

UNIVERSITY OF WOLVERHAMPTON

CSR and Company Reputation

Case study of Nike

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Index of Abbreviations

CEO – Chief Executive Officer

CSR – Corporate Social Responsibility

EU – European Union

FY – Financial Year

MNC – Multinational Corporation

NGO – Non-Governmental Organisation

Contents

1. Introduction	6
1.1. The Concept of CSR.....	6
1.2. The Problem.....	7
1.2. Research Aim and Objectives.....	9
1.3. Research Outline.....	10
2. Literature Review	11
2.1.1. The Application of CSR.....	11
2.1.2. Business Benefits from CSR.....	12
2.2. Reputation Management.....	13
2.2.1. CSR and Company Reputation	15
2.2.2. Impact on Stakeholder Behaviour.....	16
2.3. Transparency and CSR Measurement	19
2.3.1 Lack of Transparency.....	19
2.3.1. CSR Reporting	20
2.3.2. Reputation Indexes.....	21
2.3.3. Summary	22
3. Research Methodology.....	22
3.1. Overview.....	22
3.2. Research Purpose.....	23
3.3. Research Approach.....	23
3.4. Research Strategy	24
3.5. Data Collection	25
3.6. Sample Selection	25
3.7. Data Analysis.....	26
3.7.2. Validity.....	26

3.7.2. Reliability.....	26
3.7.3. Summary	27
4. Data Presentation and Analysis	27
4.1. Case Study: Nike.....	27
5. Conclusions and Discussion.....	34
5.1. Complexity of CSR	34
5.2. Improved Reputation through Strategic CSR Approach	35
5.2.3. Research Objectives.....	36
6. References	38
7. Appendices	42

Table of Figures

Figure 1 The conflicts and complexity of sustainability(Hawkins, 2006)	8
Figure 2 Research outline.....	10
Figure 3 CSR and value theory (Siltaoja, 2006)	15
Figure 4 Stakeholder salience and indentification framework (Peloza and Papania, 2008)	18
Figure 5 A schematic presentation of the methodological approach	23
Figure 6 Nike's CSR strategy (Sustainability report FY11)	31

1. Introduction

During the 21st century, we have seen an enormous increase in the popularity of CSR, in corporate level as well as in public media. Society's consciousness on the effects of individual behaviour has risen with increased awareness on environmental and societal issues such as global warming and human rights. Corporate catastrophes, such as BP oil spill in Gulf of Mexico in 2010¹, which was the biggest oil spill in history of United States, has woken companies to protect their CSR reputation.

According to study by Visser and Tolhurst (2010) one of the main drivers of increased CSR is growing globalisation which brings benefits and disadvantages to economic development throughout the world giving businesses even more decisive role across all levels of society. More opened global market has combined different cultures bringing problems with corruption and bribery as well as with different ethical conducts. Issues such as sustainable production, labour standards or cultural and societal implications of development do not have mutual norms but cannot be left to be decided solely in the market place (Visser and Tolhurst, 2010).

Due to globalisation multinational corporations (MNCs) are conquering the global markets. MNCs are major actors in the society and together with their large supply chain channels they have a strong influence on what it is going on in the markets. Many MNCs have shown their interest towards environmentally and socially aware contributions, such as charity campaigns, introducing new codes of conducts to suppliers to nurture employee rights and improve environmental standards.

1.1. The Concept of CSR

The concept of modern CSR became to the knowledge of wider audience in 1953 when Howard Bowen published a book "Social Responsibilities of the Businessman". In his review CSR was defined as 'the obligations of businessmen to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the

¹ <http://www.guardian.co.uk/world/2010/apr/23/deepwater-horizon-oil-rig-pollution>

objectives and values of our society' (Bowen 1953, in Carroll 1999, p.6). Bowen's view emphasised the importance of CSR and the impact on society in the future business making. Many researchers see Bowen's book as a beginning of the modern CSR or as Carroll (1999) calls him as 'the Father of Corporate Social Responsibility'.

Since 1950's many authors have introduced their own definitions of CSR leading to inconsistency of the concept of CSR and the lack of specific guidelines. Bowen's ideology of valuing the society has remained as a base for post-literature, for instance Kotler and Lee (2005) introduces CSR as a process of improving community wellbeing from two different aspects; human conditions and environmental issues. According to Hopkins (2003) the importance is to treat the stakeholders of the firm ethically '– the wider aim of CSR is to create higher and higher standards of living, preserving the profitability of the corporation, for peoples both within and outside organisation'.

European Union's (EU's) approach defines CSR voluntary activity 'whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis'. However the voluntariness of CSR has changed under the public demand surprising many businesses with the public's response on the issues they did not previously thought were part of their business responsibilities (Porter and Kramer, 2006). Also the influence of activism, such as boycotting companies with unethical reputation, and increased governmental regulations have woken companies to participate more in CSR activities.

1.2. The Problem

Recently companies' need to show social concern has been primarily reaction of corporate misdeeds in the form of pollution to the environment, disregard of consumer rights and general disregard for the welfare and well being of stakeholders (Masaka, 2008). Current concept of CSR has turned it into an instrument of achieving competitive advantage, not only on voluntary basis but as a necessity to survive in the competitive markets. CSR enables companies to build better relations with primary stakeholder, such as customers and employees, helping them to develop intangible, valuable assets which can be sources of competitive advantage (Hillman and Keim, 2001). Masaka presents CSR as a form of

corruption and manipulation since companies take advantage of environment and society to boost their reputation as *corporate citizen*.

Notwithstanding of the increase in societal and economical concerns, no clear standards or regulations of measuring CSR have not been created. Thus many problems occur due to the inconsistency; companies are capable to claim activities, that might not meet the general understanding of CSR, as CSR initiatives to improve their reputation, or in some cases companies do not have clear understanding what CSR in actual fact means. Considering the nature of business and the ultimate aim to create profit or as Friedman (1970) stated; ‘There is one and only one social responsibility of business –to use its resources and engage in activities designed to increase its profit’ the genuine goodwill to participate in CSR activities is open to question.

The problem derives from the complexity of sustainability and the conflicts between stakeholders, as seen in figure by Hawkins (2006, p.3). Companies are obliged to create wealth and value to all of its stakeholders which means simultaneously benefiting society and maximising the profits for shareholders. When CSR is seen only as a short term approach and it is not included to company’s strategy, which is unfortunate issue in many cases, the scenario is impossible.

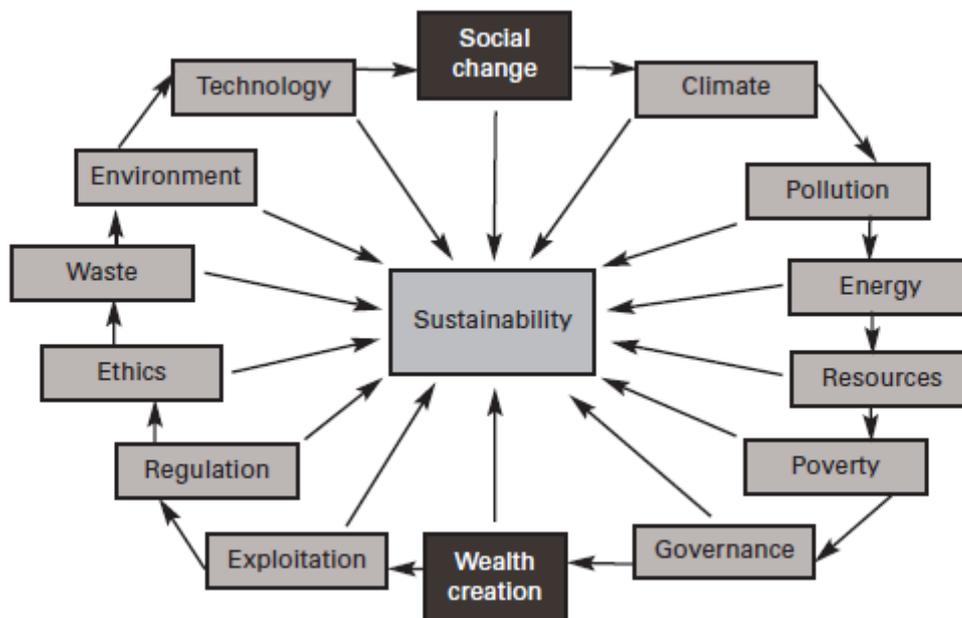


Figure 1: The conflicts and complexity of sustainability (Hawkins, 2006)

In study by Bhattacharya *et al.* (2006) questionable reputation of CSR initiatives is explained by bad communication by companies leading stakeholders seeing it as propaganda. They encourage companies to focus more on what they have achieved and telling the facts instead of promoting their activities, “tell, do not sell”. However, the main tool to communicate environmental and social contributions, sustainability –or CSR- report is often misleading and provides only little information of actual CSR behaviour. The problem lays on the lack of standardised guidelines to measure CSR which unable mutual understanding of the concept in both, corporate as well as in public levels.

