CSR emphasized social and environmental issues and then it was expanded to concerns about business ethics, stakeholder relations and relationship between a corporate and society. It a broad concept which emphasizes several different aspects. From the past until now, CSR has been developed as an integral part of business strategies for long-term value creation. It is a concept with which firms are expected to take into account internal and external stakeholders to acquire long-term sustainable growth. Furthermore, social responsibility has two orientations: social welfare and stakeholder relationship, which distinguishes it from other investments. CSR practices main are to improve social welfare whereas increasing the wealth of a firm's owner is the purpose of other corporate investments. (Barnett 2005, 10.) Social welfare direction is mainly at those social activities like charitable giving; environmental sustainability projects while stakeholder relationship concentrates on the improvement of employee satisfaction, appealing prospects and investors and so on.

There is uncertainty about the actual reasons for companies engage in social and environmental activities. Haski-Leventhal (2015) discussed the motives for a firm strive to be responsible via her experience and observation. There are varying motives behind a firm's CSR engagement. Reasons here are beneficial factors like pursuing profits and gaining benefits like financial returns, brand reputation and public

relations or employee engagement and customer relationship while the other is moral reasons. Moreover, the internal and external pressures of CSR engagement are also a motive, it not only currently increases from customers, but also employees, governments, suppliers and NGOs. In Freeman's opinion (1984), a company has to make several stakeholders satisfied because they can influence the business's performance and outcomes, and hence supports the company's CSR activities. In practices of CSR, different social strategies are available to companies but firms only choose wisely ones that are relevant to its capacity and goals. Firms will not engage in every CSR activities because only some bring benefits for corporations in some situations and the differences among companies and industries. For the latter reason, which firms think they ought to participate in giving, it is a right thing to do to be a good citizen. Some will conduct CSR because they want to decrease the negative results from their operations for the environment and increase social welfare. According to Lee (2008), no longer do managers perceive CSR as a moral responsibility for a greater social cause or a discretionary expenditure, which would hinder profitability, it is a key strategy used to improve firm's financial performance. There are no needs to investigate the reasons for a firm's participating in CSR because any CSR engagements are bringing benefits to firms, society and environment. The more CSR achievements of the firm, the more responsibility it can get from surrounding stakeholders. In short, the main purpose of CSR engagement is a concern of business towards sustainability; brings positive changes instead of negative ones to society, environment and its stakeholders. CSR includes several types of activities, examples of bonding relationships with employees, customers and their families, social investment and activities for environment and sustainability.

There are four steps of social responsibility, which include economic, legal, ethical and philanthropic. At the first step, firms have an economic responsibility to ensure maximizing stakeholder wealth and value, contributing products and services' value to the economy and societies and creating jobs for the community. Then, the business also obeys all the law and government regulations. Ethical business is significantly important; it consists of standards of acceptable behavior in the business world. Finally, philanthropic responsibility means the business becomes a good citizen, engage in voluntary activities, donations to society to improve quality of life.

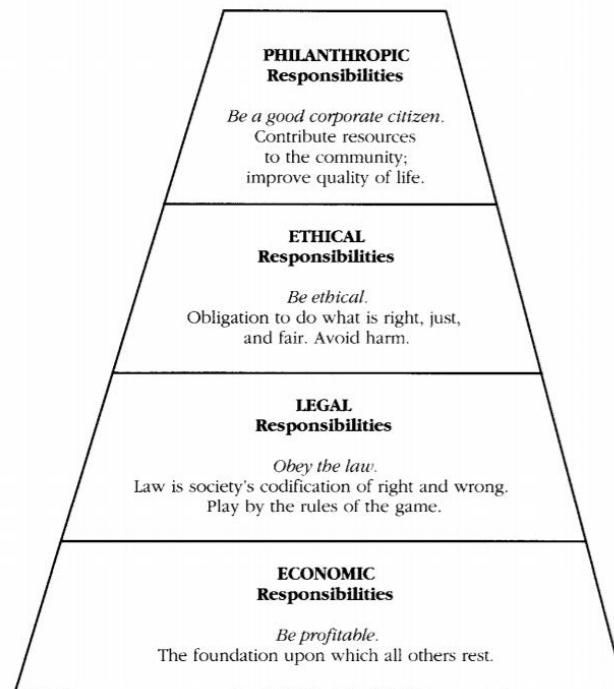


FIGURE 1. Steps of social responsibility (adapted from Carroll 1991, 42)

Nowadays, many companies engage in corporate social responsibility and have it as a primary and essential part of daily operations. The company should manage their CSR key spheres and monitor its operational impacts in order to minimize negative damage on society and environment likewise maximize opportunities and positive impacts (Habek & Wolniak 2016). CSR is a long-term strategic investment; it will not have results and returns immediately in just one or two days. There are many ways to invest in social responsibility such as community support, diversity, employee support, environment, product and NGOs. For instance, firms can manage hazardous waste, produce eco-friendly products and using recycling materials; they reduce and manage harms from their business to environment. In addition, firms can concern about the safety of their employees by training and organize worker involvement. They can invest in CSR by money, time, products or services and personnel. For instance, Ikea annually creates a soft toy drawing competition for children aged 12 and under, kid drawings for a good cause. The winners' drawings will be turned into real soft toys and they will be sold in unlimited numbers. Their purpose is to give the sale to charity for a better world. For 12 years, IKEA Foundation gave nearly €77 million and helped more than €12 million children in 46 countries have better education. (IKEA.) In 2018, the entire sale of new soft toy collection, Sagoskatt will be contributed to IKEA's annual Let's Play for Change campaign supporting children's rights to play and develop (IKEA). Implementation of those strategies like that not only makes customers have more the company's product purchasing, which

brings profits but also create a good image in many people minds. This helps the corporation have many supports from its stakeholders and easily approach its sustainable development goals.

Friedman (1970) and Porter & Kramer (2006) stated that managers should spend resources on CSR if its performance will help to improve firms' financial performance. Prioritize social practices that have the most matter and largest impact. The authors suggested at first, firms should be good citizens, establish a strong relationship with local authorities and make employees proud of their firms. Next, stretch CSR strategies to create benefits for both society and the company.

