

# The Social Responsibility of Corporations – Give the environment a break

An environmental case study of Nestlé's CSR activities



**LUND**  
UNIVERSITY

Darjosh Teymouri

## **Abstract**

This study examines Nestlé and their CSR engagement from an environmental aspect, focusing on deforestation and their use of palm oil. Being the world's largest producer of food and beverages they are a target for public scrutiny when engaging in CSR initiatives. Using Archie B. Carroll's pyramid of CSR and Lyon & Maxwell's theory of corporate environmentalism will localise the predominant factors that drive Nestlé to engage in CSR. As for analytical units, Nestlé's annual and CSV reports have been chosen. This study also examines the effect from environmental NGO Greenpeace had with their campaign against Nestlé.

CSR is a complex concept and with different component parts and definitions, Thus, when analysing and searching for main drivers behind CSR engagements, one must consider what aspect of corporate social responsibility is being examined. Analysing the environmental aspects, one shall also be aware of searching for indications of greenwashing.

*Key words:* CSR, Nestlé, Greenpeace, Sustainable, Environment, Responsibility, Deforestation, Palm Oil, Corporate Environmentalism, NGO

*Word count:* 9372

## **List of abbreviations**

**CS:** Corporate Sustainability

**CSR:** Corporate Social Responsibility

**CSPO:** Certified Sustainable Palm Oil

**CSV:** Creating Shared Value

**EU:** European Union

**FMCG:** Fast-Moving Consumer Goods

**NGO:** Non-Governmental Organisation

**QDA:** Quantitative Data Analysis

**TFT:** The Forest Trust

**UN:** United Nations

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# 1. Introduction

The environment is in a fragile state and has been for a long time. We are witnessing an increased demand for environmentally friendly products. This increased demand and awareness for the environment from society is making companies change the way in which they operate their businesses to become more in compliance with their consumers (Dauvergne & Lister, 2013, p. 9). Therefore it can be posited that big companies must take responsibility for their actions. One way this can be achieved is by not contributing to deforestation and other environmentally damaging actions when producing their products.

Focusing on the environmental issues within corporate social responsibility (CSR) and searching for the main factors that make a company engage in CSR will be this study's main goal. Nestlé has been chosen as the focus of analysis, although there are many companies that also need to be scrutinised regarding their CSR activities. The choice of Nestlé lies in their global market power. Furthermore, they are a business that utilises scarce natural resources and thus contribute to environmental damage.

To make this feasible, the research needed to be selective since this is a complex subject. As such, this study will analyse Nestlé's use of non-sustainable palm oil and their contribution to deforestation. This was identified in a campaign undertaken by Greenpeace in 2010. This made Nestlé initiate concise policy alterations to fight against deforestation and climate change. The links between this campaign and Nestlé's changed business behaviour will be investigated. This thesis will search for the main drivers behind engagement in CSR by utilising two theories. Applying Carroll's pyramid of CSR theory (1991) and Lyon & Maxwell's corporate environmentalism (2013) will help to localise the mechanisms and factors involved in CSR engagement.

Firms, non-governmental organisations (NGO) and transnational networks are becoming progressively more influential in the global environmental politics. Through market actions and NGO campaigns, these actors try to influence the governance of environmental politics (Green, 2014, p. 5f). Consequentially, Nestlé may be seen as a primary actor within global environmental governance. Their actions and commitments to mitigating environmental damage ensure they are perceived as a socially responsible corporate citizen.

## **1.1 Purpose**

The overall purpose with this study is to gain insight about the factors that drives a company such as Nestlé to engage in CSR activities. The results might gather a base for further research within the environmental aspects of CSR when investigating other companies' CSR initiatives.

The results that will be presented in this study will not be generalizable for all CSR activities from other corporations. However, they will be important for this case per se and can possibly be used to understand in what way other firms conduct their CSR engagements.

Hence the research question: *Which factors are predominant when forming Nestlé's business operations and their CSR activity?*

## **1.2 Conceptual definitions**

Some conceptual definitions need to be in place in order to make this study viable. The presented concepts will be the foundation for the upcoming chapters in this study. Concepts such as corporate social responsibility (CSR) have been developed for almost half a century. Different definitions exist on this concept and this study will focus on one of the existing definitions. This study will use concepts such as CSR, corporate sustainability (CS) and corporate environmentalism. The concept of CSR will also be theorised later in this thesis.

