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Using corporate social responsibility to enhance value.

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Abstract

Corporate social responsibility (CSR) has become an important focus in today's society due to reasons ranging from the new consciousness of people’s impact on the planet to how companies’ excessive pursuit of profit has led to the increased negative impact on people and the environment. As a result of this awareness, companies’ actions are being scrutinized like never before.

Even though corporate social responsibility is not a new concept, it has evolved and is known under many different names like corporate citizenship, corporate initiatives, corporate responsibility, corporate community initiative, and corporate social performance. Different models have been suggested as the best fit for addressing the issues raised under the term. Such models include Carroll’s CSR pyramid, Sethi’s three-stage schema and the 3C-SR, all aimed at developing more applicable theories.

The aim of this work is to determine how performance of social responsibility relates to organizational values. It has been shown that organizations that are perceived to go beyond “green-washing” can actually benefit from performance of social responsibility as they are rewarded in turn for their efforts by many of their stakeholders. The issue, however, is that performance of this responsibility is subjected to some factors as outlined in Sethi’s three-stage paradigm.

The treatment of the topic is not exhaustive as there is a wide range of areas that are to be covered; the purpose is to show that there is financial reward for performance, even if it is classified as corporate social responsibility.
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<td>Corporate social responsibility, corporate philanthropy, corporate performance,</td>
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<td>corporate citizenship, strategic corporate social responsibility, social responsibility,</td>
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1 Introduction

This topic has been chosen because of the growing importance of corporate social responsibilities in society. People are agitating more on a daily basis for companies to be more responsible for their actions as they affect the entirety of the stakeholders of the business. What brings the issue into bigger focus is the element of business impact on the environment, the organisms in the ecosystem and the planet as a whole.

Within the world of business, the main “responsibility” for corporations has historically been to make money and increase shareholder value (Bredeson 2012:31). In other words, corporate financial responsibility has been the sole bottom-line driving force. However, in the last decade, a movement defining broader corporate responsibilities - for the environment, for local communities, for working conditions, and for ethical practices - has gathered momentum and taken hold. This new driving force is called corporate social responsibility. It is also described as the corporate “triple bottom line” - the totality of the corporation’s financial, social and environmental performance in conducting its business (USAID; Catalyst Consortium 2002).

As corporations strive to improve how they interact with people and the environment, they come into conflict with the basic purpose of business, which according to authors such as Adam Smith and Milton Friedman has been defined as profit making. How the business can balance these two conflicting interests is of major interest. To refrain from being socially responsible is almost detrimental for any company, as the perceived value of any company increases or decreases with the positive or negative perception by its stakeholders. It is not uncommon nowadays for a big organization to collapse overnight, simply due to having committed a blunder in the area of its social responsibilities. An example in study is the case of Arthur Andersen, who during the period preceding the collapse of Enron ordered its accountants to destroy most of the audit documents except for the basic working papers. This singular action served to deny many parties such as the FBI investigators, congressional committees and Enron employees interested in evaluating the actions and culpability of the Enron executives in the collapse of the company. By covering for Enron executives, Arthur Andersen thus sealed its own fate as it failed to understand that its social responsibility went far be-
Beyond loyalty to the client, who incidentally also included the shareholders of Enron. Failing to perform its social responsibility to Enron shareholders, the employees of the company, the government as well as the society in general, led to the collapse of Arthur Andersen as one of the big five accounting firms in the world. Had the company been socially responsible, it might still be operating today instead of being mired by the scandal of Enron (Kadlec, et al.: 2002). Yet, despite several situations like that of Arthur Andersen, many authorities still believe that social responsibilities are best left to the government.

The aforementioned examples, combined with the thesis author’s personal observation of activities of multinational corporations in his home country, as well as the many recent cases concerning corporate management misconduct involving companies such as Enron and Lehman Brothers among others, makes the study of the topic essential. Especially, when during class discussion, it is seen that activities of corporations need to be mitigated; otherwise, the pursuit of profit might be conducted at the expense of societal welfare.

This study aimed to test the hypothesis that financial responsibilities and social responsibilities of corporations are not mutually exclusive, but rather complementary, or supportive of each other. By being socially responsible, companies will be adding to corporate values which will in turn increase shareholder values.
2 Corporate social responsibility

For many years, different terms have been used to explain CSR such that in 1975 Sethi commented: “The phrase corporate social responsibility has been used in so many different contexts that it has lost all meaning” (Sethi 1975: 58).

While there is no universal definition of corporate social responsibility, it generally refers to transparent business practices based on ethical values, compliance with legal requirements, and respect for people, communities and the environment. Therefore, besides making profits, companies are responsible for the totality of their impact on people and planet. “People” constitute the company’s stakeholders: its employees, customers, business partners, investors, suppliers and vendors, the government, and the community. (USAID; Catalyst Consortium 2008)

Increasingly, stakeholders expect that companies should be more environmentally and socially responsible in conducting their business. In the business community, corporate social responsibility is alternatively referred to as “corporate citizenship,” which essentially means that a company should be a “good neighbor” within its host community through managing “externalities”; where “externalities” is defined as the public consequences of private transactions (Keaney 2009).

Today, more and more companies are realizing that in order to stay productive, competitive, and relevant in a rapidly changing business world, they have to become socially responsible. In the last decade, globalization has blurred national borders, and technology has accelerated time and masked distance. Given these immense changes in the corporate environment, companies want to increase their ability to manage their profit and risks, and to protect the reputation of their brands. (USAID; Catalyst Consortium 2008)

The European Commission defines corporate social responsibility as “a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis” (UNDP, n.d.).
Kotler and Lee define corporate social responsibility as “a commitment to improve community well-being through discretionary business practices and contribution of corporate resources”. The authors also offered the definitions of CSR as outlined by World Business Council for Sustainability and Development and Business for Social Responsibility. The former explains CSR as “business commitment to contribute to sustainable economic development, working with employees, their families, the local community, and society at large, to improve their quality of life”; while the latter defined it as “operating a business in a manner that meets or exceeds the ethical, legal, commercial, and public expectations that society has of business” (Kotler and Lee 2005: 3).

For Hopkins, corporate social responsibility “is concerned with treating the stakeholder of the firm ethically or in a socially responsible manner; where “ethically or responsible” means treating stakeholders in a manner deemed acceptable in civilized societies. Where “Socially” includes economic and environmental responsibility. Stakeholders exist both within and outside a firm. The wider aim of corporate social responsibility is to create higher and higher standards of living, while preserving the profitability of the corporation, for people both within and outside the corporation” (Hopkins 2007: 19).

Haapala and Aavameri (2008) present their own view of corporate social responsibility which they called “economies of consciousness”. They explain that economies of consciousness reaches further and wider than the corporate social responsibility, that it means more than just minimizing the negative impacts of a company and more of striving to produce goods for the community and the environment, but not forgetting the responsibility to operate profitably, also financially. They conclude that economies of consciousness combines the voices of reason and heart and it can be described as free, wise, responsible, genuinely caring behavior. An ethical company will know and face up to its responsibility and set an example on the market (Haapala & Aavameri 2008: 11-163).