### **2.1.1 Why is CSR important to a business?**

First, an important goal of any businesses when entering the market is to gain profits and be sustainable. None of the businesses wants to earn profits in a short time and then "die". They want to survive and grow healthily in the market and continue acquiring the profits. Therefore, CSR is considered an essential part of a firm's strategy assisting it to achieve the goal, in recent years. Moreover, CSR can provide a company with brand recognition and daily efficient operation. Nowadays, awareness of social and environment issues has increased, hence it would help the company to gain objectives and perform successfully when CSR is invested more. Corporations have acknowledged the significant impact of CSR and the need for social involvements. Each period, managers make decisions in the implementation of CSR, concerning how much money and what type of CSR to invest in. Decisions in spending for such things as selling "green" products, the use of recycled packaging materials, energy efficiency improvements, charitable contributions, ethics training and workforce diversity programs. CSR engagement brings plenty of benefits for the companies. Secondly, at least CSR can develop the company's reputation if it cannot be seen as a crucial element of the core business (McWilliams, Siegel & Wright 2006). The level of conducting good operations in socially responsible efforts influences the firm's image. Through CSR activities, firms create the value of their brand and business reputation is enhanced, which is a mean of differentiation in competitive advantage. With a good reputation, enterprises are able to attract more quality employees, loyal customers and investors; which will helps to maximize profitability. Fombrun and Shanley (1990) and other researchers conducted measurements about reputation by surveying business student and professors and found that the CSR values and behaviors of a firm reflect via its reputation. The level of its social engagements helps establish a positive image with purchasers and investors. To them, the benefit of social activities involvements is reputation return. In addition, when conducting operations in CSR, trusting is established as well as relationships with surrounding

stakeholders are improved, firms probably gain a competitive advantage, which differentiates the company from its competitors. Furthermore, good stakeholder relationship will increase profits and cost savings. With achieving a lower cost of capital from CSR engagement, which will turn in to reduce financing costs and make firms more valuable. Those benefits probably are motivations for company to be environmental. The outcomes of CSR strategies will be loyalty, awareness, attitude, purchase, attribution, resilience and word of mouth. According to Mohr, Webb and Harris (2001), competitors will increase their CSR activities to equal to a company have more CSR engagements, then consumers prefer purchasing products from the most social responsible corporation. The expectations of social activities are getting higher, as a result, CSR is a necessity, it is not an add-on anymore. Concerning investment decisions, many investors now consider the social and environmental engagement of a company. CSR is also a factor affect investor's investment consideration. Besides, CSR helps to strengthen multiple stakeholder relationships. Stakeholder's attitude is positive toward the firm in consumption, employment and investment domains (Bhattacharya, Sen & Korschun 2006, 149). CSR is likely to increase the benefits such as reputation, attitudes and association, and stakeholders' commitment to the benefit of the enterprise. Investing in CSR can develop managerial competencies, organization-wide coordination, capacities and good preparation for any complex situations (Shrivastava 1995; Russo & Fouts 1997). Finally, CSR is depicted as a strategy for firms in resilience from the economic and financial crisis and helps enterprise overcome bad situations. It helps reduce the risks of a negative situation for the firms.

In a word, CSR brings both monetary and non-monetary benefits for a business and both can turn into monetary at the end. It can be more significant for a company when entering new markets.

### **2.1.2 The role of manager in CSR**

In the past, CSR was not recognized and it did not become a trend whereas social concerns have a higher priority in recent years. The importance of the CSR manager role is increasing more because it affects the corporate responsibility strategies and the achievement of sustainable goals. Skilled managers, who have social awareness and concerns more about the responsibilities, are able to help firms acquire higher profitability and better investments (Alexander & Buchholz 1978). CSR is more recognized due to its benefits to firms such as plenty of opportunities and competitive advantage. Implementation of a good CSR strategy makes the enterprise acquire its goals efficiently. The CSR management becomes more significant in the global marketplace in terms of reducing risks regarded to legal compliance as well as boosting profitability. Many firms concern about CSR and put it in practices to make the strategy go on

the right ways, the companies need CSR managers. The CSR manager is the person who identifies sustainable development goals relevant to your business and influences ideas to other managers and employees. CSR manager is required skills and competencies to approach goals and lead to the success of CSR. The CSR success is found out by both internal and external factors. Internal factors here are organizational culture, decision making and efforts from CEO and employees. The latter factors are technological influences, national culture and compliance with legal requirements (Bitchta 2003). CSR management is to apply sustainable development goals to daily business routines of everyone in an organization and integrate responsibility to the core strategy at any managerial levels. The challenge of that is to balance the satisfaction of stakeholders/shareholders and environmental/ social issues. This role is quite critical and needs to be strengthened to help firms attain goals in sustainability. The CSR manager approaches other middle managers in other departments to think about and participate in new responsible projects because they do not perceive CSR as a must and those practices are not in line with their financial goals (Wickert & Bakker 2019). CSR managers make sure to connect the corporate responsibility idea with daily business work of employees and others in the organization and they establish a network for who interested in CSR as well. The perception of CSR is also different among many people. Thus, CSR managers need to understand how their employees perceive CSR and find a method to help them get the right way of thinking. All of those require plenty of efforts of CSR manager and everyone in the organization to make the firms approach its sustainability goals. Feng, Wang & Kreuze (2017) provide managerial implications on CSR to maximize financial performance. Managers must comprehend well how CSR can contribute to their firm's financial performance in order to gain the biggest return from CSR. Specifically, managers must acknowledge the importance of CSR implementations in their industry and the connection between CSR and the organization's financial performance as well. Those authors found that companies implement CSR to satisfy different stakeholder groups because those social practices affect different stakeholder groups and bring different financial returns. Therefore, managers should give higher priority to CSR activities that impact strongly on the organization financial performance and temporarily reduce concentrating on the ones that are not potential to generate positive financial returns when facing a tight budget. Moreover, when the demand of CSR by stakeholder groups increase, to satisfy those stakeholders manager must assign limited organizational resources effectively, efficiently and strategically (Feng et al. 2017). Managers play a main role in affecting the implementation of new strategies. Managers need to make decisions on CSR wisely and precisely as they treat all investment decisions (Barnett 2005, 19 [McWilliams & Siegel 2001, 1250]). Therefore, to know how effective CSR strategies are and measure them, perception of managers about CSR of business and the mentioned relationship must be investigated and understood.

### 2.1.3 CSR and stakeholders

There are several ways to define stakeholder. It is technically a person who has a stake, a property in a business. Stakeholders include shareholders, employee, customers, government, suppliers, creditors and local communities. This part addresses the influence of CSR practices on maximizing stakeholders' value is an important goal for management nowadays. According to Clarkson (1995) building and developing strong relationships with diverse stakeholders is a key to business success. Firms implement corporate responsibilities to respond and satisfy the demands of their stakeholders. In short, the main purpose of CSR practices is establishing and enhancing the level of enterprise's trustworthiness and develop a long-last relationship with stakeholders. That strong relationship will help firms have a competitive advantage that others do not. For instance, satisfied stakeholders like workers will effectively perform to reach the goals, customers will continue buying and recommending the products to others, suppliers may provide discounts for materials and so on. Therefore, firms concern more about their internal and external stakeholders and find a way to increase their values like increase employee satisfaction and charitable contributions as two examples.