1.2. Research Aim and Objectives

CSR has many meanings depending on the group and its aims: for Public Relations (PR) department CSR is reputation protection, for accountants it is supply-chain auditing, for NGOs it is preservations of humanitarianism when as for governments it is sharing the burden of sustainability (Kitchin, 2003). This research begins by focusing on CSR from the perspective of managing and protecting company’s reputation and particularly investigating the actual benefits of CSR participation, thereby aiming to identify company incentives. The report will then aim to add understanding on CSR measurement and its authenticity. The hypothesis is CSR engagement leads to improved reputation, which is the main incentive for a company.

The research questions will be answered by theoretical research using prior literature and research as a study material. Statistics will be used as supportive material as well as case study example to relate theory into real life events. The main objective of the report is to answer to the question

Why companies participate in CSR activities?

To gain deeper insight to the topic, the research will also seek answers to the following sub questions:

What is CSR’s role in company’s reputation?

How to measure company’s CSR initiatives?

1.3. Research Outline

This research will follow the structure as introduced in figure 2. The report will have five different chapters; introduction, literature review, research methodology, data presentation and analysis and finally concluding the findings in chapter conclusions and discussion.

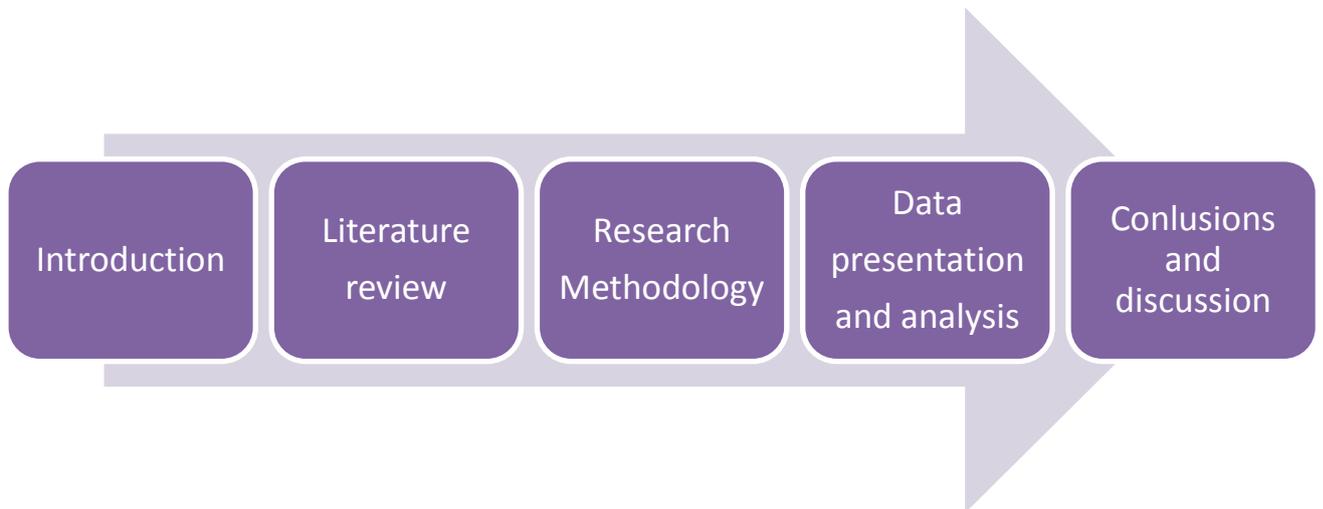


Figure 2 Research outline

Introduction

This chapter presents the background of the reasons this report is executed. It will provide a short outlook to the concept of CSR and identifies the aims and objectives of the study.

Literature Review

Literature review will provide an insight to the prior literature of CSR. It will present previous theories and research to provide full understanding of the concept. Also the definitions of company reputation and the stakeholders will be introduced and their relation to CSR, continuing to analyse CSR's impact on company.

Research Methodology

This chapter will identify the methodology chosen for the report. It will start by covering the purpose and approach of the research followed by chosen strategy and data collection methods. Finally it will consider how the data will be analysed and how the reliability and validity will be covered.

Data Presentation and Analysis

This chapter will introduce the data collected to the research and will analyse given information with the key objectives to answer to the research questions.

Conclusion and Discussion

At the end the findings of the research will be discussed. The author aims to answer to key research questions and conclude the topic.

2. Literature Review

To enable greater understanding of the topic this chapter will present more detailed insight to CSR activities and how it can be applied, followed by introduction to reputation management and CSR's relation to reputation. The last paragraphs introduce existing methods of CSR measurement with discussion of their advantages and disadvantages.

2.1.1. The Application of CSR

'People, planet and profit' – three bottom lines for businesses outlined by Elkinton (1994) in Triple Bottom Line model. It provides a framework to measure company performance in terms of its impacts on the economy, the environment and society. The same framework applies to CSR; well contributed CSR strategy provides the best possible results in all three bottom lines.

Carroll's (1979, 1991) classification of CSR motives: economic, legal, ethical and discretionary, is commonly used guideline cited in numerous literature.

Economic responsibility of business is to produce goods and services and sell them at a profit. This can be seen as activities that maximise shareholder value or profit, also indirectly for instance in situation where improved reputation by CSR leads to increased sales.

Legal responsibility is to operate under legal requirements and permit the ground rules of making business. These include standards about the infrastructure where company operates in, such as standards with waste and working conditions.

Ethical responsibilities are the additional behaviour and activities that are not included in first two categories but which are expected by society's members.

Discretionary responsibilities are not actual responsibilities but purely voluntary for companies, including activities that helps society. (Carrol, 1979)

All the above factors are equally important hence it should be remembered that each of these should not be excluded but if possible companies should consider all of the factors while doing business.

Whereas Carroll's theory divideds CSR based on activities, Lantos (2001) classified CSR motives into three groups based on intentions of the company; ethical, altruistic and strategic. Ethical CSR includes morally mandatory responsibilities in economical, legal and ethical terms whereas altruistic CSR consists philanthropic responsibilities which might not be beneficial to company itself but increases the welfare of society. Strategic CSR combines activities which include philanthropic responsibilities and are beneficial to company resulting to positive publicity and goodwill.

Study by Kotler and Lee (2005) listed major social initiatives under which most CSR activities falls as follows: cause promotions; cause-related marketing; corporate social marketing; corporate philanthropy; community volunteering and socially responsible business practices. In some cases these initiatives can take a form of 'face lifting' activity instead of having major impact on company in long term. When this occurs CSR is considered more as an instrument to improve reputation rather than strategic activity.

2.1.2. Business Benefits from CSR

Only way to create busienss value trough CSR is to create social or environmental value first (Bhattacharya *et al.*, 2006) hence shortcuts is unfavorable for both parties; stakeholders and the company. Thus it is unfortunate how often managers does not see the real value of CSR activities.

Companies tend to expect CSR activites will increase their costs hence they try to create a balance on profits by treating CSR initiatives as a money making process. Often this occurs when company participates in CSR activities which increase its reputation and thus attracts new customers but does not have an actual impact on company's performance in the long

run. Simultaneously some managers wish to cut costs on CSR activities by not planning them properly or combining them as a minor part of marketing campaigns.

Indeed, many managers recognize CSR as PR tool, but does not see the actual organisational and strategic benefits. Hence Porter and Kramer (2006) suggest companies to take CSR activities as a part of company's business strategy rather than seeing them just as a cosmetic process of PR and media campaigns. They encourage managers to think CSR more as an opportunity, innovation and competitive advantage instead of a cost and thus turn CSR as their competitive advantage.

Truly, CSR initiatives are not just a way to attract customers, they can also make company work more efficiently or save costs, as Langford and Smith (2009) shows by listing three profitable CSR areas for business; risk-reduction, financial investing and commercial benefits. For instance, environmental-efficient machinery can decrease company's energy costs simultaneously being beneficial for the environment, or acknowledging the threat of global warming company can decrease future risks. In fact the study of financial impacts of CSR by Margolis and Walsh (2003) presented 109 empirical studies of CSR demonstrating positive relationship in 54 cases, 48 cases with no correlation and only 7 cases with a negative relationship. According to the study it is far more likely to gain financial benefits when participating in CSR activities than resulting in decreased profitability.

Hawkins (2006) views the benefits outside profitability; 'traditional ethos of 'profit at all cost' is wrong, good health and safety supports efficiency, environmental consideration supports community commitment, and responsible management provides investor confidence.' Altogether CSR fulfil all three bottom lines of business; people, planet and profit.