Nancy Lockwood who is one of the many known authorities on corporate social responsibility gave her own definition of definition of CSR as follows:
CSR – establishing a positive company reputation and brand in the public eye through good work that yields a competitive edge while at the same time contributing to others – demands that organizations shift from solely making a profit to including financial, environmental, and social responsibility in their core business strategies. Despite what the phrase corporate social responsibilities suggests, the concept is not restricted to corporations but rather is intended for most types of organizations, such as associations, labor unions, organization that serves the community for scientific, educational, artistic, public health or charitable purposes, and government agencies (Nancy Lockwood, quoted in Kreitner 2008: 119).

With growing scrutiny of business operations, organizations are increasingly been driven to satisfy the expectations of opinion holders, governments and customers in order to thrive. In essence, businesses adopting CSR principles believe that by operating ethically and responsibly they have a greater chance of success. For privately held businesses with fewer stakeholders to satisfy, their greatest concern appears to be their customers and their own ability to satisfy the demand for products effectively.

Businesses are demonstrating that well managed corporate responsibility actually supports business objectives, especially among large corporations where improved compliance, reputation and relationships have been shown to increase shareholder value and profitability.

For privately held businesses, the pressure to act can stem from the demands of the supply chain; with large multinationals increasingly demanding that suppliers conform to ethical business practices. Such is the case with companies such as Nike which after major ethical scandals arising from their line suppliers using child labor had to strongly maintain that all suppliers must conform to regulations concerning age of workers in their factories. Incorporating corporate responsibility into a business’ core strategy can also enhance its attractiveness as an employer (Hopkins, 2007).

2.1 Approaches to Corporate Social Responsibility

There are different views that have been offered in explaining what CSR is and how companies can benefit from its practice. Some of the views have been highlighted in this section to show how perceptions have changes over time about CSR. As more people become aware of the activities of corporations, the need to remedy the ills resulting from companies’ activities has contributed to many different postulations. Each
author has a unique perspective on how CSR should be handled, and while there are variations in their postulations, they have all agreed that CSR is a necessity in today's society.

2.1.1 The traditional approach: Fulfilling an obligation

Prior to the 1990s, decisions regarding the selection of social issues to support tended to be more based on themes reflecting emerging pressures for “doing good to look good.” Corporations would commonly establish, follow, and report on a fixed annual budget for giving, sometimes tied to revenues or pretax earnings. Funds were allocated to as many organizations as possible, reflecting a perception that this would satisfy the most constituent groups and create the most visibility to philanthropic efforts. Commitments were mostly short term, allowing the organization to spread the wealth over a variety of organizations and issues through the years. Interestingly, there was more of a tendency to avoid issues that might be associated with core business products, which might be perceived as self-serving, and to steer clear of major and often controversial social issues, such as AIDS, judging that these were best handled by those with expertise in governmental or nonprofit organizations. Decisions regarding issues to and organizations to sponsor were also more influenced by preferences (and wishes) of senior management and directors of boards than by needs to support strategic business goals and objectives.

When developing and implementing specific business initiatives, the rule of thumb might have been described as to “do good as easily as possible,” resulting in a tendency to simply write checks. Most donors were satisfied with being one of many corporate sponsors, as visibility for efforts was not a goal or concern. And because it would require extra effort, few attempts were made to integrate and coordinate giving programs with other corporate strategies and business units such as marketing, human resources and operations.

In terms of evaluation, it appears little was done to establish quantifiable outcomes for the business or the social cause; the approach was simply to trust that good happened (Kotler and Lee 2005: 8-10). This approach is categorized as “social obligation” in
Sethi’s arguments, where companies’ social behavior is limited to what is mandated by law or expected by society.

2.1.2 The new approach: Supporting Corporate Objectives as Well

The new model involves a strategic approach that ultimately impacts what issues corporations supported, how they designed and implemented programs, and how they were evaluated. Decision making now reflects an increased desire for “doing well and doing good” (Kotler and Lee 2005). More corporations are now picking a few strategic areas of focus that fit with corporate values; selecting initiatives that support business goals; choosing issues related to core products and core markets; supporting issues that provide opportunities to meet marketing objectives, such as increased market share, market penetration, or building a desired brand identity, evaluating issues based on their potential for positive support in terms of corporate crisis or national policy making; involving more than one department in the selection process, so as to lay a foundation of support for implementation of programs; and taking on issues the community, the customers and employees care most about.

The development and implementation of programs in this new model focus on “doing all we can to do the most good, not just some good” (Kotler and Lee 2005). It is more common for managers to make long-term commitments and to offer in-kind contributions such as corporate expertise, technological support, access to services, and donation of retired equipment. There is more effort to share distribution channels with cause partners, to volunteer employee time, to integrate the issue into marketing, corporate communications, human resources, community relations, and operations, to form strategic alliances with one or more external partners (private, public, nonprofit), and to have funding come from additional business units such as marketing and human resources.

Evaluation now has increased importance, perceived as critical to answering the question “What good did we do?” Trusting is not good enough. This input is valued as a part of a strategic framework that then uses this feedback for course correction and credible public reporting. As a result, we see increased pressures for setting campaign
goals, measuring outcomes for the corporation, and measuring impact for the cause can be seen (Kotler and Lee 2005: 8-10).

2.2 Carroll’s Global Corporate Social Responsibility Pyramid

Archie B. Carroll (1999) believes that the burgeoning global economy requires a more encompassing perspective on CSR. According to his model, today’s global and transnational companies have four main areas of responsibility: economic, legal, ethical, and philanthropic. Working from bottom to top, this means the global corporations should:

- Make a profit consistent with expectations for international businesses;
- Obey the law of host countries as well as international law,
- Be ethical in practices, taking host-country and global standards into consideration;
- Be a good corporate citizen, especially as defined by the host country’s expectations

Figure 1. Carroll’s Global Corporate social responsibility pyramid (Adapted from Kreitner, 2009: 119)
From Figure 1 it can be seen that the main expectation of business is profit making, hence the first responsibility in the diagram is economic. Businesses operate under legal constraints and are therefore bound by economic laws of the areas where they operate. Ethical responsibilities indicate societal considerations that go beyond legal requirements, such as just and fair conduct of the organizations activities. The last level, philanthropic (or discretionary) responsibility refers to society’s expectations that companies should be good citizens, actively participate in philanthropic programs and support their communities (Carroll and Buchholtz quoted in Kreitner 2009: 119).

2.3. Sethi’s three-stage Schema

The following categorization is used by Prakash Sethi (1975) in describing the stages of a company’s involvement in social responsibility. These include:

1. Social Obligation: the corporate behavior in response to market forces or legal constraints. The managers in this category confines their response to social issues that are mandated by prevailing laws and the operation of the economic system.

2. Social Responsibility: Occurs when the organization’s approaches to social responsibility acknowledge the importance of ethical and social responsible behaviors. Often seen as good corporate citizens, socially responsible organizations are willing to assume a broader responsibility than that prescribed by law and economic requirements.

3. Social responsiveness: firms say what is important is not how corporations should respond to social pressures but what should be their long run objective in a dynamic social system. The managers in this category are proactive in their dealing with social issues (Prakash Sethi, cited in Cavett-Goodwin: 2007).