Firstly we need to define the concept *stakeholder*, since this term is central when defining CSR. Stakeholders can be identified as primary or secondary stakeholders. They can be defined as owners and non-owners of the firm, such as shareholders and consumers; as actors or those acted upon. Stakeholders can be specified as those who can affect or be affected of an organisation's actions, e.g. activist NGO's who wants a company to change their behaviour as those who can affect. Those who can be affected can be local communities in the rainforest for example (Mitchell, Agle & Wood, 1997, p. 853f). It takes consideration to shareholders, employees, investors, customers and suppliers. However, it does also take the community, government and trade organisations into account. Hence, a stakeholder is not only active in a business; it is also someone who can be affected by the actions from a corporation.

*Corporate Social Responsibility* is a concept that is versatile with different definitions that have been developed over time. Due to the versatile definitions that exist companies can pick and choose between the ones that suit them the best. However, the evolution of the concept CSR has had some major improvements (Carroll, 1999). The main and solely responsibility for a corporation was, as Milton Friedman stated (1970), to gain and maximize profits for its shareholders. This meant that the most important aspect was to gain maximum profits and increasing profits for the shareholders. Nowadays the concept generally takes others than shareholders to account. These others that are taken into account are called stakeholders. This study will use the stakeholders' approach when defining CSR.

The stakeholder approach to CSR was developed by Edward Freeman in 1984 and indicated that organisations are not only accountable to its shareholders, but should also balance the multiplicity of stakeholders' interests that may affect or are be affected by the accomplishment of an organisation's goals (van Marrewijk, 2003, p. 96). Hence, the definition of CSR from the stakeholder approach gives us the intrinsic aspects a company need to take into consideration. Not only maintaining a profitable business, it also needs to be responsible for the society.

*Corporate sustainability* is a concept that focuses on creating value, environmental management, environmentally friendly production systems and human capital management (van Marrewijk, 2003, p. 102). A sustainable corporation is henceforth one that takes these aspects in respect when operating. Where the businesses operate in a manner where e.g. they minimize greenhouse gas emissions and produces ecological products.

*Corporate environmentalism* is a concept that can be defined as the environmentally beneficial actions that are undertaken by corporations that go beyond what is required by law. These types of actions are beneficiary for the society as a whole and corporate environmentalism is often seen as a part of CSR (Lyon & Maxwell, 2013, p. 1).



### **1.3 Problem definition**

This study will be guided through the following research questions:

- Do corporate environmental factors drive Nestlé to engage in CSR activities?
  
- Does Nestlé engagement in CSR activities fit into the factors within the pyramid of Corporate Social Responsibility?
  
- Which factors are predominant when forming Nestlé's business operations and their CSR activity?

The research questions address the factors that make a company engage in CSR activities. By using these questions as guidelines through the research will help to answer what makes Nestlé engage in CSR initiatives and how they present the company in their reports for shareholders and for the public.

This research is significant both scientifically and socially<sup>1</sup>, which leads to the research questions being socially and scientifically ascended (Esaiasson et al, 2012, p. 31). It is important that practitioners and scholars understand the main drivers that make a company engage in CSR activity. The results from this thesis can therefore be a foundational pillar for further research within this field.

### **1.4 Limitations**

This thesis is a single case study with Nestlé as its analysing unit. The results have no generalizability for other firms but will present an important conclusion that is significant for this study per se. The drivers that make Nestlé to engage in CSR activities will be analysed through text analysis, both in-depth and with the quantitative data analytical (QDA) tool Atlas.ti.

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<sup>1</sup> In Swedish: inomvetenskaplig och utomvetenskaplig relevans.

<sup>2</sup> Fast-Moving Consumer goods: products that leave the shelves at supermarkets the quickest.

<sup>3</sup> Approx. \$ 99.8 billion in 2015 exchange rate.