Social responsibility contributes to employee commitment, which is an important issue for many companies. One of the best ways to boost participation and commitment of internal people and attract talents is via the firm's CSR efforts (Godfrey 2005). Greening & Turban (2000) also agree and support for that, employees and job applicants will have higher self-images when working for companies with more CSR concern than the fewer ones. Employees probably feel inspired and motivated to commit to their work when they know they are working for a company with a strong CSR contribution, particularly seeing their managers participated in CSR activities is an extremely vital motivation. The willingness of employees to work and commit to an enterprise also depends on how well CSR performance. Moreover, firms need to organize and offer voluntarily CSR activities, which must be easily accessible for workers to participate. Employees having more desires to involve in CSR are willing to initiative helping society and protecting the environment. Consequently, corporates probably achieve positive workplace results and make their work more meaningful. CSR helps to increase the commitment and productivity of current workers likewise attracting and retaining prospective employees. By conducting those CSR programs, employees feel their work more meaningful and proud of working for their firms, become more loyal, and contribute more. Safety workplace training, corporate volunteering and achievement recognition will boost employees' motivation and engagements. Through CSR programs, firms establish a strong bond with their employees and generate opportunities for them to contribute and feel helpful for with the world around them. A volunteer program offers the employees the chance to do what they want

to help society and environment. For instance, an example for corporate volunteering, the firm organizes CSR accessible opportunities and give employees voluntarily choose which charities they wish for as well as the suitable schedule. In the end, telling employees about outputs of their contributions is extremely important, showing how their work is positively influenced and change society and environment.

Through CSR, firms not only increase employee engagement, their greater performance and satisfaction, but it also contributes to customer satisfaction, attracts new customers and affects their purchasing decisions. Consumers have a positive CSR belief leading to both greater buying possibility and long-term loyalty and behaviors (Nasieku, Togun & Olubunmi 2014, 108). Consumers are adding the ethical concern to their purchase intention. Chernev & Blair (2015) manifested that consumer's perception of a firm's products can change when the company engaged in social activities and lead to gaining better performance. Many academic researches show the outcomes of CSR driven consumption. Brown & Dacin (1997) manifested social responsibility of a firm affects customer evaluations on its new products. The consumers approve the new merchandise if they perceived the company as socially responsible and reversely. Sen & Bhattacharya (2001) also found the connection between CSR perception and purchase intentions that explains consumers' purchase intentions reduce towards a firm's products when do not support its social posture. Customers purchase a product not only base on its quality but also concern the brand of products which means they will consider choosing the products of companies have engaged in social activities. Eco-products from a good ethical workplace will draw more attention and bring goodwill the market. For instance, even the price of fruit from a good ethical farm is more expensive but it is still rational to choose rather than fruit from an abusive farm in which offer a lower price. It can attract loyalty from customers since they prefer the company being gentle; caring about them and the environment they are living in. Companies also practice good customer's well-being and conduct the green code. Nowadays, customers prefer a more eco-friendly, caring and shows goodwill. Effect of product image increases consumers' willingness to talk positively about socially responsible efforts of the firm to people around them (word of mouth). Expand the awareness of the brand and its products. Consumers are aware of a firm's CSR efforts and buy its products, they believe it is going to contribute to a better result. The enterprise's social efforts lead to the willingness of consumers in buying a product with a higher price when that money is announced to go towards the support of a specific social activity. For example, Blizzard created a new skin for a character in its own Overwatch game, which earmarked that the 100% amount of purchasing the skin will contribute to breast cancer research. As the result, they received the gamer's engagement and achieved over 12.7 million dollars for donation. (Blizzard Entertainment 2018.) On the other hand, some consumers even though have a positive attitude towards the

firms' CSR efforts, if the product price is unaffordable, they may still not purchase it. The same as consumers may not contribute their support like time and money to a non-profit organization supported by a firm (Bhattacharya & Sen 2004, 21). Negative CSR information is more conceived rather than a positive one by customers. Purchasers are more sensitive with negative influence in environment and society from a firm and may reject to buy its products. That is the reason why companies need to be more responsible for their operation impacts on environments and society and be initiative on CSR engagements. It is quite crucial to know and comprehend customers' awareness of the company's CSR engagements like how they will react to CSR initiatives. Like Ikea soft toy drawing campaign mentioned, it inspires customers about the meanings of purchasing the soft toys and they will feel more loyal. They believe by buying those cute soft toys, they are contributing to charity. The firm knows how to engage their customers in CSR activities which both leads to an increase in the image and establishing a meaningful experience with the brand.

Stakeholders play an integral part of CSR, their motivation, their responses to those CSR efforts are extremely important. A company has more stakeholders' engagements in its activities, which means that the firm conducted well socially responsibility. As two above examples of how CSR affects employees and consumers and reversely. There is a huge connection between CSR and stakeholders. They influence each other and can lead to an impact on the firm's finance. CSR impact employees, which help to increase efficiency and productivity, resulting in good operation and decrease other costs. Furthermore, CSR affects consumers, which can increase their sales and bring benefits to the firm. Therefore, CSR somehow has a connection with financial performance through stakeholders and investments.

## **2.2 Correlation between CSR and financial performance.**

There are enormous studies and literature on the relationship between CSR and an organization's financial performance due to an increase of the interest for engagement in CSR. Previous researches presented conflicting results that are positive, negative and neutral relationships. Some researchers discussed that despite CSR engagement brings company benefits, it increases costs and expenditures may leading to the failure of socially responsible practices and mistrust from stakeholders to the company. Even though the relationship between CSR and financial performance has not been clear, investment and engagement in CSR are increased among companies and investors. Many study researches illustrated conflicting outcomes; some has shown positive relation whereas some demonstrate negative impacts. When a business invests in CSR, it has to face opportunities and challenges, which means this investment probably

has a positive or negative impact on a firm's finance. In here, responsibility - profitability relationship is investigated. As interpreted above, firms receive benefits and opportunities from CSR engagement. However, CSR strategies and implementations involve costs and sometimes can exceed the number as planning but firms can consider the costs as a long-term investment. Therefore, making a decision in CSR investments play extremely important. Sometimes, firms make an investment but do not get an equal amount of the financial returns. If the managers make a wise choice, the firm will earn positive financial gains. If not, different costs will be generated, which becomes a problematic return. Different CSR activities in different industries at a different time can lead to different financial returns. Firms may not know exactly the costs and benefits they gain from CSR efforts. That is the reason why firms need strategies to conduct wise investments. Some think firms implement CSR due to earning profits. Those companies will operate particular social responsibilities up to the point where benefits are no longer exceed the costs. When investing in anything, firms will receive any financial returns. Identifying the connection between these two by examining the annual report of the companies. Even though CSR brings opportunities and competitive advantages, corporations tend to involve in social activities, which increase or at least do not harm their profitability and are reluctant to take wider CSR activities. (Samy & Varenova 2013, 203.)