In essence, Sethi is basically distinguishing among Corporate Performance, Social Responsibility and Social Responsiveness. Social responsiveness is the highest level that any firm performing CSR can hope to reach.
Table 1. Sethi’s Three-stage schema (Source: Cavett-Goodwin: 2007)

<table>
<thead>
<tr>
<th>Social Obligation</th>
<th>Social Responsibility</th>
<th>Responsiveness</th>
</tr>
</thead>
<tbody>
<tr>
<td>Low</td>
<td>High</td>
<td></td>
</tr>
<tr>
<td>Reactive</td>
<td>Prescriptive</td>
<td>Proactive</td>
</tr>
<tr>
<td>Proscriptive</td>
<td>Does more than required by law</td>
<td>Anticipates and prevents problems</td>
</tr>
<tr>
<td>Adheres to legal requirements</td>
<td>Does more than required by economic considerations</td>
<td>Searches for socially responsible act</td>
</tr>
<tr>
<td>Adheres to economic considerations</td>
<td>Avoids public stands on issues</td>
<td>Takes public stands on issues</td>
</tr>
</tbody>
</table>

2.4 The 3C-SR model – Competitive advantage through “social resources”

Meehan, Meehan and Richards (2006) explain that the reason for the limited intake of corporate responsibility (CR) is that it has been positioned in opposition to profit motive of business, or at least as an adjunct to it. In their view, corporate responsibility can be framed as a competitive resource and habituated to the normal process of strategy development and measurement (with broad reference points) that are so well embedded in many business organizations. In this way, CR becomes a means to, rather than drain on, business success (measured in terms of triple bottom line). As an illustration, they offer the concept of “social resources” and suggest a model that integrates previous perspectives on CR into a strategy that implements a corporate citizenship orientation.

Social resources are made up of three inter-related components whose simultaneous presence underwrites the credibility of a product/service offer targeted at the “ethical consumer”. The components of the model are:

- ethical and social commitments;
- connections with partners in the value network; and
- consistency of behavior over time to build trust
Ethical and social commitments
These represent the values element of social resources. They comprise the ethical standards and social objectives the organization subscribes to and are manifested in its mission, strategic objectives, strategy programs, organizational policies and corporate culture.

Connections with partners in the value network
The structure of relationships within the value network is the means through which a joint implementation of a socially oriented value network is achieved. They referred to these structural elements of social resources as value connections. This implies a stakeholder approach to ensure mutuality of interests and uniform commitment to shared values across the value network. Therefore, upstream and downstream partnerships are required rather than a narrow operational focus on an organization’s own short-term efficiency and profits.

Consistency of behavior
Consistency refers to the behavioral element of social resources over time and across all facets of an organization’s operation. Adherence to social values and careful selection (and development) of business partners, who have matched social commitments, is the litmus test of an organization’s own credibility. Failure to “walk the talk” is a common source of criticism of many companies claiming to be socially responsible. Consumers are adept at seeing through a veneer of credibility and demand long-term consistency of behavior from organizations purporting to be socially responsible.

From social resources to competitive strategy
Meehan, Meehan and Richards (2006) further contend that strategically astute organizations are today aware of significant changes in consumer attitudes to organizations themselves and the brands they seek to develop. To the extent that an organization embraces the tri-partite CR orientation, an organization will develop a positive reputation among the growing ranks of ethical consumers.

Thus, it follows that an organization that commits to a widely recognized standard of social performance and seeks to promulgate them across its entire value network will, if the effort is perceived to be genuine (i.e. consistently maintained over the long
term), benefit from market place differentiation, thereby enabling it to gain customer loyalty (i.e. reducing price elasticity of demand), as a result of change in perception which may in turn lead to increase in profit.

![Figure 2: The 3C-SR model (Source: Meehan, Meehan and Richards 2006)](image)

### 2.5 Arguments for and against CSR

As one might expect, the debate about the role of business has generated many arguments about whether corporations should perform social responsibilities. There are those like Friedman who are of the opinions that the major role of business should remain that of profit-making (Sage 2012: 4). However, there are many others who have suggested that the stakeholders of the organization go beyond the owners of the business and as such the rest of the stakeholder’s interest should also be taken into
considerations (Sanford 2011: 38). Of even more importance are those who have argued that there is necessarily no difference between the interests of the owners of the business and the rest of the business stakeholders. They have argued that by serving the interest of the stakeholders, companies are also covering the interest of the business owners (Harvard Business Review on greening your business profitably 2011: 99). The arguments for and against are stated below.

2.5.1 Arguments for Corporate Social Responsibilities

Some of the arguments of the proponents of CSR are outlined as follows:

1. Business is unavoidably involved in social issues: As social activists like to say, business is either part of the solution or part of the problem. There is no denying that private business shares responsibility for such societal problems as unemployment, inflation, and pollution. Like everyone else, corporate citizens must balance their rights and responsibilities.

2. Business has the resources to tackle today’s complex societal problems. With its rich stock of technical, financial, and managerial resources, the private business sector can play a decisive role in solving society’s more troublesome problems. After all, without society’s support, business could not have built its resource base in the first place.

3. A better society makes a better environment for doing business. Business can enhance its long run profitability by making an investment in the society today. Today’s problem can turn into tomorrow’s profits.

4. Corporate social action will prevent government intervention as evidenced by waves of antitrust, equal employment opportunity, and pollution-control legislation, government will force business to do what it failed to do voluntarily. (Kreitner, 2006: 128-129).

There are many business leaders and companies who are in support of CSR. Among them is Sir Mark Moody-Stuart, the former Chairman of Royal Dutch/Shell Group among several other appointments. He has been advocating for better social performance in business leading him to chair many initiatives towards this direction. He was a board member for Global Reporting Initiative between 2002 and 2007 (Accountability.org). GRI is a non-profit organization that promotes economic, environmental and
social responsibility. GRI has pioneered and developed a comprehensive Sustainability Reporting Framework that is widely used around the world. The framework enables all organizations to measure and report their economic, environmental, social and governance performance – the four key areas of sustainability. The Framework enables greater organizational transparency and accountability. Thousands of organizations, of all sizes and sectors, use GRI’s Framework in order to understand and communicate their sustainability performance (Globalreporting.org).

2.5.2 Arguments against Corporate Social Responsibilities

1. Profit maximization ensures the efficient use of society’s resources. By buying goods and services, consumers collectively dictate where assets should be deployed. Social expenditures amount to theft of shareholders equity.
2. As an economic institution, business lacks the ability to pursue social goals. Gross inefficiencies can be expected if managers are forced to divert their attention from their pursuit of economic goals.
3. Business already has enough power. Considering that business exercises powerful influence over where we work and live, what we buy, and what we value, more concentration of social power in the hands of businesses is undesirable.
4. Because managers are not publicly elected, they are not directly accountable to the people. Corporate social programs can easily become misguided. The market system effectively controls business economic performance but is a poor mechanism for controlling business social performance. (Kreitner, 2006: 128-129).