## 2. Background

*The background chapter intends to give the reader an essential introduction to the topic of this thesis. Firstly, Nestlé will be introduced and its market power and secondly the background of their CSR activity will be introduced for the reader. This chapter will also present Greenpeace and deforestation.*

Nestlé is the world's largest FMCG<sup>2</sup> Company, in terms of revenue they amount up to an astounding 92.2 billion CHF in 2013. They have their headquarters in Vevey, Switzerland and employ approximately 339 000 people worldwide (www.statista.com). For the revenue year 2014, Nestlé had reported revenue of 91.6 billion CHF<sup>3</sup>, which is a decrease in returns from the year before with approximately 0.65<sup>4</sup> % (Financial report Nestlé 2014). As being the world's largest FMCG Company it has not only a global market-power, they also have a global responsibility for the way they operate their business and how they affect the environment.

The environmentally concerned non-governmental organisation Greenpeace had a campaign in 2010 where they pressured Nestlé to stop contributing to deforestation and using non-sustainable palm oil for their products. They also emphasised the damage Nestlé are doing and that they are contributing to killing the already endangered orang-utans (www.greenpeace.com). Not long after the campaign, Nestlé announced that their products will not contribute to deforestation. Nestlé also stated that this commitment will also affect their suppliers becoming more socially responsible when operating their businesses (Nestlé; Greenpeace). They committed to this by giving a statement where they announced:

[...]We are committed to managing our operations in a way that safeguards all natural capital, including forests, biodiversity and ecosystem services. We take a proactive role in tackling deforestation, and seek to identify Important Water Areas with high biodiversity value that our factories are adjacent to, so that we help safeguard these vital areas of biodiversity. (www.nestle.com).

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<sup>2</sup> Fast-Moving Consumer goods: products that leave the shelves at supermarkets the quickest.

<sup>3</sup> Approx. \$ 99.8 billion in 2015 exchange rate.

<sup>4</sup>  $\frac{(91.6-92.2)}{92.2} * 100 = -0.65$

Nestlé have a history of CSR engagements, where they call their CSR initiatives Creating Shared Value (CSV)<sup>5</sup>. They emphasise their importance on the global market, not only creating job opportunities, but also how they can affect the society at its whole. Hence, emphasising CSV in their holistic management will create long-term positive value for the public (www.nestle.com). The CSV pyramid that they present on their webpage can be illustrated as:

**Figure 1: Nestlé's CSV pyramid**



*Source: Nestlé, what is CSV?*

Even though Nestlé want to present themselves as a responsible actor, it wasn't without a fight from Greenpeace that they embraced the demands through societal pressures against them.

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<sup>5</sup> CSV is another take on CSR where linking it to competitive advantages (Porter & Kramer, 2011).

## **2.1 Greenpeace**

Being a global NGO, Greenpeace are truly using their public credibility to pressure global companies and actors to change their environmental behaviour. With their campaign against Nestlé they made the decisive difference and Nestlé changed their business performance becoming more environmentally concerned.

Greenpeace has over three million members and are present in over 40 countries. Having 28 regional and national offices around the world, they work independently to carry out the global campaign strategies ([www.greenpeace.com](http://www.greenpeace.com)). Strategies undertaken by Greenpeace involve using social media and mass media, where they gather like-minded individuals to put pressure on companies or other political actors (Pagé, 2004, *Peacemagazine*). This is a strategy that has had massive effect, which can be seen especially in the Nestlé case, where hundreds of messages were sent to Nestlé's Facebook page regarding their use of non-sustainable palm oil (Fox, 2010, *The Guardian*).

## **2.2 Deforestation**

Deforestation is a massive contributor of climate change and the increasing deforestation on this planet is having a terrible impact on our planet (Gilding, 2011, p. 83). The effect from deforestation is also a major driver of global warming; responsible to approximately 20 per cent of the global greenhouse gas emissions. This is more than the entire transportation sector ([www.greenpeace.com](http://www.greenpeace.com)). Therefore, deforestation shouldn't only be a concern for governments but also for the ones that are contributing the most, i.e. companies active within this industry.

Indonesia is a country that is getting worse in forest management; this is also a country where Nestlé acquires its largest supply of palm oil. The widening incoherence is an outcome of a collective impact of the actions from firms where they benefit of the present arrangements (Levy & Newell, 2005, p. 171).