According to Barnett (2005), CSR and financial performance of a firm have an indirect relationship and CSR positively influence financial performance by first boosting relationship with key stakeholders. Stakeholder relationship seems like a bridge for the connection of the two main factors; it is positively connected to the business financial performance. With a good strong relationship with key stakeholder groups, corporations probably gain benefits such as retaining talented personnel after improving worker satisfaction and attracting new investments as well. It shows the magnitude of stakeholder relations in getting future CSR opportunities and profitability. Moreover, an investment in social activities can make stakeholder responses different and then get a different financial return. That means CSR influence financial performance via stakeholder relations. However, in a circumstance, CSR does not affect directly or indirectly financial performance based on Barnett analysis. For instance, a charitable contribution from a spouse of CEO or an employee or an anonymous will belong to this case. Stakeholder relationship explains the difference in financial return in different firms and times. Berman, Wicks, Kotha & Jones (1999) stated that financial performance has a positive connection with a firm's labor relations and product quality and negative link with community relations and environment. To increase the financial performance with a positive result, an act of CSR must make the revenue of the company increase or decrease its costs. If CSR is managed properly, not only improve the relationship of key stakeholder but

also increase financial performance (Galant & Cadez 2017, 679). The impact of CSR on financial performance has been a crucial issue for managers. Managers make most favorable decisions about CSR engagements; the enterprise only involves in social activities that maximize profit and therefore, no clear evidence explains for CSR activities bring negative financial returns for firms (Barnett 2005, 19). Managers can increase their organization's efficiency through CSR to gain both internal and external benefits. To increase financial performance, an essential effort is to demonstrate social responsibility to key stakeholders instead of squeezing the effectiveness of machinery.

Several researches found a positive correlation between CSR and financial performance. Feng et al. (2017) figured out CSR has a significantly positive impact on enterprises' financial performance in most industries but not all of them. Clarkson, Li, Richardson and Vasvari (2011) conducted researches and found that positive (negative) changes in enterprises' financial resources in the previous periods lead to the important improvement (decreases) in environmental performance in the following periods or vice versa. Waddock & Graves (1997) figured out CSR activities lead to an improvement in the company's performance as same as the finding of Preston & O'Bannon (1997). Herremans, Akathaporn & McInnes (1993) and Cochran & Wood (1984) argued companies with high CSR rankings and high profitable outcomes are significantly positive related via using accounting-based measures of performance.

Measuring the impact of CSR is a challenge but it is also an essential way for companies to enhance understanding of CSR. For examples, pollution control, carbon reduction, waste recycle or charitable contributions, those dimensions of CSR are mentioned in CSR performance. The first step is to find out the gap between what firms say about CSR (claim of social responsibility) and how they already practiced it (actual behavior). Which factors illustrate for a good implementation of CSR? For example, following regulations and taxations (paying taxes) is one of CSR efforts. First, management system needs to be evaluated because it mainly affects the firm's CSR practices. Management decides how CSR will be conducted as well as its scope like when, which and how volunteer activities will be organized for employees. After a socially responsible investment, the company needs an evaluation methodology to analyze social performance with trusted information to create certificate and report and then manage it to engage in new social activities or continue with the old ones. Thus, a questionnaire survey will be applied to investigate the understanding of managers about CSR and financial performance. It is commonly used to collect primary CSR data by interviewing or getting respondents' answers from sending questionnaires. This way allows researcher to approach the data that may not be in from the company's reports.



FIGURE 2. Doing well and Doing Good indicators (adapted from Hategan, Sirghi, Curea-Pitorac & Hategan 2018, 10)

Based on figure 2, “doing well” means gaining profits, which is measured by financial, accounting and market indicators and “doing good” here shows achievements in social activities. Two sides interact and affect each other. To measure how a company is doing about social contributions and what the financial result is from the activities, those factors need to be analyzed. According to the authors, four CSR factors need to be investigated are corporate giving (percentage of turnover), health and safety costs at the workplace, employee training courses expenditures and waste management expenses. They mentioned three kinds of indicators to measure “doing well” of the company: financial, accounting and market indicators. Third, social charity contributions and observable outcomes are to measure the effectiveness of the firm’s social responsiveness and its behaviors via environmental programs, CSR records and so on. Orlitzky, Schmidt & Rynes (2003) stated through their researches that the correlation between CSR performance and financial performance is positive and the influence follows a cycle. The cycle is a firm with financial success will spend more on social activities and CSR also help the company acquire its goals and become successful. With the findings in a positive correlation between them, the authors discussed managers probably pursue and engage in social activities as an essential part of the firm’s strategy for achieving high financial performance. In this research, accounting-based index investigates a company’s internal efficiency via return on equity (ROE), return on assets (ROA). Analysts and investors primarily utilize ROE to evaluate a firm’s performance because it shows how well the company uses investments. It measures the profitability of a business and analyzes the ability of management to generate income from the available equity. ROE is calculated by dividing defined by net profits by shareholder’s equity. ROE is quite crucial to investors because they will rely on ROE to decide if the company is good for them. A firm has a low ROE meaning the capital invested by shareholders has not been used effectively and the company cannot provide substantial returns for investors. Additionally, return on

assets (ROA) is a profitability ratio which measures how much profits a company can earn from the amount invested in assets. The company with higher ROA, the more efficient at managing to earn profits. Hagel, Brown and Davison (2010) stated in Harvard Business Review that ROA is the best metric to assess a firm's financial performance because ROA regards the assets utilized to support the business activities and it determines the possibility of the firm in generating a sufficient return on these assets better than a return on sales (ROS). ROA determines the ability of a firm in creating sufficient return from assets.