2.5.3 Criticism of the arguments against Corporate Social Responsibilities

While the arguments against corporate social responsibility are ways of criticizing the proponents of CSR, some of the arguments of the believers of CSR can be used to counter these criticisms. Starting with Howard R. Bowen who asked in his book *Social Responsibilities of the Businessman* what roles businessmen are expected to assume? He went further to answer the question by arguing that the consequences of businessmen’s actions make them have a wider role to play than that covered by the preparation of income and loss statements (Bowen, H.R. quoted in Sage: 2012). This is a
way of explaining that companies’ operations lead to negative externalities and to compensate for these externalities companies should be willing to go beyond their normal business requirement. Steven Hacket defines externality as situations in which human activities generate side effects of some sort that affect the welfare of others in society (Hacket 1998: 42). There are many examples of negative externalities that result from companies’ operations but the most common one is pollution. Pollution has been identified because it is not easy for companies to hide the direct by-product of the operations. But there are more sinister externalities, which have not been so obvious until most recently. For example, Coca-Cola and McDonalds has been linked to the rising increase in obesity in the United States (Ludwig and Nestle, 2008)

Over 40 years ago Keith Davis also offered a supporting point of view to Bowen by opining that the decisions regarding social responsibilities are at least partially beyond the direct economic or technical interest of the firm. He went further to state that the socially responsible business decisions that companies take can be justified by a long complicated process of reasoning as having a good chance of bringing long-run economic gain to the firm, thus paying it back for its socially responsible outlook (Davis, Keith quoted in SAGE 2012: 3-4). However, this long complicated process of reasoning may be true in the 1960’s when Davis offered this argument, recent developments have nullified it. Nowadays, it is easier to see a closer connection between CSR and economic gain to the company. This view was supported by Porter and Palmer who see the necessity for companies to align their CSR efforts with their core organizational strategy as a way of achieving competitive advantage (Harvard Business Review on greening your business, 2011: 87-125).

The Committee for Economic development observed that business functions by public consent and its basic purpose is to serve constructively the needs of society to the satisfaction of society. The CED noted that the future of business will be a direct result of how effectively the management of businesses responds to the expectations of the public, which are always changing. (Sage 2012: 4) If this is true, and recent occurrences are in support of its truthfulness, then CSR is not an option for business managers, but a responsibility. Many CEOs of Fortune 500 companies who have been taken to account for their lack of social responsibilities will agree that being socially responsible has a direct benefit for the short and long term future of the company. Googins,
Mirvins and Rochlin cited a study which stated that depending on the industry, a company’s reputation accounts for between 6 to 10 percent of the total market value of a company (2007: 12). It is therefore of no surprise that many corporations’ achievements are not evaluated on the basis of their annual profit alone anymore but also on the issues of their corporate social responsibility and how sustainable their operations are in the light of the socially responsible achievements. CSR has now become a requirement for many companies, mandated by their customers and supported by the shareholders, and failure to comply has often proved disastrous as has been proven by many events, collapse of Arthur Andersen been one of many such examples.

2.6 CSR and Value creation
Cameron explains that organizations create value when the products and services being produced provide greater benefits to customers than the costs of producing those products and services. When organizations achieve the goals expected by shareholders, sponsors, customers, and other stakeholders, and the cost to those groups is less than the benefits received, value has been created by the organization (Cameron 2006:21).

Cameron further suggests that organizations exist to create value, whether they are corporations, churches, schools, or government agencies. Employees, families, customers, stakeholders, and the broader community all receive value from the organizations; otherwise there is little reason for them to exist. [Except for what economists call “rent-seeking behaviour”, i.e., abusing market power to extract greater income from consumers, (Keaney, 2009)]. The issue is that what represents value for one organization may not represent value for another (Cameron 2006:22).

Burke and Logdsdon (1996) emphasize the use of the concept of strategic CSR. According to them, CSR is strategic when it yields substantial business-related benefits to the firm, in particular by supporting core business activities and thus contributing to the firm’s effectiveness in accomplishing its mission.

It expands the idea by explaining that the concept of CSR within firms is for value creation. In their study, value creation is most prevalent when the following categories
are taken into consideration, when contemplating which CSR policy to move forward on:

1. Centrality – The closeness of fit to the firms mission and objectives
2. Specificity – Ability to capture private benefits by the firm
3. Pro-activity – The degree to which the program is planned in anticipation of emerging social trends in the absence of crises
4. Voluntarism – The scope for discretionary decision-making and the lack of externally imposed compliance requirements
5. Visibility – Observable, recognizable credit by internal and/or external stakeholders for the firm
6. Value creation – Identifiable, measurable economic benefits that the firm expects to receive

In the end, according to Burke and Logsdon (quoted in Cavett-Goodwin 2007), when value creation occurs it is most likely to take the following forms (see Table 2).

Table 2: Burke and Logsdon’s "Value Creation”. (Source: Cavett-Goodwin, 2007)

<table>
<thead>
<tr>
<th>Value Created</th>
<th>Centrality</th>
<th>Specificity</th>
<th>Pro-activity</th>
<th>Voluntarism</th>
<th>Visibility</th>
</tr>
</thead>
<tbody>
<tr>
<td>Loyalty</td>
<td>Customer</td>
<td>Productivity</td>
<td>New product or markets</td>
<td>New product or geographic market opportunities</td>
<td>New products on new markets</td>
</tr>
<tr>
<td>Benefits</td>
<td>Future gains</td>
<td>Future gains</td>
<td>Future gains</td>
<td>Future gains</td>
<td>Future gains</td>
</tr>
</tbody>
</table>

2.7 How sustainable is Corporate Social Responsibility?

The Global alliance for Banking on Values website, GABV is a membership organization, made up of fourteen of the world’s leading sustainable banks, from Asia and Latin America to the US and Europe. The members are bound by a shared commitment to find global solutions to international problems – and to promote a positive viable alternative to the current financial system. GABV is an example of an organization who understands that social responsibility is the only way to remain sustainably in a constantly changing business world. During its March 2012 Conference in Vancouver, the organi-
zation highlighted how GABV performance have outstripped that of the 29 mega-banks or Global Systematically Important Financial Institutions (GSIFS) across the world (GABV.ORG, Mar 2012).

An example of the metrics is given below (also see appendices).

Table 3: Global Alliance for Banking on Values’ performance comparison to Global Systematically Important Financial Institutions (Source: GABV, 2012, March).

<table>
<thead>
<tr>
<th>Return on Equity</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable Bank Average</td>
<td>7.75%</td>
<td>5.86%</td>
<td>7.18%</td>
<td>n/a</td>
<td>7.26%</td>
</tr>
<tr>
<td>Sustainable Bank Weighted Average</td>
<td>8.20%</td>
<td>5.85%</td>
<td>7.17%</td>
<td>n/a</td>
<td>7.07%</td>
</tr>
<tr>
<td>GSIFIs Banks Average</td>
<td>9.68%</td>
<td>2.17%</td>
<td>-1.53%</td>
<td>13.91%</td>
<td>6.06%</td>
</tr>
</tbody>
</table>

Table 3 shows that GABV outperforms GSIFIs over the years. With this we can surmise that CSR is sustainable (as demonstrated by GAVB data), and this leads us to the same conclusion as the word of Tamara Vroom of Vancity Bank, “Social responsibility is not unsustainable way of doing business, but the only sustainable way of doing business” (GABV Vancouver Conference, March 2012).
3 Research Plan

The research for this work will be carried out to see if there is any kind of relationship between organizational performance of corporate social responsibility and value creation in a company. In order to discover the links and correlations adequately, first different types of researches are analyzed in order to adapt the most suitable one for this study.

The broad perspective of research states that research is a study whose aim is to collect any data, information or facts in order to increase knowledge of the studied subject. In addition, scientific research is defined more precisely; the research is done in order to conduct methodical study so the hypothesis or certain answers of the questions would be found when originating certain answers is the essential aim within the process of experiment (Shuttleworth, 2008).