After the Greenpeace campaign Nestlé made some major changes with their business operations and committing to not contributing having any deforestation footprints in their

productions. Andy Tait<sup>6</sup> captured the potential effects from a massive actor as Nestlé committing to stopping deforestation:

Nestlé's policy sends a very clear message to companies that are destroying forests and peatlands for new plantations. If you don't stop deforestation and protect peatlands, your days of supplying to global brands such as Nestlé are over. (Nestlé CSV & Rural Development report, 2010, p. 61)

Greenpeace welcomed this commitment and are hoping that this can contribute to other companies to follow Nestlé's footsteps. Nestlé also became a member of *the forest trust* (TFT)<sup>7</sup> as a step to stop their contribution to deforestation (Nestlé CSV & Rural Development report, 2010, p. 61).

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<sup>6</sup> Senior campaigning advisor for Greenpeace

<sup>7</sup> The Forest Trust is a global environmental NGO who helps companies to operate responsible supply chains.

### **3. Theory**

*The theory section will explain the theories that will be utilised in this study for its empirical analysis. This section will present Carroll's theory about CSR and Lyon & Maxwell's corporate environmentalism. These theories will help to understand why corporations engage in CSR activities and which responsibilities they undertake when doing so. It will also seek to explain the profitability with corporate environmentalism.*

This study will utilise Carroll's theory about the pyramid of CSR (1991) and Lyon & Maxwell's theory of corporate environmentalism (2013). It will be utilised to understand what it is that makes Nestlé to engage in CSR activities and why they are becoming environmentally concerned. Hence, this study will aim to give description to the subject and how one can understand these actions Nestlé undertake. This study will analyse these actions from Nestlé by utilising these theories as analytical tools. *Firstly*, Carroll's pyramid will give us an explanation to CSR and its component parts. It will also explain which responsibilities a company has when it engages in these activities. *Secondly*, corporate environmentalism will give us an explanation to which or what factor that makes a corporation to engage in CSR activities and shifting its business to a more "sustainable" one. *Thirdly*, I will look at the overlaps between these theories, the similar categories they use and the compatibility issues. Both theories are complementing each other with filling the gaps that the other overlooked. This section will conclude with criticism to both theories.

The two theories coincide with each other on some points, such as the economic aspects, governmental regulations and legislation. The both theories do however look at factors and components which gives an overarching explanatory ground for this study's goals. As mentioned above, both theories will reason relatively comparable on some points, but most importantly, they look at filling the gaps that has occurred.

### **3.1 Carroll's Pyramid & Corporate Environmentalism**

Carroll (1991) states that for a conscientious business person being able to accept CSR, it should be framed in a way that makes the entire range of a business' responsibilities embraced. Hence, Carroll suggests that there should be four types of social responsibilities that should be incorporated in CSR. These four types of responsibilities are: Economic, legal, ethical and philanthropic, which shall be further explained. These components of CSR will be depicted in a pyramid here below to showcase the responsibilities a company undertakes when engaging in CSR activity.

Lyon and Maxwell (2013) examines driving factors to which makes firms become corporate environmental. The main driving forces that they find shaping companies business operations are; market forces, political forces – governmental regulation and political forces from the civil society – such as NGO activists.

Businesses act and shape their operations after their consumers; if the consumer demand for green products is large companies will produce these types of products since it will maximize its profits. It is also profitable to produce products that have a lower impact on the environment. By shifting their business operations they also pressure their suppliers to engage in these acts of corporate environmentalism – this will help the firm to avoid criticism that their actions with becoming green and sustainable are merely greenwashing<sup>8</sup> (Lyon & Maxwell, 2013, p. 2f).

The theories will give us the explanatory ground for the analytical and empirical part for this study. It will help us to find the deductive indicators before searching for the inductive indicators when analysing our empirical data.

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<sup>8</sup> Greenwashing is when a company or organisation spends money and time claiming to be “green” through advertising and marketing instead of implementing business operations that minimize environmental impact.

The figure below depicts the pyramid of CSR and has the components that will be specified in this chapter. Every section of the pyramid showcase's its significance into how businesses operate their CSR activities.