However, some researchers indicated a negative relationship between socially responsible activities and financial performance (Hassel, Nilsson & Nyquist 2011). It involves costs and deteriorates profitability. Nevertheless, that negative correlation still does not affect CSR actions and many managers still consider CSR as an essential strategy. Mackey, Mackey & Barney (2007) stated shareholders might require social involvements from a company even they would incur costs and reduce financial performance. CSR is favorable for shareholders. Investments in CSR activities will create a competitive disadvantage for the firm that results in negative market performance.

### **3 ANALYSIS OF TWO FINNISH COMPANIES - FINNAIR & KESKO**

Finland, where sustainability is the most concern, has a trend of increased CSR engagement. Many events have been held with the main aim to approach to sustainability, to protect an environment and society. Now, every company in Finland has its sustainability strategy and CSR becomes an important factor and is concentrated on by most firms. Here are two examples of Finnish companies.

#### **3.1 Case Finnair Oyj - Corporate responsibility in aviation**

Industry type may affect the adoption of CSR. CSR is a critical strategy for airlines in a recent competitive environment to gain and enhance sustainable development. CSR is necessary for any airlines because this industry has to deal with many negative impacts from its operation on the environment such as carbon emission, air and noise pollution. Not only does the industry persuades environment impacts but also both society and economy. The pressure and expectations from stakeholders for CO<sub>2</sub> reduction and pollution make environment effects are the most concerns. An increase in flight traffic results in a rise in CO<sub>2</sub> emission, pollution and raw material consumption. To live up to the expectation of relevant stakeholders and reduce those bad effects on the environment, airlines have to invest a large amount of money to deal with them and may affect overall profitability. However, it is the way to build a sustainable future for any airlines or even any industries. They endeavor to reduce environmental effects, operate business ethically, care about key stakeholders and become responsible for society.

##### **3.1.1 Finnair's background**

Aero, currently known as Finnair, was established by Consul Bruno Lucander in 1923. In 1949, the enterprise joined IATA (the International Air Transport Association) and received its airline code AY, which is using still today. The name "Finnair" and its logo was officially used in 1968. Finnair joined in Oneworld alliance in 1997. In 2008, Finnair became one of the first airlines to communicate its responsibility issues under the GRI reporting framework. Three years after that, Finnair conducted a program to restructure and save costs with the purpose to make a financial turnaround and establish a foundation for future growth. 2015 is an outstanding year of Finnair when the firm gained profit and invested in new fuel-efficient fleet A350s. Finnair has expanded its operations to Asian and European countries and become one of the safest operating airlines. The aviation currently concentrates on a growing Asian market. Finnair has a frequent-flyer program called Finnair Plus in which passengers can earn points

through Finnair flights or its partners' flights and redeem points for benefits. The airline has gained a significant growth through improving its annual performance, the number of passenger reaches about 13.3 million and more flights. Finnair is known for its punctuality and the best airline in Northern Europe. (Finnair 2019.)

### **3.1.2 Strategic development and sustainability**

The enterprise provides air transport and travel service for Finland and abroad. The main purpose of Finnair is to be a responsible citizen and the best choice of customers with three corporate responsibility themes: cleaner, caring and collaborative. The objective of Finnair responsibility is to generate sustainability in the economy by providing standard service profitably, cost-competitively and balance with the demands of society and environment. Finnair priority is reducing environmental impacts, maximizing social and economic value. Responsibility is crucial in day-to-day operations of Finnair. With the purpose to reduce the impact on the environment and gain the financial and social return. The airline is committed to legislation and ethical business principles in Code of Conduct. The company follows three important themes: cleaner, caring and collaborative. Those three themes have equal priority, equally important but the biggest priority now is to find a way to reduce emissions because it affects everything else. (Ihamaki 2019.)

According to Finnair Sustainability Report (2018), here are detailed explanations for the three themes. Cleaner part shows how Finnair care about the environment and deal with its issues. Its environmental aspects are emission from the use of jet fuel, flight noise, the energy consumption of priorities and cabin waste. Finnair focuses on investing in fuel-efficiency, biodiversity, renewable fuels, eliminating plastics and recycling materials. Next, caring belongs to Finnair's social responsibility, it is an important part in sustainable strategies to care for customers but also care for their employees and supply chain management. Finnair focuses on equality, employee experience and working condition for their staffs. For customers, flight safety, customer experience, equality and responsible use of customer data are the main concerns. Finally, collaborative part claims Finnair's responsible operations are a foundation of profitability for business and the airline cares about its operations on society. Finnair concentrates on economic responsibility and stakeholders.

The first environmental organization was already established in 1987 and Finnair started reporting environment issues in 1996. However, some of the other topics emerged more and more lately like the

issues for procurement side or supply chain sustainability for instance including our partners and suppliers in the program. The topics of CSR are enlarging all the times, so it is not only the environmental issues for Finnair but also other important ones. Finnair's idea is to have also in every department, in every part of organizational to have someone responsible for sustainability, but the ideal situation would be that sustainability is included in every decision-making, new process, new product. That is what Finnair try to achieve as the company is working on its strategies renewing and enhancing current strategies. The aim is to sustainability is a new norm for everything that Finnair do. Finnair's strategy concentration is increasing the needs of air traffic between Asia and Europe and improving customer experience. Furthermore, acquiring cost-efficient and punctual operations, invest in employee development and reducing the impacts on the environment are key concerns in a strategy of the airline. 2015, Finnair invested in CSR strategy by purchasing Airbus A350 – a fuel-efficient aircraft which was the largest investment the airline had ever done. The firm invests in modern aircrafts, use modern technology, and reduce energy consumption and cabin waste to generate less emission and negative impacts on environment. Finnair takes the responsibility seriously and it becomes an integral part of every decision. In addition, the firm cares for the wellbeing of employees and the importance of working with partners to obtain sustainable development. At the beginning of 2019, a service was launched, named Push for Change to help customers contribute to offset CO<sub>2</sub> or support using biofuel for their flights. (Ihamaki 2019.)

Ihamaki (2019) discussed when a company is measured in CSR factor, Finnair is not the best company but at a good level. Finnair priority is reducing environmental impacts, maximizing social and economic value. Cleaner, Caring and Collaborative has equal priority, equally important but the biggest priority now is to find a way to reduce emissions because it affects everything else. Finnair cannot get those reductions, they cannot work efficiently if they do not have their people on board, nobody will fly with them if they do not care about customers. When Finnair measures sustainability, punctuality of the flights (economical thing), emissions they try to be efficient as they can, reduce the fuel burn, they try to achieve customer satisfaction that probably gets more financial benefits when people are flying with Finnair.