3.1 Research Method and Design

A research design is the set of procedures used to test the predicted relationships among natural phenomena. The design addresses such issues as how the relevant variables are to be defined, measured, and related to one another (Griffin and Moorhead 2009: 528).

Research designs vary in terms of their structure according to the specificity of the blueprint they are representing. One type of design merely draws the framework of the general analyses studied through the research while other types of designs goes to the examination of the problems more deeply with the aim of finding the causal relationship (Churchill and Lacobucci 2002: 122-123).

Five different types of research design will be examined: experimental design; cross-sectional or social survey design; longitudinal design; case study design; and comparative design.
3.1.1 Experimental design

True field experiments are rare in business and management research, mainly because of the problems of achieving the requisite level of control when dealing with organizational behavior. The major reason for the use of experimental design is that a true experiment is often used as a yardstick against which non-experimental research is assessed. Experimental research is frequently held up as a touchstone because it engenders considerable confidence in the robustness and trustworthiness of causal findings. In other words, true experiments tend to be very strong in terms of internal validity.

There are many types of experimental design such as classical experimental design, the laboratory experiment, and quasi-experiment. (Bryman and Bell, 2007: 44-52) However, experimental design is difficult because of the effect on human behavior in an artificial environment, or simply the knowledge of being observed.

The definitions of the research design differ from concept to concept. The research design includes technical drawing of collected, measured and analyzed information. It also outlines the plan or structure of the actual study in order to receive the right answers and visualize them. Therefore, the plan contributes in examining hypotheses and their actions in functioning. The research design is able to visualize the structure of the connections between the variables related to the study. It is also applied in acquiring empirical findings with variable relations. Research design is thereby a plan which has time limitations. This plan always has to be construed in accordance to the research questions so it would be able to analytically sketch each of the activities done through the research process. Besides, the research design is used as a framework to identify the connections between the variables that were analyzed in the conducted work (Cooper and Schindler 2006: 138-139).

3.1.2 Cross-sectional study design

Cross-sectional studies, also known as one-shot or status studies are the most commonly used design in the social sciences. This design is best suited to studies aimed at finding out the prevalence of a phenomenon, situation, problem, attitude or issue, by taking a cross-section of the population. They are useful in obtaining an overall ‘pic-
ture’ as it stands at the time of the study. Such studies are cross-sectional with regard to both the study population and the time of the investigation (Kumar 2005: 93).

### 3.1.3 Longitudinal design

The longitudinal design represents a distinct form of research design that is typically used to map change in business and management research. Pettigrew (quoted in Bryman and Bell) has emphasized the importance of longitudinal study in understanding organizations as a way of providing data on the mechanisms and processes through which changes are created. Such a ‘contextualist’ research design involves drawing on ‘phenomena at vertical and horizontal levels through time’ (Pettigrew 1990: 269 quoted in Bryman & Bell 2007: 60). However, partly because of the time and cost involved, longitudinal design is relatively little used in business and management research.

### 3.1.4 Case study design

A case study is an in-depth analysis of a single setting. This design frequently is used when little is known about the phenomenon being studied and the researcher wants to look at relevant concepts intensively and thoroughly. A variety of methods is used to gather information including interviews, questionnaires, and personal observation (Griffin and Moorhead 2009: 528).

The case study provides a vehicle through which several qualitative methods can be combined, thereby avoiding too great a reliance on one single approach. With a case study, the case is an object of interest in its own right and the researcher aims to provide an in-depth elucidation of it. Unless a distinction of this or some other kind is drawn, it becomes impossible to distinguish the case study as a special research design, because almost any kind of research can be construed as a case study (Bryman and Bell, 2007: 63).

Harvard Business School which also uses the case study method as its teaching technique emphasizes the importance of teaching through case study as more beneficial
than teaching theoretical knowledge. Managers need to exercise knowledge in decision making, not just mere technical skills (HBS.EDU 2011).

3.1.5 Comparative design

This design entails the study using more or less identical methods of two or more contrasting cases. It embodies the logic of comparison in that it implies that we can understand social phenomena better when they are compared in relation to two or more meaningfully contrasting cases or situations. The comparative design may be realized in the context of either quantitative or qualitative research.

One of the more obvious forms of such research is in cross-cultural or cross-national research. The aim may be to seek explanations for similarities and differences or to gain a greater awareness and a deeper understanding of social reality in different national contexts (Bryman and Bell, 2007: 66).

3.2 Reliability, replicability, and validity

The purpose of this research is to make use of case study approach in connecting CSR to increase in organizational values. According to Bryman and Bell, the question of how well the case study fares in the context of the research design criteria - measurement validity, internal validity, external validity, ecological validity, reliability, and replicability - depends in large part on how far the researcher feels that these are appropriate for the evaluation of case study research. Yin (Yin 1984, quoted in Bryman and Bell 2007: 63), consider that they are appropriate for the evaluation of case study research and can be developed to enhance ability to meet the research criteria.

However, one question on which a great deal of discussion has centered concerns the external validity or generalizability of case study research. How can a single case possibly be representative so that it might yield findings that can be applied more generally to other cases? It is important to appreciate that case study researchers do not delude themselves that it is possible to identify typical cases that can be used to represent a certain class of objects, whether it is factories, managers, or critical events.
Although many researchers emphasize that they are interested in the detail of a single case, they do sometimes claim a degree of theoretical generalizability on the basis of it (Bryman and Bell, 2007: 63).

### 3.3 The research process

Successful research requires the researcher to follow certain necessary steps. Nevertheless, these steps do not have to be followed sequentially. Depending on the circumstances, some of them can be implemented “out of sequence”, some of them can become assimilated with each other, or some might be totally skipped (Cooper and Schindler 2006: 54-78).

The research process starts with an exploration of the research when a problem is identified and the research questions are defined. After the exploration stage, the research is proposed more formally, including the statement of the research question and the brief description of the research methodology. The research proposal is followed by the research design strategy where decisions on type of research, purpose, time frame, scope and environment are made. Data collection, sampling design and instrument development are included in this stage as well. Consequentially, pilot testing is followed by data collection and its preparation where the researcher presents the founded and defined data. It is through the data analysis and interpretation that the researcher can discover if the research question is reliable, or compatible with the theories and hypotheses. The final stage provides the written report. It includes the findings and solutions directed to the management (Cooper and Schindler 2006: 54-78).

In the end, the choice of Case Study research approach has enabled the opportunity to look at various CSR theories and evaluate how companies are faring in terms of their performance, with or without CSR. Not only is the research approach suitable, it has also been recommended as a suitable way of learning by prestigious institutions such as the Harvard Business School.
4 Adding values with Corporate Social Responsibility

There have been many instances where companies have been able to gain tremendously from performing corporate social responsibilities proactively. A proactive approach to corporate social responsibilities is not only beneficial to the performing organization in terms of financial profit but it is also relevant in putting the company in good standing with the stakeholders.

Many companies have been able to reap from the result of such proactive approach to CSR. Examples include but are not limited to Procter and Gamble’s (P&G) responsibility prototype, General Electric’s Ecomagination and The Body Shop.