**Figure 2: The Pyramid of CSR.**

### 3.1.1 Economic responsibilities & Market forces

Businesses have historically been seen as the economic entities created to provide and produce goods and services to the society. As being a societal economical foundational pillar, businesses have shifted from just seeking acceptable profits to increase and maximize its profits (Carroll, 1991). The economical responsibilities from a business can be depicted in a table as follows:

**Table 1: Economic components (responsibilities) of CSR**

1. It is important to perform in a manner that is consistent with maximizing earnings per share.
2. It is important to be committed to being as profitable as possible.
3. It is important to maintain a strong competitive position.
4. It is important to maintain a high level of operating efficiency.
5. It is important that a successful firm be defined as one that is consistently profitable.

Source: Carroll, *The profitability of Corporate Social Responsibility*, 1991.



Corporate environmental actions have a simple explanation for managerial engagement. These actions arise from firms acting in the market for profit maximization, just as Carroll states in his table. Firms adopt new production operations that are more efficient and are in turn better for the environment. By adopting these new operational procedures a company may be referred as operations that are “win-win” i.e. good for production efficiency and good for the environment. (Lyon & Maxwell, 2013, p. 5). Carroll oversees these points in his table whereas Lyon and Maxwell give explanation to a corporate’s agenda with going green to seek profits.

Corporate environmentalism actions may also arise from consumers becoming more green e.g. higher consumer demand for ecological products. This forces companies to change their behaviour to become more environmentally aware when operating their productions and also a new way for them to seek profit maximization. Consumers often rely on labelling of products when determine the environmental quality of the products they want to purchase. When there is uncertainty behind the labels on a product, consumers tend to give companies much less credit for using labels. Thus, this may force firms to use labels that are commonly well-known by consumers. (Lyon & Maxwell, 2013, p. 6f.).

Another market force that drives corporate environmental actions arises from the labour market. Employees want to feel good about their work and their company; they want to feel that they work for a company that make a difference in the world and making it a better place. Companies try to attract and maintain the best employees by making environmental commitments that are associated with these employees’ values for the environment. These morally-motivated employees are also less likely to shirk their responsibilities at their workplace. Thus, companies can screen for them by implementing socially responsible practices and profit from it. (Lyon & Maxwell, 2013, p. 8).

The ecological aspects and environmental aspects within the economical responsibilities are lacking in Carroll’s pyramid and in his table for the economic responsibilities. Lyon and Maxwell fill these gaps with their explanation of the market forces that drives companies to engage in CSR and environmental productions.

### 3.1.2 Legal responsibilities & Political forces – government regulation

Beside to the economic and profit motive for a business, they are also expected to comply with the laws and regulations that are implemented in society by national and supranational authorities, e.g. Sweden and the EU. These laws and regulations are the premises for businesses which they must operate under. Hence, partial to the fulfilment of the social contract between business and the society, companies are expected to pursue their economic mission within the framework of the law and regulations. (Carroll, 1991).

The legal responsibilities reflect a view of “codified ethics”, because they cover the basic notions of fair operations that have been established by lawmakers. The legal responsibilities are the next layer to the pyramid and can be seen as coexisting with the economic responsibilities as fundamental principles of the free enterprise system (Carroll, 1991).

**Table 2: Legal components (responsibilities) of CSR**

1. It is important to perform in a manner consistent with expectations of government and law.
2. It is important to comply with various federal, state and local regulations.
3. It is important to be a law-abiding corporate citizen.
4. It is important that a successful firm be defined as one that fulfils its legal obligations.
5. It is important to provide goods and services that at least meet minimal legal requirements.

*Source: Carroll, The profitability of Corporate Social Responsibility, 1991.*

To solve environmental problems the collective actions are required and the key venue for the most collective actions is through public politics to protect the environment. Politicians may implement regulations on markets to force firms to act more environmentally (Lyon & Maxwell, 2013, p. 9).

Industries invest in corporate environmental actions for one important reason, and that is to obstruct advocacy groups from organising to enter the political sphere and press for regulation. Since organising and lobbying is costly for advocacy groups, industries and firms invest in activities such as minimizing deforestation and water pollution to pre-empt regulation. This is seen as an action with a lower level of reduction than would be required through a political process (Lyon & Maxwell, 2013, p. 9).