2.2. Reputation Management

Reputation is organisation's most valuable asset (Hawkins, 2006) hence it is important to recognize that any negative impact on reputation can damage the profitability for years ahead if they lose shareholder and customer confidence. Fombrun *et al.* (2000) describes

fluctuating value of the company's reputation as *reputational capital*, which is at risk everyday when company is in interaction with stakeholders whether it is customers buying its products or investors purchasing the stock. 'When stakeholders' expected outcomes are not delivered, the damage to the company's reputation manifests itself in impoverished revenues, decreased ability to attract financial capital and reduced appeal to current and potential employees' (Fombrun *et al.*, 2000). In other words, if company loses stakeholders' confidence reputational capital will be destroyed.

According to survey by Reputation Institution² 83% of consumers agree that we are reputation economy, in which 'people buy products, take jobs and make investments based mainly on their trust, admiration and appreciation on for the companies that stand behind them'. Surprisingly, the same survey revealed consumers put more value on the enterprise than the product itself while making the purchase decision. Thus company's reputation have significant influence on its profitability which have lead to companies putting more focus on *reputation management*. Griffin (2008) presents the concept of reputation management by comparing company reputation to reputation of an individual:

As an individual, what people think about you matters. It affects how they treat you and whether or not they want to meet you, talk to you, listen to you, employ you and such like. The same is true with organisations. There are many people thinking different things about your organisation. Some think good things; some think bad things: most won't really give it much thought at all. But, they will all be thinking their thoughts for different reasons, because they all have different ways of seeing the world. The overall impression that all these different thoughts add up to is called your 'reputation'. Because it is better to have good reputation than a bad one, you should know what people think about you and you should think, talk and act this knowledge in mind. Over time, you can change this reputation by changing how you explain what you do and / or by changing how you explain what you do, although you will never get everyone thinking the same thing.

The author wants to point out, that even company reputation and branding are strikingly related to each other they are two different functions of a company. This report will

² Reputation Institution, 2012 – *Global CSR RepTrak™ 100 The Best CSR in the World*

primarily focus on company reputation, which is wider concept including the company brand but also consumers' expectations on business level. In fact company reputation in the public eye consist six criteria: financial performance, product quality, employee treatment, community involvement, environmental performance and organisational issues (Fombrun *et al.*, 2000), which are all inter-linked to CSR in one way or another.

2.2.1. CSR and Company Reputation

According to Griffin (2008) social responsibility is one the main components of reputation management together with crisis and reputation management. This view is supported by Hawkins (2006) who argued that 'the overall aim of CSR is to build a more sustainable approach into the operating ethos of the company and to promote these policies to attract the customer and consumer'. In fact, BrandZ's analysis proved that 80% of sales are generated by the product brand itself and 20% of sales are directly linked to corporate reputation. Company's environmental reputation influenced directly to at least 2 % of the sales. Siltaoja (2006) uses value theory to linkage CSR and company reputation, figure 3 shows that when company's actions are assessed by its various stakeholder groups, its reputation is constructed according to their respective value priorities and the assumed motives of the company.

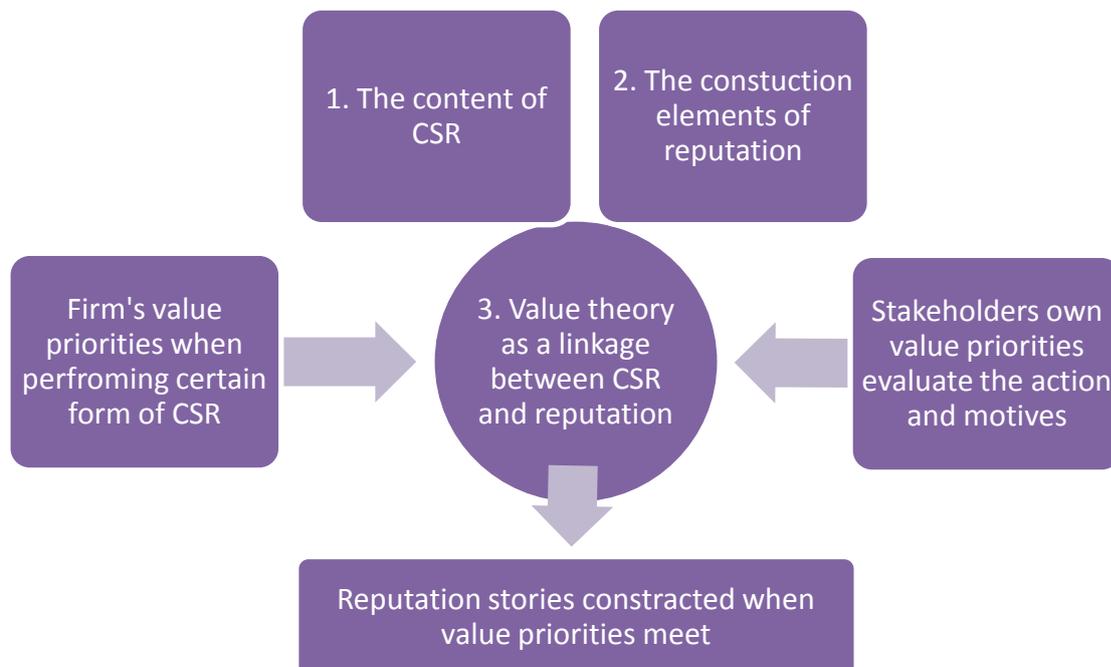


Figure 3 CSR and value theory (Siltaoja, 2006)

A study by Minor and Morgan (2011) identified two different levers companies can build a reputation as a responsible corporate citizen; positive lever and avoiding negative CSR that they surprisingly see more important effort. The first lever means investments in activities that benefits society. The second lever is avoiding any harm on company's reputation, issues such as buying from unethical suppliers or treating employees bad. A study by Pelozo and Papania (2008) supports the importance of protecting company from negative CSR. Their research indicates that stakeholders disfavour companies with negative CSR reputation whereas if company does not participate in CSR activities the behaviour will not change.

To conclude, building a good reputation can take years from a company whereas one negative activity can take it away in months or even in days (Minor and Morgan, 2011). Thus, neutral behaviour, in other words intention to limit negative activities, towards CSR activities might be more beneficial for company than seeking a positive CSR reputation. CSR initiatives can become costly for the companies and the increasing involvement in building positive CSR might eventually diminish the value of it (Minor and Morgan, 2011).

2.2.2. Impact on Stakeholder Behaviour

Throughout this report a term *stakeholder* signifies the primary stakeholder groups; customers, shareholders, employees, suppliers, community residents and the environment, as is presented by Clarkson (1995). Simply, stakeholders are persons or groups that have 'ownership, rights or interests in a corporation and its activities, past, present, or future' (Clarkson, 1995).

Previous chapter proved inter-relation between company reputation and stakeholder behaviour. Thus the hypothesis is, positive impact from CSR will improve company's reputation and through that also influence stakeholder's behaviour.

It is not possible for any company to survive without its primary stakeholders; company would not survive without its employees to keep the business functioning, customers buying its products or shareholders financing its activities. Traditionally the measurement of

corporate success has been the satisfaction of only one stakeholder which is the shareholder and especially how much wealth the company and provide to shareholder (Clarkson, 1995). However from CSR perspective the objective of a company is to add value to all of the stakeholders without favouring any specific group. As stated by Clarkson the value and wealth have many more meanings than share price, dividend or profits (see appendix 1). A company has many social responsibilities to its stakeholders, such ensuring product safety and healthy working conditions. Nonetheless, if a stakeholder feels not being fairly treated by a company it might seek alternatives which will ultimately influence on company's profitability.

Earlier researches have proved the positive influence of CSR activities on stakeholders' decisions. Hawkins (2006) points out clear linkage between company reputation and sustainability as consumers tend to choose a product based on company's ethical behaviour. Folkes and Kamins (1999) studied the impact of ethical behaviour on consumer's opinion by implementing 3 different experiments. Experiments proved the importance of ethical behaviour in comparison with product attribute information; if the company behaved unethically (in experiment case of using child labour), product performance did not have impact on purchasing decision. However, the results showed if the product attribute was inferior consumers took more critical approach of unethical companies than they were with the ones ethically behaving. I.e. superior product quality does not replace unethical behaviour but with poor quality both, the company and the product itself will be reviewed more critically.

Bhattacharya *et al.* (2006) investigated the effect of CSR on stakeholder relationships showing evidence that even a single CSR initiative can have impact on both, internal outcome and behavioural intentions related to stakeholder roles. According to the results, positive CSR initiatives increased not only attitude and identification of the company but also the intent to commit personal resources, such as purchasing decision or possibly seeing company as an potential employer.