Finnair has released annual reports to describe their performance in the past year and it displays firms' CSR activities. After going through annual reports and sustainability reports of the firm combining with using the below formula, the financial performance of Finnair was shown in the table below.

Return on assets (ROA) = Net income/ Total assets

Return on equity (ROE) = Net income/ Shareholder's equity

TABLE 1. Finnair's financial performance indicators from 2013-2017 selected for the study

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Revenue</b>	2,400.3	2,284.5	2,324.0	2,136.4	2,568.4
<b>ROE</b>	3.2%	-13.8%	14.4%	10.7%	18.1%
<b>ROA</b>	1.1%	-4.4%	4.4%	3.4%	5.9%

2014 was a bad year for Finnair but those numbers in 2015 increased dramatically. 2015 was a big changing for Finnair, the year that invested a huge amount of money on new fleet and other strategies to protect the environment and society. From 2013 to 2017, there had been an increase in ROE. ROE was above 10% means Finnair was a “healthy” company and was operating quite well. ROA was frustrated but it increased in 2017. The company value was improved to reach good shape trend from the bad year 2014.

### **3.2 Case: Kesko Oyj**

Enterprises have attempted to manage their daily operations' impact on resources and communities. Finnish corporates including K-group, have long concentrated on their sustainability efforts on actions. Kesko has committed to goals of mitigation of climate change, the company attempts to reduce the emission from its daily operations. An overview of its sustainable strategic development will be presented.

#### **3.2.1 Introduction of K-group**

Kesko was founded in 1940 due to the demand for purchase merchandise of shareholder-retailers; of support their business operations and the cooperation between them. At first, Kesko started with hardware network and warehousing system for hardware products. In 1960, the firm started retail trade in foodstuffs and ten years after that it launched a new format store, which was known as supermarket. The first supermarket was opened in Lahti in 1971. Kesko changed to chain operations in 1990 and expanded its business internationally to Sweden and Baltic markets. In the 2000s, a new turning point for Kesko was created from the increase use of internet and online retail revolution. Kesko achieves Sustainability Award Silver Class 2019 in food and staples retailing industry and it was listed in the Global 100 Most Sustainable Corporations as 25th rank. The Global 100 is based on the world evaluation of nearly 6000 listed firms and presents top companies in terms of sustainability. In 2013, 2014, 2017 and 2018, Kesko

group was included in Dow Jones Sustainability Index, which considers financial performance of social responsibility engaged firms and the index includes only global industry group leaders. FTSE4GOOD Index Series measure all social, environment, governance (ESG) performance and help investors to make investment decisions. Kesko was listed on the indices in 2009. (Kesko 2019).

### **3.2.2 Strategic development and sustainability**

CSR is an essential strategy integrated into daily activities of K Group. The company has been known as its best CSR practices with many achievements. Kesko has principles of corporate responsibility, which concentrate on economic, social and environmental issues and include commitments to global declarations and conventions. The program of Kesko responsibility follows short-term and long-term goals. It consists of six issues that are good corporate governance and finance, customers, society, working community, responsible purchasing and sustainable selections, and environment. Kesko's sustainability strategy concentrates on customers; the firm put efforts to offer a sustainable lifestyle to their customers in terms of food, mobility and living. Kesko concentrates on projects (donations, sponsoring and charity) in Finland that care about the quality of living and sustainability. For instances, a record €586,000 was collected by K-food retailers in the Finnish Cancer Foundation's 2018 Pink Ribbon. 280 volunteers and 18 K-retailers participated in the events of WWF Finland and K Group's K Fish paths collaboration. (Kesko Sustainability Report 2018).

Kesko's strategic objectives include investors prefer the firm as a sustainable investment, K group has an important role in the societal discussion through recognized leadership in sustainability, benefits and sustainability gained from customers preference in both B2B and B2C and finally employees and K retailers become proud supporters of K's sustainability work. In fact, responsibility program, K code of conduct and sustainability program guide Kesko sustainability work. They are used to ensure everyone in Kesko has the same understanding of the values and principles. The company complies with the law (a significant taxpayer), respects human rights and has fair competitions. Kesko chooses their business partners carefully who must operate responsibly. To reduce emissions from its operation and improve energy efficiency, K-group invests in renewable energy. More than thirty solar power plants are used on K-stores's rooftops because this power is a wonderful source of electricity. K-group becomes the biggest solar power's producer and user in Finland. Moreover, the company promotes a circular economy by developing new operating models for recycling and reuse of plastics; collecting food waste from 200 K-food stores and K warehouse to make into biogas for the manufacture of Pirkka products. Furthermore, Kesko supported local producers with an operating model, named "Thank the Producer" with €650,000.

The company also are in progress of occupational wellbeing and working capacity program. (Kesko Sustainability Report 2018).

Kesko has released annual reports to describe their performance in the past year and it displays firms' socially responsible activities. After going through annual reports and sustainability reports combining the same formula above, the financial performance of Kesko was shown in the table below.

TABLE 2. Kesko's financial performance indicators from 2013-2017 selected for the study

	<b>2013</b>	<b>2014</b>	<b>2015</b>	<b>2016</b>	<b>2017</b>
<b>Revenue</b>	9315.2	9,070.6 1	8,678.9	10,180.4	10,675.9
<b>ROE</b>	8%	4.7%	5.2%	5.2%	12.3
<b>ROA</b>	4.2%	2.6%	2.9%	2.6%	6%

Financial data was collected from annual reports and sustainability reports from five years. Kesko's performance was frustrated in five years, in 2017 ROE and ROA improved and increased rapidly above 10% and over 5% showing the company has been on a good shape. The higher ROA, the better the company earns profits.

## **4 FINDINGS FROM MANAGERS' PERSPECTIVE**

It is necessary to understand what managers perceive about CSR as well as its connection with firms' financial value. In this chapter, the result of interviews will be presented. It shows the views of managers about the social responsibility of an enterprise.

### **4.1 Interviewees introduction**

I conducted many interviews with managers and important positions from the companies. Besides, a research interview with a person has experience in finance and general management and are not related to the two companies to have more practical understandings about my thesis research.

- Finnair is a national airline from the Nordic area. The interviewee was Kati Ihamaki, Director of corporate sustainability of Finnair since 2008. I interviewed Kasper Joukama, who is Investor Relations Analyst of Finnair since 2018; he works there with financial figures and with the Environment, social and Governance (ESG) reporting since both are important in terms of managing investor relations.
- Kesko (K-group) is a Finnish company having international chain operation with grocery trade, building and technical trade and car trade. The interviewee was Sohvi Vähämaa, Sustainability Manager of Kesko since 2019.
- I interviewed Lien Le, who was Deputy General Manager of Jotun Powder Coatings Vietnam Company Limited for 4 years since 2002. She was also responsible for finance and human resources as a deputy manager.