One can understand why industry and advocacy groups prefer to avoid high costs of working within the regulatory system. Intriguingly, regulators may also share the desire to reduce the costs of regulation. This opens up another opportunity for profitable corporate environmental activity. The regulator may negotiate voluntary agreements with the industries to avoid the traditional process of regulation. Because industries are not required by law to participate in these types of programmes, the actions they undertake in this agreement would be considered as corporate environmentalism. Governments may also use a voluntary agreement to quicken environmental improvements. However, voluntary agreements are always socially desirable, regardless of any probabilities of applying mandatory regulation. (Lyon & Maxwell, 2013, p. 10f.).

Regulations are still unlikely to have much impact on corporate behaviour even after that they have been proclaimed, unless the government undertakes monitoring and enforcement activities that are very costly. Corporate environmental actions can be seen as tools to lower the likelihood of legislation by convincing the public that the environmental state is not as bad as they might think, or that firms are tackling the problem without any need of legislation or regulation (Lyon & Maxwell, 2013, p. 14f.).

Lyon and Maxwell explain more deeply into the legal aspects and the effects of regulation than Carroll presents in his article. Hence, Lyon and Maxwell give us a further explanation to the legal aspects through not only the economic benefits with using voluntary agreements, but also how it can be used efficiently to circumvent regulation. Carroll on the other hand only explains the legal obligation a company have.

### **3.1.3 Ethical responsibilities & Political forces – civil regulation**

The civil society is gaining an increasing influential role in corporate environmental actions e.g. through activist NGO's and their usage of the social media and internet. By using the internet and social media as a platform it becomes easier for them to gather like-minded individuals and groups to establish strategies that can bring attention to the group's concerns. It also becomes easier for the activists to inform the public about corporate activities and hence mobilise the public for action. The difference between civil regulation and traditional government regulation is instead of activists interacting with policymakers they instead engage between NGO's and firms directly. (Lyon & Maxwell, 2013, p. 16).

NGO's may take an adversarial approach in order to convince compliance with its demands. They may threaten with harm for non-compliance or have a cooperative approach where they offer the firm a reward for compliance (Lyon & Maxwell, 2013, p. 17). If the NGO chooses an adversarial approach and the company rejects the demands from the NGO, the NGO will try to deliver its threatened harm, e.g. circulating negative propaganda about the company or launching a consumer boycott on the products of the company. Activities of this kind are designed to negatively impact sales, employee morale and company recruitment efforts. The NGO may use the same tactics against the firm's suppliers to encourage them to stop dealing with the company. Thus, this will bring indirect pressure on the firm to increase its corporate environmental activities. The NGO's campaign's resolution may occur in three ways: 1) the company remains stubborn and the NGO decides to stop its campaign, 2) the company agrees to the NGO's demands, or 3) the company and the NGO negotiate mutually acceptable level of CSR activity and the NGO ends its campaign (Lyon & Maxwell, 2013, p. 18).

NGO's prefers to target firms successively rather than targeting multiple companies simultaneously. By using the sequential targeting approach, it lowers the costs that consumers may face for participating in the campaign, such as boycotting products from the firm. This allows the consumers to switch to a supplier of a similar product instead of giving up the product category entirely. Targeting sequentially also reduces the cost of the NGO's campaign and it allows it to use temporary successes to raise further funds. (Lyon & Maxwell, 2013, p. 19).

The economic and legal responsibilities also cover some ethical norms about fairness and justice. On the other hand, ethical responsibilities embrace activities and practices that are expected by the society, even though they are not codified into law. Norms, standards and expectations that reflect a concern for what consumers, employees, shareholders and the community considers as fair are covered by the ethical responsibilities. (Carroll, 1991).

Ethical responsibilities may also be seen as embracing values and norms that has recently emerged within the society and which the society expects the business to meet. These values and norms may also reflect a higher standard of performance than what currently is required by law. In this sense, ethical responsibilities are often poorly defined or are continually under public debate and thus make it frequently difficult for businesses to deal with (Carroll, 1991).

The ethical expectations that originate from societal groups are superimposed and the implied levels of performing ethically. Suggested from these groups the ethical performance is of consideration to the ethical principles of moral philosophy, which include justice, rights and utilitarianism (Carroll, 1991).