Also Pelozo and Papania (2008) proved the influence of single CSR initiative to stakeholders' behaviour and through that to company's profitability, as seen in figure 4. The study overviewed the behaviour of employee and customer leading to an important

conclusion that CSR is not only what company does to be socially responsible that impacts its reputation but also what it does not or does not do as well as competitors. It is important to notice that no CSR activities are better than negative evaluation of CSR activities which can lead to an unsupportive behaviour by stakeholder. Another significant point of view discussed in the study was stakeholders' propensity to compare company to others in relation to their own expectations and interests, the more congruent the company more likely it will be seen as socially responsible. Thus, especially in the competitive markets it is crucial for a company to maintain the same, or better, CSR involvement than its competitors.

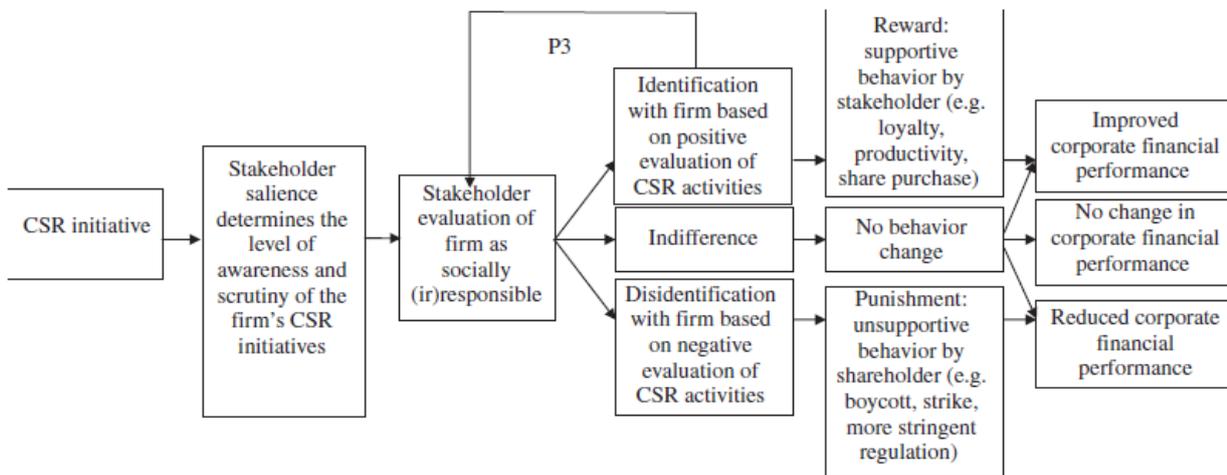


Figure 4 Stakeholder salience and identification framework (Peloza and Papania, 2008)

It is important to point out variability in consumer expectations towards CSR and how that influence on creating appearance of company's image. A study made by Hillenbrand and Money (2009) classifies consumers and employees into three different segments based on their expectations of corporate responsibility:

1. **Holistic expectations** – considering corporate responsibility from aspects of financial success, company's ethical behaviour and its societal impact as well as interaction with local communities.
2. **Relational expectations** – focus primarily on financial success and impact on people and society as a whole.

3. Financial expectations – rather low interest in societal and ethical issues, main emphasis on financial performance.

Thus, these variable stakeholder segments should be taken into consideration while evaluating CSR' influence on stakeholder behaviour.

In turn, fragmenting sustainability into one single concept such as CSR for business is unrealistic (Hawkins, 2006). Therefore, it is important to remember not all the pressure cannot be put on the shoulders of companies; stakeholders need to cooperate in order to make difference. As stated by Webster (2012), it is impossible for companies to succeed if consumers do not make the decision to only purchase products and services from an ethical company instead of supporting unethical companies. Simultaneously the pressure from shareholders can be too high as they demand producing in low costs and maintaining the highest margins.

2.3. Transparency and CSR Measurement

Company's CSR initiatives can be measured by relying on the amount of CSR investment is revealed in company's reports. However this method is doubtful according to its validity as companies' understanding of CSR varies (Bhattacharya and Luo, 2006), the amount invested on actual CSR is more complex; the results cannot be measured only by monetary value. Hence this chapter will take a deeper view on two other measurement methods; CSR reporting and reputation indexes, their advantages and disadvantages.

2.3.1 Lack of Transparency

One of the reasons CSR activities are considered questionable is the inability to measure CSR behaviour. Ambiguity with the actual definition and lack of mutual standards and frameworks to draw CSR activities together globally, gives companies freedom to disguise CSR initiatives to benefit their own business objectives, i.e. to use it as a promotion tool.

Charity organisation Christian Aid's report gives good example on how large multinationals like Shell and Coca-Cola have been able to turn the attention away from real impacts of their actions by promoting CSR initiatives. Above companies are ranked as "change makers" in the field of sustainability throughout the 21th century. However simultaneously they have

violated the rules of ethics elsewhere, for instance Shell's actions in Nigeria would not be able to meet the regulations in developed countries.

Conducting global regulations would ease the process of evaluating CSR activities however different global standards makes the process difficult, such as differences between developing and developed countries as introduced earlier. The regulations are not sensitive with only geographical but also with time issues, as pointed out by Carrol (1979) the concept of social responsibility changes over time, such as changes in product safety issues, business ethics, environmental standards. Thus the guidelines would demand constant updates while regulations are changed either on national or global level. Also the industry business is done might have significant impact on CSR activities (Carrol, 1979); for instance a product manufacturer has more reliability on product safety and environmental where as a service provider is not so pressed.

Christian Aid demands more transparent system on evaluating and monitoring company's performance by underlining the importance of corporations' liability to protect and promote social values, especially when globalisation has increased. Transparency is one of the major problems with CSR, which is often compared to iceberg; only small part is actually shown to the public when the rest remains invisible under the sea.

2.3.1. CSR Reporting

Lacking framework for conducting sustainability reports creates problem with their accuracy; 'without effective leadership we are just adding to the sustainability problems by cutting down more trees to produce more publications' (Hawkins, 2006).

Companies publishing reports tend to see CSR reports as glossy marketing brochures where to present their activities in terms of spent money and hours instead of showing the real results. In comparison with strict regulations and standards financial reports are obliged sustainability reports often provide only little information on company's actual performance. As Porter and Kramer (2006) pointed out, CSR activities such as reductions in pollutions, waste, or energy use are documented for specific regions but rarely for the company as a

whole. This again gives company an opportunity to conduct reports to suit its own objectives and to introduce CSR activities from a perspective that is beneficial for the business.

Research by Adams and Frost (2006) indicates that even companies (the study was made within companies in Australia and Sydney) are now more committed on CSR reporting, their approaches still vary a lot. The study did not find any consistency on companies' approach on collecting data and reporting, hence it is impossible to evaluate company based on their sustainability reports. Reports rarely combine CSR activities to company's wider strategy or objectives in the future, which again indicates the commercial essence of CSR.

2.3.2. Reputation Indexes

Despite the lack of global guidelines external sources rank companies based on their CSR performance, Fombrun's (2007) research identified 183 lists that regularly provide rankings in 38 countries around the world. One of the most known lists is Reputation Institute's RepTrak index which is a standardised tool for tracking company reputations across all their stakeholder groups. The evaluation is based on 7 dimensions, which are the main elements on building trust³;

1. Products / Services
2. Innovation
3. Workplace
4. Governance
5. Citizenship
6. Leadership
7. Financial

Performance CSR lists have obvious influence on company's ethical reputation which in turn impacts on stakeholder behaviour as indicated in section 2.2.2. Fombrun (2007) points out the importance of reputation lists by stating: 'Clearly, lists matter – they call attention to the activities of companies and so influence their appreciation by consumers of media coverage and may well influence the ratings of specialists themselves, as well as the behaviours of other stakeholders observing companies.' Thus the methods of collecting data must be equal

³ Reputation Institution, 2012 – *Global CSR RepTrak™ 100 The Best CSR in the World*

to all companies in order to provide consumers with accurate information. However, criteria often varies based on by whom the list is conducted; some rankings examine only certain companies, based on their size or industry, or the country and region (Fombrun, 2007). In fact, companies seen in the lists are often large MNCs who participate on CSR activities in a larger scale than smaller brands and thus have more visibility.

2.3.3. Summary

As prior researches have pointed out interrelation between company reputation and CSR activities, however it is open to the question is protecting a company from negative CSR more efficient than building a positive CSR reputation.

Previous studies also proved that consumers are more willing to purchase goods or services from a company that they find ethically responsible. However the research made by Hillenbrand and Money (2009) identifies three different stakeholder segments according to CSR expectations, which has high importance while targeting CSR strategies to certain customer groups.

The chapter identified the problem with CSR measurement methodology and the need of standardisation for reporting frameworks. Numerous reputation indexes are ranking companies based on very variable criteria.

Next chapter will introduce the research methodology this report will approach to answer to research questions.

3. Research Methodology

3.1. Overview

This research takes triangulation approach in order to gain better understanding of the topic by improving accuracy and giving fuller picture of the topic. According to a definition provided by Denscombe (2010) triangulation stands for viewing things from more than one perspective by using different methods, different sources of data or even different researchers within the study. This chapter will consider these factors more detailed.