### **4.2 Findings**

The content of research interviews included the importance of CSR and manager role in corporate responsibility, CSR and stakeholders, and the way CSR affects the organization's financial performance. The relationship between two factors was mainly concentrated to get the answers for research questions.

When asking about how the managers and the companies in general perceive CSR and the type of benefits (short-term or long-term) it will bring for business. Finnair perceives CSR as its license to operate and to grow because its daily operation affects the environment and society. CSR is one main topic for every airline. Finnair's duty is to minimize the environmental impacts and maximize social and economic value for all societies where the company operates. Therefore, the firm tries to cooperate with different stakeholders in every society. Both Kati and Kasper agreed CSR brings a long-term benefit, reputation benefits and better relationships with different authorities. Finnair desires to get long-term benefits but if there are some small aspects that they can do, they will focus to get the immediate short-term benefits. If they have to choose between short and long ones, they are more looking into long-term benefits in business matters. For Kesko, CSR is perceived as a part of Kesko's strategy, everything the company does and all the people work at Kesko always think about responsibility. K code of conduct, sustainability strategy and responsibility program - these three documents are core things guiding their work of the responsibility at Kesko and highlighting how K group's responsibility is. Sustainability is profitable for Kesko and it is one of their objectives. For Jotun Powder Coatings (Vietnam) Co., Ltd, Lien Le perceived CSR is the commitment of a business to society being an effective ethic business, doing business according to the law and contributing to sustainable economic development. It helps improve quality of life for people, for community in general and employees and localities in particular. Lien said, CSR is an indispensable strategic indicator in the business development plan of large-scale and foreign-invested enterprises. For small and medium-sized businesses, it is often the seasonal voluntary service with the call of local authorities or communities. Social responsibility always brings benefits to businesses to survive and develop. It depends on the size and form of implementations. The cohesion will be equally effective if the enterprise uses campaigns methodically, professionally. In a word, all of the interviewees agreed that CSR is a must-have for company strategies and it brings long-term benefits for the business.

Interviewees were asked about the relationship between corporate social responsibility and the organization's financial performance. Finnair's Director of Corporate Sustainability argued that the relationship between CSR and financial performance is very positive. The company might need to invest in the first place as they have done for the new fleets and reduction of plastics in their operations. When regulation comes and in the field of sustainability, Finnair is being now regulated for their emissions. For instance, Finnair paid €45 million per year for different kinds of fees and payments for emission training schemes or the taxes, landing fees and so on. Kati means investment in the first place but in the end, it turns out revenue. To start they have to invest, pay a little bit more but Finnair is seen as a forerunner

when the legislation comes. Kati stated that the companies who are doing well and also taking care of their customers and their employees have entered to financial value. If employees are satisfied and happy with the company and customers too, it will lead to good financial performance. From the side of finance, Kasper argues that there is a positive relation between CSR and financial performance but it depends on the situations of the company's CSR issues. A company, where CSR issues are at a good level and there is not much room to make those issues even better, they always have to battle between costs and benefits. However, a company, where CSR issues are at a bad level, there is so much room to improve CSR issues, so it reduces the risks in the firm in a way it beneficial to do all those things like it keeps positive impacts on financial performance. He would say that there are some links and the relationship is too strong between these. A couple year ago, a big scandal with Volkswagen, if CSR in a good shape, those kind of things are less possible to happen. For an external point of views, it reduces the risk and for internal ones, if they do not have any projects regarding CSR issues, it is harder to grasp on those problems internally when they do not have a good process on them. He concluded that there is a positive link between CSR and financial performance and they influence both direct and indirectly but more come to direct impacts. If they reduce the focus on CSR, there will be a negative effect on them. Furthermore, Sohvi and Lien Le have the same opinion that there is a positive influence on profitability. Lien discussed that CSR brings its benefits bringing to the firm. CSR lowers costs, increases productivity, increases revenue which all increase profits. In summary, all of the managers concluded there is a positive correlation between CSR and financial performance of a business.

All of the interviewees stated that CSR helps to reduce financial risk for a business. In Kati's opinion, it also reduces brand reputation risk. If Finnair works together with their suppliers to innovate a new method of doing things, reducing material and energy consumption that is also optimal for the financial performance and reduces risks of something happening. The brand risk is big nowadays in social sustainability issues. It would affects the customer service and customer serving the business. Especially in a business like Finnair, it had a value to be sustainable, take care of the things and be prepared for the legislations beforehand. It will be cheaper than waiting for the last days and then just start implementing it. Kasper said any company is not focusing on CSR issues, there are more risks and something unfavorable will come out. Compare to company take CSR seriously, then have less unfavorable. He believed that it has impacts but how much is impossible to measure. The sustainability manager of Kesko believed it helps reduce risks and has positive impacts because the company does things beforehand. Lien explained the reasons for that are, from good performance of CSR, the firm keep and attract talents who

help find and reduce risks in productivities, increase effectiveness, reduce excess costs in business management (recruitment fees, defective products and idle employees), products are widely available in the community, and have the opportunities to access new markets. Therefore, revenue is increased and costs are reduced, leading to an increase in profits.

The four interviewees discussed a question about how CSR affects the firm's profitability. CSR brings many benefits to a business. For instance, it is an effective tool for people who work with marketing to promote brands and products to consumers. Employees will be more satisfied and commit to their company, reduce the rate and costs of talent recruitment and training, and increase labor productivity. Furthermore, it helps businesses protect its reputation and increase competitive advantage for businesses, products trusted by consumers, which helps rise consumptions of goods and increase sales for the company. That leads to cost reduction and increases in revenue. Shareholders who are the subjects of the business - "health" of the business will directly affect shareholders' dividends. Social responsibility has a positive relationship to business performance of businesses, helping businesses reduce costs and increase revenue. Increased profits should increase dividends and thus shareholders are the beneficiaries not only of spiritual value but also of economic benefits. Sohvi said people and social media care about if the firm is doing responsibly. Investors are more and more interested in sustainable investing, they are eager to know about the company is doing sustainability work for environment and society. Some researches show investors consider listed companies as less risky investments.