4.1 Procter and Gamble’s (P&G) responsibility prototype

Carol Sanford (2011) explains how fifty years ago, a small cadre of visionaries from Procter and Gamble’s (P&G) detergent products group launched an era of new design for business systems. During the process of revamping the business ideas for the company, it was discovered that phosphates, one of the key ingredients of soap making, “had the potential to negatively affect water and the biological stems of rivers and wetland” (Sanford: xxviii). Rather than keeping quiet, the team in charge of the new ideas immediately launched into finding alternative materials. The research led into experimenting for new formulas that will preclude the use of the harmful phosphates. Not long after the beginning of this experiment, the move to outlaw the use of phosphates soon began. With the deadline coming for the ban on the use of phosphates, P&G’s team had to hurry with their research in order to meet the deadline.

Soon after the completion of the new soap formula, a new law came into effect in Michigan which stipulated that all of the outlawed detergents (detergents produced with phosphates) were to be removed from the shelves. P&G was able to meet the deadline because they started working out a solution even before it became a problem. In the end, the company’s market share increased considerably in many parts of the state (Michigan). “Their achievement was simultaneously a terrific success for the planet, distributors and consumers, and P&G’s employees and investors” (Sanford 2011: xxx).
Surprisingly, the company was initially reluctant to switch from the use of phosphates to non-phosphates material in its soap production. It was only when consumers failed to see the difference between soaps with phosphates and the soap with non phosphates that P&G started focusing its effort on developing alternative ingredients for phosphates that the company felt provides satisfactory performance and is safe to use (Dyer, Dalzell & Olegario 2004: 109). This is contradictory to the evidence provided by Sanford (2011) and though P&G may have eventually bowed to the wishes of the public one can only wonder at the sincerity with which they commenced for the search of an alternative to phosphates in the beginning.

While P&G did not start out with the noble goal of being compliant with stated laws and regulation, the company was able to improve more than its financial position, and was also looked upon favorably by many of its stakeholders for implementing policies that were forward looking. Such positions are very beneficial and presently, many companies will have to emulate the action of P&G if they do not wish to be caught unprepared when changes finally arrive.

_P&G’s guiding principle_

P&G explained that the company was able to succeed in implementing the program by following these five basic steps below.

1. Do what is right: The stakeholders should be taken into account in business decisions or activities.
2. Work together: There should be commitment to engage all the people and groups necessary for the success and effectiveness of the project. All should be given respect and the opportunity to contribute in a way that matters to them personally and to the work itself.
3. Get results: Process is important but not an end, it is therefore necessary to obtain acceptable results at the end of the process.
4. Develop continuously: All employees at various levels of the organization should be trained continuously to become _system thinkers_, practicing and reflecting on innovative ways to plan and evaluate work as well as encouraged to become more self-managing with regard to thinking and behavior. As a result everyone’s ability to see the effects on planetary and social systems expanded as they learned to understand the system better.
5. Do it all simultaneously: Summarized as *same time*, this involves application of all the principles simultaneously to all aspect of the daily work. (Sanford 2011: xxxi - xxxii). *Same time* consists of going through step one through four together in an effort to improve the company’s social responsibility.

### 4.2 General Electric’s (GE) Ecomagination

In 2005, General Electric launched an initiative termed “Ecomagination”. The idea was to invest in clean power technology such as solar, wind and fuel-cells energy. With the launch of the program, the company hopes to reduce its greenhouse gas emission by 1 percent come 2012. If the company did not launch this initiative, their greenhouse gas emissions would have increased by 40 percent when 2004 is used as a base year. While the launching of the new program is to enable the company to take advantage of the future growth of these sources of energy, the company also believes that it is necessary for the private sector to increase its involvement in tackling the problem of environmental challenges (Makower 2005).

According to Googins, Mirvis and Rochlin, GE doubled (to 25 percent of GE’s $3.7 billion 2007 research budget) the amount of money invested in its research and development for the purpose of the “ecomagination” project. They believed that GE is basing its growth strategy on “saving the planet”. The reasoning is that with the increasing energy prices, the imposed limitation on greenhouse gas emissions, and continuous growth in demand as seen from the emerging markets, investing in alternative green energy is a way for the future (2007: 14-15).

While the effort of GE is commendable, the company did not start as a socially responsible company. It has even been touted that GE is one of the biggest environmental polluters in the US (ICMRindia.org). However, facing a huge public backlash as a result of the company’s refusal to clean the Hudson River, the company’s top management headed by Jeff Immelt had to come up with a strategy to pacify the public, hence the birth of Ecomagination. Even though the company had a bad reputation which it had been dodging until the launch of the Ecomagination program, GE has been able to reposition its image as one of the forerunners in corporate social responsibilities.
In 2008, 2 years after the launch of Ecomagination, GE experienced a dismal performance in its first quarter report to the shareholders. This led to the criticism of Immelt and his ability to move the company forward as promised. Although products under the Ecomagination brand brought a better than expected result during this period; the overall performance of GE in the first quarter of 2008 was a direct reflection on the Ecomagination strategy which caused many shareholders as well as the former Chief Executive (Jack Welch) to seriously doubt the plausibility of Ecomagination. But since then, many have changed their opinion as ecomagination brand continued to grow beyond expectations. In 2007 alone, Ecomagination had become a $14 billion, 64-product business outpacing total GE revenue by 20 percent to 8 percent even though the company had invested only a little over $2.5 billion in cleaner technology research and development up to that time (Roner, 2008).

4.3 The Body Shop

The Body Shop International is a global manufacturer and retailer of naturally inspired, ethically approved beauty and cosmetics products. The first body shop was opened by Dame Anita Roddick in 1976 in Brighton England. Currently, there are over 2500 stores in over 60 countries with arrange of over 1200 products. In 2008 alone, the company opened 124 new stores around the world, including new markets in India, Pakistan, Namibia, Poland, Slovakia, Monaco and Egypt. As well as selling products, the company has its own charity, The Body Shop Foundation which was launched in 1990. The Foundation gives financial support to pioneering, frontline organizations that otherwise have little hope of conventional funding. The Foundation’s focus is to assist those working to achieve progress in the areas of human and civil rights, environmental and animal protection (The Body Shop, 2009).

Two characteristics set The Body Shop apart from the rest of the industry. The first is its selection of powerless animals as its main stakeholders. The company took steps to prevent the testing of animals in the development of new cosmetics and determined that such decisions cannot be justified. By making it a choice, the company was setting an example for the rest of the industry. The second distinguishing characteristic is the decision to stand out from the crowd. For instance, the company’s stand on the issue
of advertising and packaging makes it more of an interest group than a company (Mallin, ed. 2009: 68-69).

The Body Shop is an innovation that has excelled while many others in the industry have been caught sleeping. At the time when the company launched its new business idea, there were many who believed that the idea is not sustainable; those who believed thought it as more of a green-washing. Yet since L’Oreal paid £652 million to acquire it in 2006 (Milmo, 2006), it is easier to see it now as a smart strategy. This has proven that CSR and business ideas are not only compatible but also profitable for companies.

L’Oreal’s decision to purchase The Body Shop generated lots of controversies. This is because L’Oreal and The Body Shop are on opposite spectrum in terms of socially responsible behavior. While The Body Shop is renowned for its strict CSR practices, L’Oreal is infamous for conducting product testing on animals (PeTA, 2012). It is believed that L’Oreal’s purchase of The Body Shop is to launder its dirty image and makes it look more acceptable as a socially responsible company. Whatever the reason is for the purchase of The Body Shop by L’Oreal, what is important is L’Oreal recognized that good CSR practices is essential for the long term survival of any business.