The research design is based on the model presented in figure 5 (Foster, 1998). More precisely, chapter will begin by identifying the purpose of the research leading to research approach and strategy. Following paragraphs will introduce the data collection method and sample selection ending with discussion of data analysis.

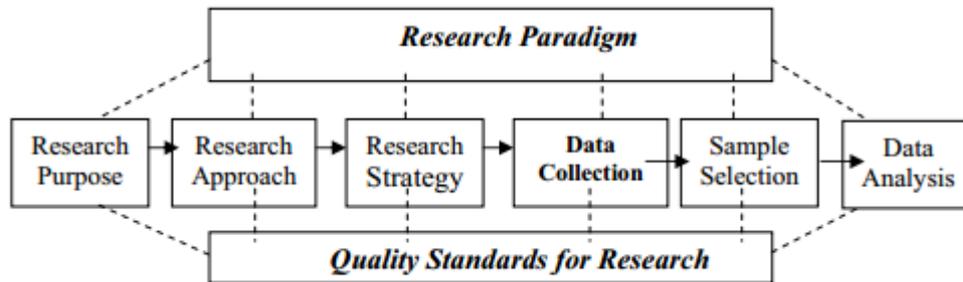


Figure 5 A schematic presentation of the methodological approach

3.2. Research Purpose

Many rankings are made on companies' reputation based on their social behaviour and participation on CSR activities. However, far too little attention has been paid on inconsistency of the concept as a whole and the lack of global guidelines in order to enable the evaluation of the companies. Loose concept of CSR enables company to modify its CSR activities to benefit its own objectives and thus to use it as tool to increase commercial success, as well as help ensure reputational risk. Hence this research will aim to gain greater understanding on the drivers that engage companies on CSR.

The research also seeks to address the questions on how to measure CSR initiatives and what is the real impact on company reputation. In order to answer to the key questions the report will use a case study example of company that have taken part in various CSR activities. Firstly the report will present the CSR initiatives presented by the company followed by company's response in conflict situations.

3.3. Research Approach

The research approach justifies the methodology for data collection using two main approaches; quantitative and qualitative. Quantitative methods are based on gathering and

working with structured data that can be represented numerically whereas qualitative research methods are more concerned with stories and accounts including subjective understandings, feelings, opinions and beliefs (Matthews and Ross, 2010). This report will use approach described as *mixed methods* which is the combination of the above. As Denscombe (2010) states, mixed methods approach provides researcher with the opportunity to check the findings from one method to against the findings from a different method leading more accurate findings.

The mixed methods approach was chosen as most appropriate according to the nature of information. Main emphasis will be on quantitative approach with combination of statistical data. Overall the approach is more theoretical than empirical whereas the research is more subjective based on researcher's own conclusions on found information.

3.4. Research Strategy

Four basic research strategies listed by Matthews and Ross (2010) are comparative research, evaluation, ethnography and Ground Theory. Evaluation research was chosen as a strategy for this report since main findings are based on evaluating secondary data and information. The reasons to choose evaluator research listed by Matthews and Ross (2010, p. 133) supports the author's decision:

1. To find out whether and intervention or change has had the desired outcomes.
2. To assess how well a process (policy, implementation, practice) is working.
3. To consider how a process or intervention might be improved.
4. To assess whether the costs of the process (service, policy implementation, etc.) is value for money or "best value"
5. To find out what works (or doesn't work) and why.

To support findings from evaluation strategy also a case study example is added to research. According to Yin (2003) case study strategy is relevant strategy especially when the boundary between phenomenon and context are not clearly evident. Thus case study is a suitable strategy for this report where prior literature has not been able to find clear coherence between company reputation and CSR activities.

Another important factor supporting the decision is case studies' focus on one (or just a few) instances of a particular phenomenon with a view to providing an in-depth account of events, relationships, experiences or processes occurring in that particular instance (Denscombe, 2000). This report seeks answers particularly on questions why company apply CSR and activities are measured.

3.5. Data Collection

Denscombe (2010) lists main data collection methods as follows; questionnaires, interviews, observation and documents. The methods can be used separately or together, however it should be remembered none of the methods can be regarded as perfect and none can be regarded as utterly useless (Denscombe, 2010).

To be able to analyse and compare existing theories, this report will use documents as a primary data collection method. It includes official statistics and governmental publications as well as articles, books, journals and Internet.

Data is collected by secondary research which consist sources of data and other information collected by other and archived in some form (Stewart and Kamins, 1993). Data collected for this report contains prior literature and findings as secondary sources as well as raw data which has been obtained in prior studies and official publications. Main emphasis will be on organisational data, such as CSR reports and CSR indices like Dow Jones Social Index (DJSI). The problems may occur with the reliability of the data, however, the aim of the report is search faults in particular documents.

3.6. Sample Selection

The empirical part of the research data consists of CSR reports of selected company and publications of its CSR behaviour in public media in recent years. The selected company is Nike , athletic footwear, apparel and equipment company. It was selected for several reasons. Firstly, Nike has long history of publishing CSR reports hence its CSR records are easily accessible. It has been awarded according to its participation in CSR, such as Ceres-ACCA award for sustainability reporting in 2011, Nike has been listed highly in rankings like Climate Counts and CS Magazine's list for 'best corporate citizen' (see appendix 2).

On the other hand, Nike has received a lot of negative publicity concerning its ethical behaviour in recent years, which provides a base to compare its behaviour in public media to its CSR initiatives on corporate level. Hence Nike provides an interesting insight on CSR reporting and how it describes its social responsibilities to public.

3.7. Data Analysis

Data analysis is a collection of methods applied to the collected data in order to describe, interpret, explain and evaluate it (Matthews and Ross, 2010). It will be used to answer to the research questions and introduces findings.

3.7.2. Validity

Denscombe (2010) listed four basic criteria which will be used in this document to evaluate the validity of documents:

- Authenticity – Is the article genuine? Can we be satisfied that the document is what it purports to be- not fake or forgery?
- Representativeness – Is the document typical of its type? Does it represent a typical instance of the thing it portrays? Is the document complete? has it been edited? Is the extract treated ‘in context’?
- Meaning – Is the meaning of the words clear and unambiguous? Are there hidden meanings? Does the document contain argot and subtle codes? Are there meaning which involve ‘what is left unsaid’ or ‘reading between the lines’?
- Credibility – Is it accurate? Is it free from bias and errors (Why was document produced, by who and when) p. 222

3.7.2. Reliability

As this document mainly uses secondary data the fact that information may not be reliable or valid, must be considered. Information must be evaluated carefully and weighted according to its recency and credibility by answering questions such as who collected the information and when, and how consistent is the information with other sources (Stewart and Kamnis, 1993).

In this report special the emphasis must be put on using *organisational data* which is unofficial data provided by companies and organisations. Problems with organisational data may occur in cases when the records are not well kept or accurate, some data can be lost to help record-keepers hidden agenda or when the researcher does not have clear understanding on how records are generated and in what purpose. (Matthews and Ross, 2010).

3.7.3. Summary

This chapter has introduced the research methodology as a whole and identified the purpose of the research, which is to examine company's incentives on CSR. When most appropriate approach, strategy and data collection method is selected, the chapter provides a framework for next chapter which is presentation on how Nike is engaging to CSR. The findings of the chapter will be supported by the literature discussed under chapter 2. Previous researches and theories will be applied to Nike's practises.

4. Data Presentation and Analysis

4.1. Case Study: Nike

Nike Inc. is one of the world's leading brands in designing and developing athletic footwear, apparel, equipment and accessories. It is ranked in top10 in CR magazine's 'Best Corporate Citizens'⁴ list and as 'Most Valuable Global Brand'⁵ in apparel industry. Nike Inc. includes seven distinct brands; NIKE Brand, Cole Haan, Converse, Hurley International LLC, Umbro, Nike Golf and Jordan Brand. From financial year 2010 (FY10) revenues have increased 9,7% in FY11. Nike Inc. has more than 600 contract factories in 46 countries around the world and over 1 million factory workers, hence wide value chain demands strategic CSR.

Mission: 'To bring inspiration and innovation to every athlete* in the world.

*If you have a body, you are an athlete.'

⁴ CR's 100 Best Corporate Citizens 2012

⁵ BrandZ Top 100 Most Valuable Global Brands2012

Vision: ‘To build a sustainable business and create value for Nike and our stakeholders by decoupling profitable growth from constrained resources.’

Strategy: Growth through innovation into a business that is more sustainable and brings together people, planet and profits into balance for lasting success it’s – ‘ by striving for the best, creating value for the business and innovating for a better world.’

(Source: Nike sustainability report FY11)

4.1.2. CSR Insights

Nike is highly committed on sustainable business practises. President and CEO of Nike, Mark Parker , proved company has responded to change by stating change ‘Over the past 15 years, we have moved from an approach of simply reacting to criticisms to pursuing sustainability as an integral driver of our long-term growth’⁶.