Next question was discussed about the challenges that those managers have to face when implementing CSR. Kati indicated that resource is the challenge for her to implementing CSR. People are still not familiar with different trends of sustainability, now the climate change is all around the media so most people know about that but they do not know about all the other topics or Finnair reportings as well. Therefore, that is been a challenge over the year to get people involve and get them understand. Then, the changing of legislation makes resource quite hard to keep up with legislation. Finnair has more and more regulations coming from the EU and but also probably related to aviation and sustainability of aviation. Sometimes it is difficult with the resource to keep up with the changing issues and topics should be taken care of. They are working on strategies, hope that this will become more visible in the company as well and also with the current discussion all around the media or with other the stakeholders. For examples, when the flights come from Asia, the company would love to recycle everything that it can. However, there is a legislation that the food wastes outside the EU cannot be recycled. Some of the strategies CSR manager desires go faster sometimes like using more biofuel but she does understand the

financial burden because biofuel is three-six times expensive at the moment. Finnair has a very low margin; they cannot compete with the others having much higher costs for fuel. It cannot be established as fast as she would love to. Besides, Sohvi discussed that one of the challenges for Kesko is they want to develop how customers are responsible in their stores and what kind of communication K have with their customers, investors about sustainability. They are making efforts to attract customer attention and engage them in sustainability issue.

Then, the question “Does the implementation of corporate social responsibility affects financial targets of the company?” was discussed. Finnair has enough financial resources and budget for CSR. The firm always considers financial aspects in any decisions, which can affect the outcomes. It is not always easy to measure the financial value of investment, when the firm doing marketing campaigns, investment in some environmental issues. From the manager’s point of view, there are enough financial resources. Internally CSR issues are taken seriously in every decision making. Besides, Lien Le’s opinion is social responsibility affects financial goals when implementing it. Businesses that implement good social responsibility will not lose, but often gain significant benefits. The financial goal of the business is profit. Social responsibility affects financial goals when implementing it because social responsibility is the standards of corporate commitment to society. For examples, responsibility for markets and consumers (providing goods and products), responsibility for environmental protection (equipped with appropriate equipment and in accordance with regulations), responsibilities for employees (social insurance, health insurance and accident insurance), responsibility with the community (enforcing the regulations of the law and helping people in difficult circumstances). The measure of firm’s success is resulted by the effects they create on social needs. Additionally, association to access new markets, reduce costs, increase revenue and lead to an increase in profits are huge benefits. This meets the financial goals of the business.

Expectations from employees, customers and investors make the firm under pressure. It is important for Finnair to communicate to their customers, investors and other stakeholders that they care about these things. If the customers think that the company does not care about environmental issues, and then will have a bad reputation, at least customers will not fly with them if they think so. Finnair wants to be seen as a company take these issues seriously. Therefore, it becomes more and more important to people that company treats customers, employees, environment and society well. These certain things go by word of mouth quite fast. If the company does not do seriously they will stop investing, then the company will

go down. Sohvi said stakeholders expect Kesko is doing a lot of environment activities and sustainability. It may cause a negative influence on reputation if the firm is not doing sustainability work.

Based on experience and opinions, the interviewees completed all interview questionnaires. They all agreed that social responsibility is extremely significant and brings more long-term benefits than short-term ones such as reputation, employee commitment, customer trust, financial risk reduction and profits. CSR is a must-have in strategies of enterprises. Furthermore, they indicated that CSR influences positively on the financial performance of their companies, but it is quite difficult to measure the impact and the exact expenditures for CSR. They agreed that it potentially brings benefits and reduces risks for firms, so CSR is an essential key for companies to reach their sustainable growth.

## 5 CONCLUSIONS

This research analyzed CSR importance and if there is a connection between social responsibility and financial performance of a business. Case study of the two companies, Finnair and Kesko and interviews were used to reach the answers. In summary, the results from the above chapter answer to the main question that firm's CSR engagement has a positive impact on its financial performance. With many expectations from customers, stakeholders and investors, corporate social responsibility becomes an essential part of a firm's strategies. Firms that desire to grow healthily and gain sustainable development, need to be ethical and socially responsible. To conduct CSR engagements and receive good outcomes, the company needs CSR managers who are specialized in this area to make wise decisions and gain profits for the firm. There are no doubts about the benefits that social responsibility brings to a business. It contributes to employee commitment, customer satisfaction, reputation, daily efficient operation, risk reduction and profitability. The socially responsible activities bring both short-term and long-term benefits for the firm.

The qualitative method, which is conducting interviews, shows CSR has a positive connection with the financial value of the company. There is little evidence supporting for a negative link while many researches support for the positive connection between CSR and firm's financial performance. This research study aims to give readers have a better view into CSR engagement and its potential benefits. Hence, enterprises, investors and stakeholders are able to make good decisions in CSR activities' engagements and investments. The main problem is it is quite difficult to measure the impact and the exact expenditures for CSR. It is hard to distinguish between costs related and non-related to CSR. Socially responsible activities are always difficult to define on a financial level, what total absolute financial impact on company resources. It is always difficult to say in the future what the impact will be, what the total impact. It is always hard. It can be a negative impact if the investment does not turn out as they were planning to be. This relationship is complex and difficult to determine. It is very difficult to find out the actual effect of socially responsible activities to the annual earnings of the firm. Many factors are contributing to a business's annual revenue, but overall after CSR engagements, good results will return to the company. Managers not only should make decisions based on profit factors, but also based on long-term consequences of their operations on society and environment.

The aim of this thesis was to analyze about CSR and its correlation with financial performance. Future researches should continue developing and investigating more on CSR since it becomes more and more

important rapidly. This study can be further analyzed with different and new methodologies and find out the way to calculate CSR costs and evaluate socially responsible performance. The concentration of this thesis research was narrowed to only two companies in two different industries and not focus on small- and medium-sized enterprises (SMEs). CSR is considered a part of risk management for business, with CSR related incidents that companies prepare for.

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**Interview questions**

1. How do you perceive corporate social responsibility? Does the social responsibility bring short or long-term benefits to a firm?
2. What do you think about the relationship between corporate social responsibility and organization's financial performance? (Positive/negative/non-neutral) (Directly or indirectly)
3. How corporate social responsibility affect the firm's profitability? If it is a loss/ negative financial return, how to deal with it?
4. Does corporate social responsibility help to reduce financial risk?
5. Does implementation of corporate social responsibility affect financial targets of the company?
6. Could you tell me the company's responsibility priority?
7. How do you think about manager role in CSR engagement?
8. What are goals and challenges in implementing social responsibility?
9. Do shareholders benefit from the firm's responsibility work?
10. How CSR affect employees' performance?

**Formula**

Return on assets (ROA) = Net income/ Total assets

Return on equity (ROE) = Net income/ Shareholder's equity