4.4 Analyses of Proctor and Gamble, General Electric and The Body Shop’s CSR

All the companies, P&G, GE, and The Body Shop have all moved from the traditional approach to CSR to a more forward thinking new approach to handling CSR issues in their organizations. However, of the three companies, only The Body Shop has been able to transcend to the top when we use Carroll’s global responsibility pyramid. P&G and GE are both performing their economic, legal as well as ethical responsibilities as can be seen by the launching of their respective programs in the above examples. However, they are yet to reach the level of philanthropic responsibilities. This is not judging by the program given in the above example alone, but by the fact that each of the respective companies has been embroiled in one form or another of social responsibility transgression in the past. P&G was involved in a scandal concerning their pollution of the Hudson River prior to the launching of the responsibility prototype (Googins,
Mirvis and Rochlin 2007: 11). Likewise for GE, whose major customers are still contributing to global warming through their energy consumption. More importantly, both P&G and GE are among the *10 worst Corporations of 1991* (Mokhiber, 1991), which makes them CSR offenders in the past. In the case of The Body Shop, by using natural products in the production of new cosmetics, the company is protecting animal rights while at the same time paying a fair price to the communities that sell the natural ingredients to her company. With these alone, it has been able to fulfill its economic responsibilities, legal responsibilities as well as ethical responsibilities. The company’s Foundation ensures the performance of philanthropic responsibilities. We can therefore classify The Body Shop as a stellar company in the performance of social responsibilities. The fact that the company has been sold to L’Oreal is mundane compared to the fact that The Body Shop was one of the few companies that have been able to successfully carried out business practice in a way that minimizes negative externalities of business and if the price that L’Oreal paid to acquire it is any indication, then integrating CSR with business strategy is a way of increasing organizational values.

**Business Case for corporate social responsibility**

Sandra Waddock stated that there is significant evidence from research studies which establishes that companies that are more socially responsible, or more responsible in general to all their stakeholders, perform at the same level or somewhat better than less responsible companies (Waddock, Sandra quoted in Sage 2012: 14). Consumers, employees of the company as well as other stakeholders are happy to be affiliated with well performing, socially responsible organizations. They are equally swift at punishing those who are perceived to be nonchalant about performing the duties and responsibilities that society expected of them. It is more difficult now for companies to hide their act as the internet makes information available to anyone seeking it at an unprecedented speed. Companies that hope to remain relevant should therefore take their social responsibilities seriously. Table 4 features some of the rewards for performing corporate social responsibilities.
Table 4: Rewards from CSR (Source: adapted from Googins, Mirvis and Rochlin: 2007).

<table>
<thead>
<tr>
<th>Core Asset or Function</th>
<th>Cost Reduction</th>
<th>Value creation</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Customer Marketing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Reduced negative consumer activism and boycotts</td>
<td>Increased customer attraction</td>
</tr>
<tr>
<td></td>
<td>Positive media coverage and “free advertising”</td>
<td>Increased customer retention</td>
</tr>
<tr>
<td></td>
<td>Positive “word-of-mouth advertising”</td>
<td></td>
</tr>
<tr>
<td><strong>Human Resources</strong></td>
<td>Increased employee retention and morale</td>
<td>Enhanced professional development</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Enhanced recruitment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increased productivity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Development of diverse workforce</td>
</tr>
<tr>
<td><strong>Reputational capital</strong></td>
<td>Reduced negative media coverage</td>
<td>Enhanced professional development</td>
</tr>
<tr>
<td></td>
<td>Dampened effect of crises or negative events</td>
<td>Enhanced recruitment</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Increased productivity</td>
</tr>
<tr>
<td></td>
<td></td>
<td>Development of diverse workforce</td>
</tr>
<tr>
<td><strong>Social investing</strong></td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Social screens and investment funds are attracted to companies perceived as good social performers</td>
<td></td>
</tr>
</tbody>
</table>
5 Conclusion

CSR must be construed as the set of activities in which private firms engage beyond those that are required by law to undertake. Even this definition becomes somewhat problematic if firms go beyond compliance because doing so is profitable for them. But at a minimum, such behavior ought to be required under a reasonable definition of CSR. It is difficult to say whether firms should be encouraged to undertake investments in CSR as this will depend upon both the nature of the investment and the size. There will be cases when CSR investments will be welfare-enhancing; that is, when they will improve the allocation of resources in the economy. This is most likely the case when firms act to control pollutants or work place hazards they know to be serious and that are currently uncontrolled; such actions are even more likely to be desirable from society’s standpoint when they are relatively inexpensive.

As a practical matter, the likelihood of great inefficiency resulting from CSR seems small. Firms are under constant pressure to reduce costs and much more than not will go beyond what they are required only when it is profitable to do so. Their foray into pure and unadulterated corporate philanthropy is likely to be few and relatively minor.

Corporate social responsibility continues to undergo metamorphosis. There are as many different connotations of the meaning as there is what underlines it. Theoretically, it is an ideal that all business should practice and this is not limiting it to corporations alone, as it was described by Nancy Lockwood (quoted in Kreitner 2008: 119). The major challenge facing the concept stems from its origin. As some has said, it has been linked to activists who are fighting against corporations. As a result, the intention of the concept has often come under numerous debates, putting it in a defensive position.

The origin and confusion stemming from the lack of universal definition notwithstanding, what has stood the test of time is the fact that there are many negative externalities on wider society as a result of business operations. To counter this effect, organizations need to go the extra mile in ensuring that they balance their actions through positive activities that will benefit all the business stakeholders. As the world becomes globalized, the actions of corporations become more transparent, not through their
intention, but due to the speed at which information is disseminated and their actions are transformed accordingly.

There are diverse reasons why companies get involved in CSR. Sometimes, it may be because it supports the core function of the organization, or at times it could be to redress the organization’s public image. No matter what the reason is for getting involved in the practice of social responsibility, the benefit that is accrued from the venture should be measurable. In the past, philanthropic activities are often measured as direct correlation to sales, but there are other measurements that should be taken into consideration. The public perceptions, as well as the support for the business strategies are measurements that should also be considered. What value is placed on the business by its stakeholders may serve to further the business interests, or even thwart its growth.

In the end, what often greatly determines the extent of involvement in CSR is the kind of the product or type of industry that a business operates. A monopolist can get away with many things, especially in the short run. An example is the oil industry, where the industry still gets away with many atrocious acts, due to the fact that no substitute material of enduring and commercial value has been found for oil. Even though the companies in the industry carry out some form of social responsibility, it is often seen as “green washing” because, while they perform some philanthropic acts on one hand, they continue to degrade the environment through different kinds of pollution on the other hand.