Parker acknowledges there is no finish line while building sustainable business and that short term plans are meaningful on a way achieve long-term vision. Thus, Nike sustainability strategy is highly complex and systematic, aiming to bring a positive change across its entire supply chain.

4.1.3. Sustainability Report

According to Nike the purpose of the sustainability report is ‘to share the journey of our strategy, approach and progress on sustainability issues: how we approach sustainability and innovation, how we work, where we have the greatest impacts on the environment and society, what we aim to do, and our progress and performance’. Nike CSR strategy is focused to enable sustainable economic through innovation.

Key elements of Nike’s report are categorised above according to their response for each stakeholder group and CSR motive based on Carroll’s (1979) classification introduced in chapter 2.1.1.

⁶ Nike’s Sustainability report FY11, letter from CEO

Stakeholder	Nike's Sustainability report	How the goal is achieved	Motive for CSR
Customer	'Nike begins and ends with the consumer. We need to both inform and meet consumers' growing expectations in sustainability'	<ul style="list-style-type: none"> Nike Better World, an online platform to help to create innovative solutions to social and environmental issues 	Ethical
	'Today we operate with a great deal more insight into what consumers expect of us and what will be required for us to thrive in a world of increasingly constrained resources'	<ul style="list-style-type: none"> Higher levels of transparency 	Ethical and economic (indirectly)
Shareholder	<p>'We are clear on our ultimate destination: To decouple profitable growth from constrained resources.'</p> <p>'Shareholders benefit from the reduced cost of production and increased margins our innovations'</p>	<ul style="list-style-type: none"> Sustainable Growth 	Economic
Employee	'Key issues in which we have engaged include the health and safety of the workers who make our products, excessive overtime, the ability of workers to freely associate, and child labour and forced labour.'	<ul style="list-style-type: none"> Human Resources Management (HRM) Program Implementation Sustainable Manufacturing Training Audits Lean manufacturing⁷ 	Legal and ethical

⁷ Lean manufacturing – 'approach that delivers the highest-quality product while eliminating all types of waste, including lost time and material.' Approach also includes worker empowerment – 'giving factory workers the skills and abilities needed to manage production and immediately address issues as they arise, such as quality or process improvements.' (Source <http://www.nikebiz.com>)

	<p>‘At NIKE, Inc., we believe that a talented, diverse and inclusive employee base helps drive the creativity that is central to our brands’</p>	<ul style="list-style-type: none"> • Coaching to Inspire Individuals and Teams • Acquiring, Managing and Developing Talent • Rewards and benefits
<p>Supplier</p>	<p>‘We do not own these factories, so we cannot simply mandate change. Instead, we must build and influence positive change through our contracts.’</p> <p>‘As we work to maximize the positive impact of our influence, we also seek to help the contract factories and others in our value chain understand and take seriously their own impacts.’</p>	<ul style="list-style-type: none"> • Code of Conduct • Code Leadership Standards • Sustainable Manufacturing Training <p>Legal and ethical</p> <p>Nike’s definition of a sustainable supply chain:</p> <ul style="list-style-type: none"> • Lean with regard to our manufacturing philosophy • Green in our approach to design, product creation and sourcing • Equitable in our commitment to balance people and profit • Empowered by building a workforce that knows and can advocate for its rights
<p>Community</p>	<p>‘We recognize that our work to positively impact energy, labour, chemistry, water and waste also influences the communities across our value chain. We see our work</p>	<ul style="list-style-type: none"> • Community sport program around the world • The Nike Foundation to support adolescent girls • The Nike Employee Grant <p>Ethical and discretionary</p>

	<p>in those areas as part of how we address communities' basic needs for health, safety and vitality.'</p>	<p>Fund</p> <ul style="list-style-type: none"> • Nike School Innovation Fund • Engaging consumers to support the cause they care about 	<p>Economical (Indirectly)</p>
<p>The environment</p>	<p>'Our ultimate, long-term vision is the conversion of raw materials into finished products with zero waste'</p> <p>'We are working to design products from materials that require less water to produce, help material vendors and contract factories to reduce their water-related impacts'</p>	<ul style="list-style-type: none"> • Providing incentives for contract factories and material vendors to participate in waste-reduction activities and certifications • Nike Water Program to help material vendors address their wastewater quality 	<p>Ethical and economic</p>

Figure 6 Nike's CSR strategy (Sustainability report FY11)

4.1.2. Conflicts

Nike's Chairman and CEO Phil Knight acknowledged the reputation problem in 1998 press conference at the National Press Club: 'The Nike product has become synonymous with slave wages, forced overtime, and arbitrary abuse.'⁸

Nike has achieved a lot of negative publicity concerning the working rights of the employees in its contract factories. Issues has risen considering poor working conditions, according to Global Alliance's report (2001) verbal and physical abuse, such as hitting, pushing and throwing objects, shockingly high rates of sexual harassment and forced overtime are major issues in Nike's contract factories based on the interviews with over 4000 employees.

⁸ Connor, T. (2001) Still Waiting For Nike To Do It - Nike's Labor Practices in the Three Years Since

Absence of decent health and safety regulations even led to two worker deaths were reported due to insufficient access to medical care.

Probably the biggest hit on Nike's reputation as a responsible corporate citizen is allegations on using child labour. It began in 1996 when Life magazine published an article about Nike and child labour with a photograph of young Pakistani boy sewing Nike soccer ball⁹. In 2000BBC' program Panorama¹⁰ revealed sweat shop working conditions and child labour in the factory used by Nike in Cambodia. The program interviewed under 15 years old girls working in the factory seven days a week, often even sixteen hours a day.

Complaints about wage violations have been a continuous battle for Nike; wage levels in some of its contract factories do not meet the minimum wage standards. Recently Nike's factory in Indonesia was forced to pay \$1m to its workers to compensate almost 600,000 hours of unpaid overtime within two years¹¹.

4.1.3. Nike's Response

In 1998, to reply to the scandal with working conditions, Nike's press release assured it will increase monitoring and increased cooperation with non-governmental organisation (NGOs) to improve its conducts of business. Nike's chairman and CEO Phil Knight assured Nike will raise the minimum working age, in countries where the common age is 14, at shoe factories to 18 and in other plants to 16. Nike promised to improve the conditions of working environment, such as tightening air-quality conditions to meet the same standard in overseas factories as are enforced by United States Occupational Safety and Health Administration.

In FY05/06 report Nike introduced formation of Excessive Overtime Task Force to control and indentify the causes of the overtime occurrence in its contract factories with a target of zero excessive overtime. It has established a *code of conduct* as well as *code of business ethics* to give guidelines and minimum standards to its contract manufacturers. The code of conduct clarifies Nike's expectation for its suppliers in terms of employment rights, the minimum wage of workers, discrimination, freedom of association, minimum wage and

⁹ Connor, T. (2001) Still Waiting For Nike To Do It - Nike's Labor Practices in the Three Years Since

¹⁰ <http://news.bbc.co.uk/1/hi/programmes/panorama/archive/970385.stm>

¹¹ Hodal Kate, Nike factory to pay \$1m to Indonesian workers for overtime, The Guardian Magazine 12 January 2012

benefits, harassment and abuse, working hours, health and safety and environmental impact (see appendix 3).

Nike is collaborated with a number of global NGOs and unions, such as Fair Labour Association, United Nations Global Compact and Carbon Disclosure Project, with projects in order to improve sustainability.

Even Nike has executed code of conduct for its supplier, with as enormous value chain including more than 600 contract factories it is almost impossible to control the behaviour of each. Hence

4.1.4. Reasons to Participate in CSR Activities

Nike has discovered CSR as an opportunity to grow invest in new innovations which will fill all three bottom lines of business. However, in the 1990s when consumers were boycotting its products due to working conditions, the goal of CSR activities were in risk and reputation management. It was obliged to response to the need of more ethical practises in order to maintain its competitiveness in global markets.

In recent years, Nike has taken CSR as a form of research and development. Its strategy is ideal example of Porter's and Kramer's (2006) approach to think CSR as an opportunity and long term process which will lead improve all functions of business when well executed.

Recently Nike has won awards such as 'Innovation and Sustainability Award' given by Waste Management in 2010 and 'Best Sustainability Reporting Award' by Ceres and the Association for Chartered Certified Accountants in 2011 (see appendix 3 for full list). In addition to its position in rankings like 'Best Corporate Citizen' and BrandZ's 'Most Valuable Global Brands' indicate the results of well structured CSR strategy.

The global analysis by BrandZ's proves a distinct correlation between the most successful performers in its annual 'Top 100 Most Powerful Brands' with the brands with high scores on the categories of Corporate Reputation, Leadership and Innovation. One of the top characteristics of leading companies is environmental responsibility. Thus we can assume that 1st position in BrandZ's 'Most Valuable Global Brands' in apparel industry in 2012 is at least partly enabled by Nike's investment sustainability.

To refer to study by Hillenbrand and Money (2009) presented in chapter 2.2.2., customers compare company's ethical behaviour not only for their own expectations but the performance of competitors. Hence as a leader in its own industry we can assume consumers will choose Nike in comparison to its consumers. The financial benefits of CSR were proved in a study by Margolis and Walsh (2003) presented company's profitability will more likely increase than add additional costs from CSR activities.

Notwithstanding the positive influence of CSR to company's reputation, study by Bhattacharya *et al.* (2006) present a conflict on effect on consumer behaviour. The study questions society's understanding in CSR and hence the actual impact on consumer.

4.1.5. Summary

This chapter has presented CSR strategy from a case study example of Nike. The multi-dimensional nature of CSR can be seen by various activities Nike is engaged in order to build sustainable business. Nike's approach is an excellent example of well constructed CSR strategy. However study also pointed out the influence of negative CSR and how long it will gain to improve reputation, and in fact how Nike's brand will probably be linked to issues such as child labour for long ahead.

The next, and final, chapter will conclude the findings of this research and discussed them from the perspective of research objectives introduced at the beginning of the research.

5. Conclusions and Discussion

5.1. Complexity of CSR

The first part of the report discussed the theory of CSR and its impact on company's reputation and thus to consumer behaviour. It identified the drivers that encourage companies participate in CSR activities.

Various studies pointed out the interrelation between company's ethical reputation and consumer behaviour (Folkes and Kamins, 1999; Bhattacharya *et al.*, 2006; Hawkins, 2006). According to the results, positive CSR initiatives increased not only the attitude and identification of the company but also the intent to commit personal resources. Thus

customers prefer to use product and services from a company they find ethically reliable. Same applied on employees' willingness to work for employer which embraces same societal and environmental values.

However the research also pointed out the complexity of CSR; businesses' aim to add value for all of its stakeholder groups creates a conflict. Whereas shareholders have high interest on profitability of the business, consumers' expect companies to engage in activities that benefits society instead of company itself. Latter activities demand additional investments from company which in turn can create concern amongst shareholders as CSR is often seen as philanthropic activities which not lead to increased profitability. Activities which increase shareholder satisfaction, to increase profitability by cutting costs, can often lead to unethical business practice, as later on Nike's case with child labour and worker conditions presented. Hence to find the balance to satisfy expectations of every stakeholder group, strategic approach towards CSR must be taken. A case study of Nike's CSR activities gave an example of strategic CSR.

5.2. Improved Reputation through Strategic CSR Approach

Second part of the report used Nike as a case study to gain greater understanding of the definition of CSR and how it can be conducted by companies. Nike was chosen as a case study due to its strong position in the markets as being the leading brand in athletic footwear, apparel, equipment and accessories. Due to its wide supply chain channels and previous accusations in unethical behaviour, such as child labour, it has engaged in various social and environmentally responsible activities.

Nike's case proved the fragility of reputation; even strong brands can perish under negative publicity. Previous research (Peloza and Papania, 2008; Minor and Morgan, 2011) pointed the importance of protecting brand from negative publicity is higher than building positive CSR reputation, which can often be a long and costly process for a company. From finance perspective, protection from negative publicity can save company from additional costs; in cases such as product recalls the loss for company can become high whereas if situation could have been prevented by focusing on protecting reputation, no costs would exist.

Nike however has patiently strengthened its reputation; strategy's viability is proven by several awards it has gained concerning its sustainable engagement in recent years. In the end, the only CSR initiatives visible to public are the ones reported by companies. It is impossible to measure what is companies' involvement in 'second lever' (Minor and Morgan, 2011) which are protecting company reputation from negative CSR.

5.2.3. Research Objectives

To combine together findings, the research questions will be answered one by one based on the collected information.

Why companies participate in CSR activities?

Various studies have proved the benefits or CSR engagement for company (Langford and Smith, 2009; Margolis and Walsh, 2003) both, from financial and operational approach which encourage companies to engage in CSR. It can improve company's efficiency, lead to commercial benefits or reduce future risk. Most importantly it increases the added value for company's stakeholder as presented by Siltaoja (2006).

The assumption is that companies participate in CSR initiatives voluntarily. However, public's demand and expectations towards company's behaviour have large influence as long as business' main mission is to satisfy its stakeholders. As the research pointed out customers compare company's ethical reputation and CSR activities to its competitors, hence company with no visible CSR background will most likely lose its customers to alternatives. In order to survive in the competitive markets, CSR initiatives have become more than voluntary.

What is CSR's role in company's reputation?

The general hypothesis is that participating in CSR activities will have positive influence on company's reputation. CSR engagement defines company's ethical reputation; negative CSR publicity has negative influence whereas positive CSR leads to improved reputation.

Third alternative is neutral approach to CSR, which often includes protecting CSR from bad publicity but not necessarily include any actual CSR activities.

How to measure company's CSR initiatives?

Predominantly, particularly in corporate level, CSR is measured by amount of money and spent hours company has invested in CSR activities. Sustainability reports provide information of CSR campaigns and initiatives from company's view. In fact, companies' have the power to regulate the given information of CSR to best serve its own objectives. In turn, in cases when companies are involved in negative CSR they have very little control. In such situations, media has the biggest impact on society's opinion based on the view issue is presented to public.

Media's and public's attention to CSR has been the reason sustainability reports have become so common amongst companies. They provide a company with a channel to communicate their CSR engagement, most often in really positive way. However the lack global framework has created problems in finding consistency between the reports (Adams and Frost, 2006). The information is presented based on company's own judgement which creates a question on its reliability.

Another tool to measure CSR from reputational perspective are various reputation indexes executed by external sources. Their criteria and scale often varies, hence reader's should be aware why certain companies are excluded from the list before creating an assumption based on the rankings.

To conclude, the essence of CSR makes it difficult to evaluate the participation and actual results of certain activities. Transparency of companies' CSR initiatives is desirable, however true incentives are difficult to examine. CSR will always be an instrument to increase company's profitability, whether it is through improved reputation or business practise, a response to conflict situation or purely made by company's goodwill as it will increase attractiveness amongst stakeholders, directly or indirectly. The situation where CSR is the most beneficial to all parties, stakeholders and for the company itself is when company is able to find solution to benefit all three bottom lines; planet, people and profit.

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7. Appendices

Appendix 1

Typical Corporate and Stakeholder Issues (Clarkson 1995)

1 Company

1. 1. Company history 1.2. Industry background 1.3. Organization structure 1.4. Economic performance 1.5. Competitive environment 1.6. Mission or purpose 1.7. Corporate codes 1.8. Stakeholder and social issues management systems

2 Employees

2.1. General policy 2.2. Benefits 2.3. Compensation and rewards 2.4. Training and development 2.5. Career planning 2.6. Employee assistance program 2.7. Health promotion 2.8. Absenteeism and turnover 2.9. Leaves of absence 2.10. Relationships with unions 2.11. Dismissal and appeal 2.12. Termination, layoff, and redundancy 2.13. Retirement and termination counseling 2.14. Employment equity and discrimination 2.15. Women in management and on the board 2.16. Day care and family accommodation 2.17. Employee communication 2.18. Occupational health and safety 2.19. Part-time, temporary, or contract employees 2.20. Other employee or human resource issues

3 Shareholders

3.1. General policy 3.2. Shareholder communications and complaints 3.3. Shareholder advocacy 3.4. Shareholder rights 3.5. Other shareholder issues

4 Customers

4.1. General policy 4.2. Customer communications 4.3. Product safety 4.4. Customer complaints 4.5. Special customer services 4.6. Other customer issues

5 Suppliers

5.1. General policy 5.2. Relative power 5.3. Other supplier issues

6 Public Stakeholders

6.1. Public health, safety, and protection 6.2. Conservation of energy and materials 6.3. Environmental assessment of capital projects 6.4. Other environmental issues 6.5. Public policy involvement 6.6. Community relations 6.7. Social investment and donations

Appendix 2

Nike awards 2007-2012 (Source: <http://nikeinc.com/>)

2012

CLIMATE COUNTS

Dec. 2012 -- For the sixth straight year, NIKE, Inc. earned the No. 1 ranking in the Apparel/Accessories sector in the Climate Counts performance rankings. Nike is one of the five highest-ranked companies -- including Unilever, UPS, Levi Strauss and L'Oreal -- who showed year-over-year revenue growth from 2010 to 2011 while reducing their total emissions across some or all of their business units,

2011

CLIMATE COUNTS

Dec. 2011 -- NIKE, Inc. has once again ranked highly on Climate Counts' annual scorecard of companies addressing sustainability and climate change. Nike ranks as a leader in the Apparel/Accessories sector in implementing strategies that align with our core businesses, supply chain, and how customers use our products. Read the full scorecard [here](#).