Whatever stand any organization is going to take on the issue of corporate social responsibility, it is apparent that there should be some form of measurable return on investment in CSR. As Dennis J. Aigner puts it, unless a firm’s CSR activities ultimately makes good business sense, enhanced social and environmental performance is not sustainable. (Aigner quoted in Hay 2005: 132-133)

Finally, it is noteworthy to mention that recent thinking has been encouraging the alignment of company’s core strategy with CSR. Rather than thinking of the two as opposite, it is more beneficial to align corporate responsibilities with organizational strategy only then can the best value be gained from CSR performance. While almost
all companies have realized that performing CSR is not much of a choice anymore, most are still at the reactive stage, performing CSR only when they are in conflicting situations. But for some, CSR has become part of their organization and even created a department to be responsible for the company’s CSR initiatives and reporting. There are however, very few companies that have been able to transcend to the level of social responsiveness as outlined by Sethi in his three-stage schema. For those who managed to reach that level, such as the Global Alliance for Banking on Values, the rewards from stakeholders can be enormous, and they are looked on with favor. This is the level that all companies should aspire to; it is here that the most value creation occurs for the organization.
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http://books.google.com/books?id=GRvUF0pv41sC&pg=PA124&dq=corporate+social+responsibility+defined+&hl=en&ei=MOLbTLuUNoeWOr6yOkI&sa=X&oi=book_result&ct=result&resnum=2&sqi=2&ved=0CDQQ6AEwAQ -


Summary of Financial Profile Research for Global alliance for Banking on Values (Source: Gabv.org).

Sustainable banks have a significantly higher proportion of their assets invested in lending than GSIFIs.

<table>
<thead>
<tr>
<th>Total Loans/Total Assets</th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable Bank Average</td>
<td>69.61%</td>
<td>67.58%</td>
<td>71.00%</td>
<td>69.79%</td>
<td>69.50%</td>
</tr>
<tr>
<td>Sustainable Bank Weighted Average</td>
<td>72.71%</td>
<td>71.46%</td>
<td>69.50%</td>
<td>70.42%</td>
<td>71.02%</td>
</tr>
<tr>
<td>GSIFIs Banks Average</td>
<td>37.25%</td>
<td>37.59%</td>
<td>36.45%</td>
<td>38.61%</td>
<td>37.80%</td>
</tr>
</tbody>
</table>

Sustainable banks fund a much larger portion of their total balance sheet with customer deposits than GSIFIs.

<table>
<thead>
<tr>
<th>Total Deposits / Total Assets</th>
<th>2010 2009 2008 2007 Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable Bank Average</td>
<td>70.66 % 69.83% 67.36% 67.80% 68.91%</td>
</tr>
<tr>
<td>Sustainable Bank Weighted Average</td>
<td>72.53% 70.12% 65.76% 65.967% 68.59%</td>
</tr>
<tr>
<td>GSIFIs Banks Average</td>
<td>40.73% 40.35% 38.12% 41.24% 40.43%</td>
</tr>
</tbody>
</table>

Sustainable banks have much higher level of equity to total assets with slightly higher level of BIS 1 capital ratios (especially in recent years) than GSIFIs.

<table>
<thead>
<tr>
<th>Equity / Assets</th>
<th>2010 2009 2008 2007 Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable Bank Average</td>
<td>8.92 % 9.45% 9.21% 9.63% 9.30%</td>
</tr>
<tr>
<td>Sustainable Bank Weighted Average</td>
<td>8.89% 8.90% 8.38% 7.75% 8.48%</td>
</tr>
<tr>
<td>GSIFIs Banks Average</td>
<td>5.72% 5.35% 4.52% 4.94% 5.11%</td>
</tr>
</tbody>
</table>
Sustainable banks have generally better comparable Return on Assets and Return on Equity over the time period covered. The returns of sustainable banks are also less volatile than those of GSIFIs.

### Return on Assets

<table>
<thead>
<tr>
<th></th>
<th>2010</th>
<th>2009</th>
<th>2008</th>
<th>2007</th>
<th>Average</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable Bank Average</td>
<td>0.61%</td>
<td>0.21%</td>
<td>0.49%</td>
<td>n/a</td>
<td>0.44%</td>
</tr>
<tr>
<td>Sustainable Bank Weighted Average</td>
<td>0.69%</td>
<td>0.45%</td>
<td>0.59%</td>
<td>n/a</td>
<td>0.58%</td>
</tr>
<tr>
<td>GSIFIs Banks Average</td>
<td>0.46%</td>
<td>0.14%</td>
<td>0.08%</td>
<td>0.65</td>
<td>0.33%</td>
</tr>
</tbody>
</table>

Sustainable banks have significantly higher growth in loans and deposits leading to a higher growth in assets and incomes than GSIFIs.

### 2007 – 2010 Growth Rates (local currency)

<table>
<thead>
<tr>
<th></th>
<th>Loan Growth</th>
<th>Deposit Growth</th>
<th>Asset Growth</th>
<th>Net Income Growth</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainable Bank Average</td>
<td>80.52%</td>
<td>87.74%</td>
<td>77.60%</td>
<td>64.62%</td>
</tr>
<tr>
<td>Sustainable Bank Weighted Average</td>
<td>50.06%</td>
<td>51.12%</td>
<td>40.79%</td>
<td>64.37%</td>
</tr>
<tr>
<td>GSIFIs Banks Average</td>
<td>21.38%</td>
<td>27.28%</td>
<td>23.14%</td>
<td>-6.72%</td>
</tr>
</tbody>
</table>
The following banks were identified as having business models fundamentally consistent with the principle of Sustainable Banking. There were 14 GABV members, as of 31 December 2011, were included, plus three other banks in this study.

<table>
<thead>
<tr>
<th>GABV Members</th>
<th>Other Sustainable Banks</th>
</tr>
</thead>
<tbody>
<tr>
<td>ABS Bank, Switzerland</td>
<td>Merkur Bank, Denmark</td>
</tr>
<tr>
<td>Banca Etica, Italy</td>
<td>Mibanco, Peru</td>
</tr>
<tr>
<td>BancoSol, Bolivia</td>
<td>New Resource Bank, California, USA</td>
</tr>
<tr>
<td>Bank Integral, El Salvador</td>
<td>One Pacific Coast Bank, California, USA</td>
</tr>
<tr>
<td>BRAC Bank, Bangladesh</td>
<td>Triodos Bank, The Netherlands</td>
</tr>
<tr>
<td>Cultural Bank, Norway</td>
<td>Vancity, British Columbia, Canada</td>
</tr>
<tr>
<td>GLS Bank, Germany</td>
<td>Xac Bank, Mongolia</td>
</tr>
</tbody>
</table>
There were 29 banks classified as Global Systematically Important Financial Institutions by the Financial Stability Board.

<table>
<thead>
<tr>
<th>Global Systematically Important Financial Institutions (GSIFIs)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Bank of America</td>
</tr>
<tr>
<td>Bank of China</td>
</tr>
<tr>
<td>Bank of New York Mellon</td>
</tr>
<tr>
<td>Banque Populaire CdE</td>
</tr>
<tr>
<td>Barclays</td>
</tr>
<tr>
<td>BNP Paribas</td>
</tr>
<tr>
<td>Citigroup</td>
</tr>
<tr>
<td>Commerzbank</td>
</tr>
<tr>
<td>Credit Suisse</td>
</tr>
<tr>
<td>Deutsche Bank</td>
</tr>
<tr>
<td>Dexia</td>
</tr>
<tr>
<td>Goldman Sachs</td>
</tr>
<tr>
<td>Group Credit Agricole</td>
</tr>
<tr>
<td>HSBC</td>
</tr>
<tr>
<td>ING Bank</td>
</tr>
</tbody>
</table>