FOREST FOOTPRINT DISCLOSURE PROJECT

Feb. 2012 -- the Forest Footprint Disclosure project and the National Wildlife Federation released their 2011 disclosure survey, asking companies whether they use products linked to deforestation and what they're doing about it. NIKE, Inc. leads the way in demonstrating that sustainability is good business.

HUMAN RIGHTS CAMPAIGN

2011 -- For the ninth consecutive year, the Human Rights Campaign (HRC) has named Nike one of the best American companies for gay, lesbian, bisexual and transgender workers. Nike scored 100, the best possible.

CERES-ACCA

May 11, 2011 -- Ceres and the Association for Chartered Certified Accountants gave Nike the award for best sustainability reporting at the Ceres conference in Oakland.

AMERICAN CARBON REGISTRY

March 25, 2011 -- ACR gave Nike the Commitment to Quality award for leadership demonstrated in mitigating the company's climate impact.

CORPORATE RESPONSIBILITY MAGAZINE

March 3, 2011 -- The magazine unveiled the 12th annual "100 Best Corporate Citizens List," featuring Nike at number 10 on the list.

2010

NEWSWEEK 2010 GREEN RANKINGS

October 18, 2010 -- Newsweek's 2010 Green Rankings is a data-driven assessment of the largest companies in the U.S. and in the world. In the industry of consumer goods, Nike was rated number 1 for the "green score" and number 2 for the "reputation score."

WASTE MANAGEMENT

2010 - Waste Management gave Nike World Headquarters the 2010 Innovation and Sustainability Award, acknowledging how Nike has integrated sustainability into its operations.

MAPLECROFT CLIMATE INNOVATION INDEX

October 2010 - Nike ranks #25 out of the top 350 U.S. companies on Maplecroft's 2010 Climate Innovation Index.

ETHISPHERE INSTITUTE

2010 - The Ethisphere Institute named Nike as one of the World's Most Ethical Companies for 2010. The Institute recognizes organizations that promote ethical business standards and practices by going beyond legal minimums, introducing innovative ideas benefiting the public and forcing their competitors to follow suit.

CORPORATE RESPONSIBILITY MAGAZINE

March 2010 - Corporate Responsibility Magazine (the new name of CRO Magazine) released the 11th annual 100 Best Corporate Citizens List® March 2, featuring Nike on the list.

WORKING MOTHER

March 2010 - Magazine names Nike to list of companies who are following green paths, implementing recycling programs and reducing their carbon footprints.

2009

INNOVEST/CORPORATE KNIGHTS INC.

2009 - Innovest Strategic Value Advisors and Corporate Knights Inc. identified the 100 Most Sustainable Companies in the globe for 2009. Companies were evaluated based on how effectively they manage environmental, social and governance risks and opportunities, relative to their industry peer.

2008

FORTUNE'S MOST ADMIRABLE COMPANIES

2008 -- For the third consecutive year, Nike was ranked as the Most Admired Company in America in the Apparel industry. Nike was second behind Apple in Innovation in the rankings of more than 300 companies. Nike also topped the industry in social responsibility, financial soundness and long-term investment.

RUNNING USA AND YOUTHRUNNER.COM

Feb. 12, 2008 -- Running USA and YouthRunner.com named the Nike 5K for Kids Series the Youth Program Contributor of the Year.

2007

WORLD WILDLIFE FUND

2007 -- As a founding partner of the Climate Savers Program, Nike attained its company-wide target, achieving annual CO2 emissions reductions 13 percent below 1998 levels by the end of 2005.

SB20

2007 -- Nike claimed the only spot in our industry for the 2007 Sustainable Business list of the World's Top Sustainable Stocks.

I.D. MAGAZINE

2007 -- Three Nike products have been recognized by I.D. magazine in its 2007 Best Of Consumer Product category: Nike's Revolutionary Support Sports Bra, the Considered 2K5 shoe and Nike+ Air Zoom Moire.

BUSINESS WEEK

2007 -- Nike placed #55 on BusinessWeek's 2007 Top 100 Places to Launch A Career list. Students gave us even higher marks ranking us #14 based on a survey of 44,000 undergraduates. All 100 companies are featured online.

FORTUNE MAGAZINE

2006, 2007, 2008 -- Nike has been recognized three times by FORTUNE magazine on its "100 Best Companies To Work For" list for employee benefits like paid sabbaticals, on-site childcare, and a 50 percent discount on company products, as well as for corporate responsibility efforts in addressing conditions in overseas contract factories.

Appendix 3

Nike Code of Conduct (Source: <http://nikeinc.com/>)



NIKE, Inc. CODE of CONDUCT

At Nike, we believe that although there is no finish line, there is a clear starting line.

Understanding that our work with contract factories is always evolving, this Code of Conduct clarifies and elevates the expectations we have of our factory suppliers and lays out the minimum standards we expect each factory to meet.

It is our intention to use these standards as an integral component to how we approach NIKE, Inc. sourcing strategies, how we evaluate factory performance, and how we determine with which factories Nike will continue to engage and grow our business.

As we evolve our business model in sourcing and manufacturing, we intend to work with factories who understand that meeting these minimum standards is a critical baseline from which manufacturing leadership, continuous improvement and self-governance must evolve.

Beyond the Code, Nike is committed to collaborating with our contract factories to help build a **leaner, greener, more empowered and equitable supply chain**. And we will continue to engage with civil society, governments, and the private sector to affect systemic change to labor and environmental conditions in countries where we operate.

We expect our contract factories to share Nike's commitment to the goals of reducing waste, using resources responsibly, supporting workers' rights, and advancing the welfare of workers and communities. We believe that partnerships based on transparency, collaboration and mutual respect are integral to making this happen.

Our Code of Conduct binds our contract factories to the following specific minimum standards that we believe are essential to meeting these goals.

EMPLOYMENT is VOLUNTARY
The contractor does not use forced labor, including prison labor, indentured labor, bonded labor or other forms of forced labor. The contractor is responsible for employment eligibility fees of foreign workers, including recruitment fees.

EMPLOYEES are AGE 16 or OLDER
Contractor's employees are at least age 16 or over the age for completion of compulsory education or country legal working age, whichever is higher. Employees under 18 are not employed in hazardous conditions.

CONTRACTOR does NOT DISCRIMINATE
Contractor's employees are not subject to discrimination in employment, including hiring, compensation, promotion or discipline, on the basis of gender, race, religion, age, disability, sexual orientation, pregnancy, marital status, nationality, political opinion, trade union affiliation, social or ethnic origin or any other status protected by country law.

FREEDOM of ASSOCIATION and COLLECTIVE BARGAINING are RESPECTED
To the extent permitted by the laws of the manufacturing country, the contractor respects the right of its employees to freedom of association and collective bargaining. This includes the right to form and join trade unions and other worker organizations of their own choosing without harassment, interference or retaliation.

COMPENSATION is TIMELY PAID
Contractor's employees are timely paid at least the minimum wage required by country law and provided legally mandated benefits, including holidays and leaves, and statutory severance when employment ends. There are no disciplinary deductions from pay.

HARASSMENT and ABUSE are NOT TOLERATED
Contractor's employees are treated with respect and dignity. Employees are not subject to physical, sexual, psychological or verbal harassment or abuse.

WORKING HOURS are NOT EXCESSIVE
Contractor's employees do not work in excess of 60 hours per week, or the regular and overtime hours allowed by the laws of the manufacturing country, whichever is less. Any overtime hours are consensual and compensated at a premium rate. Employees are allowed at least 24 consecutive hours rest in every seven-day period.

REGULAR EMPLOYMENT is PROVIDED
Work is performed on the basis of a recognized employment relationship established through country law and practice. The contractor does not use any form of home working arrangement for the production of Nike-branded or affiliate product.

The WORKPLACE is HEALTHY and SAFE
The contractor provides a safe, hygienic and healthy workplace setting and takes necessary steps to prevent accidents and injury arising out of, linked with or occurring in the course of work or as a result of the operation of contractor's facilities. The contractor has systems to detect, avoid and respond to potential risks to the safety and health of all employees.

ENVIRONMENTAL IMPACT is MINIMIZED
The contractor protects human health and the environment by meeting applicable regulatory requirements including air emissions, solid/hazardous waste and water discharge. The contractor adopts reasonable measures to mitigate negative operational impacts on the environmental and strives to continuously improve environmental performance.

The CODE is FULLY IMPLEMENTED
As a condition of doing business with Nike, the contractor shall implement and integrate this Code and accompanying Code Leadership Standards and applicable laws into its business and submit to verification and monitoring. The contractor shall post this Code, in the language(s) of its employees, in all major workspaces, train employees on their rights and obligations as defined by this Code and applicable country law, and ensure the compliance of any sub-contractors producing Nike branded or affiliate products.

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