The ethical responsibilities have firmly been established as a legitimate component of CSR. It is important to understand that, though it is depicted as the next layer of the pyramid, it is constantly in a dynamic interplay with legal responsibilities (Carroll, 1991).

**Table 3: Ethical components (responsibilities) of CSR**

1. It is important to perform in a manner consistent with expectations of societal mores and ethical norms.
2. It is important to recognise and respect new or evolving ethical norms adopted by society.
3. It is important to prevent ethical norms from being compromised in order to achieve corporate goals.
4. It is important that good corporate citizenship be defined as doing what is expected morally or ethically.
5. It is important to recognise that corporate integrity and ethical behaviour go beyond mere compliance with laws and regulations.

*Source: Carroll, The profitability of Corporate Social Responsibility, 1991.*

### **3.1.4 Philanthropic responsibilities**

Philanthropy comprehends the actions from corporations that are a response to the society's expectation that businesses should be good corporate citizens. This includes actively engaging in acts or programmes to promote human welfare or goodwill (Carroll, 1991).

The difference and the distinguishing feature between ethical and philanthropic responsibilities is that the latter are not expected in an ethical or moral sense. Communities desire companies to contribute to the society with their money, facilities and expertise from employees by engaging in humanitarian programmes or purposes. The communities do not, on the other hand, regard companies as unethical if they do not contribute to the desired level. Hence, philanthropy is more conditional or voluntary on the part of businesses. There is however always a societal expectation that businesses provide it and act philanthropically. (Carroll, 1991).

**Table 4: Philanthropic components (responsibilities) of CSR**

1. It is important to perform in a manner consistent with the philanthropic and charitable expectations of society.
2. It is important to assist the fine and performing arts.
3. It is important that managers and employees participate in voluntary and charitable activities within their local communities.
4. It is important to provide assistance to private and public educational institutions.
5. It is important to assist voluntarily those projects that enhance a community's "quality of life".

*Source: Carroll, The profitability of Corporate Social Responsibility, 1991.*

Lyon and Maxwell do not mention any philanthropic aspects within their theory of corporate environmentalism. Therefore no connection has been made to Carroll's philanthropic responsibilities with corporate environmentalism. It is also difficult to distinguish the philanthropic aspects from the ethical responsibilities due to the complex definition. Carroll also states that the ethical motives are the ones that create the philanthropic responsibilities. Therefore it's problematic to distinguish what is philanthropic and what is an ethical responsibility.

### **3.2 Criticism on theories**

Even though both theories grasp a broad foundation of factors that drives firms to engage in CSR activities and becoming environmentally concerned, there is some criticism that should be addressed.

Carroll lays out some interesting points in his tables but many of them are reoccurring in the same table but with other words, e.g. Table 2. In table 2 on the legal responsibilities Carroll states in point one "It is important to perform in a manner consistent with expectations of government and law" and in point three he states "It is important to be a law-abiding corporate citizen". Carroll do not distinguish these two points from each other, it makes it hard to understand the difference between the first and the third point. This problem is reappearing in the other responsibility categories. Carroll doesn't mention anything about sustainability in the environment within his theory. This is problematic when discussing CSR generally since it is one major part of the concept CSR.

Further criticism for both theories is that they explain the profitability of CSR engagement and environmental productions. When excluding important aspects of biodiversity and ecological means, it cannot be seen as truly beneficial for the environment or for our planet. Operating greener and being socially responsible without taking drastic measures to stop or mitigate the climate change is problematic in long run. Corporations need to look further than profit maximizing for their operations. Carroll, Lyon and Maxwell miss these important aspects in their theories.

Some criticism for choosing these theories is that they coincide on several points, as explained earlier in this study. However, they give us a further developed explanatory ground when searching for the main drivers that make a company engage in CSR. Though it would have been preferable to have a theory that goes further into the ecological and environmentally importance for a business operation.

## **4. Method and Material**

*This section will present the method and material that has been chosen for this thesis. Initially the operationalization will be described for this thesis' research questions. Thereafter some reasoning will be held about validity, reliability and intersubjectivity. Finally the material that has been chosen for this thesis will be described.*

### **4.1 Method**

The first research question of this study is of an explanatory character and will therefore be composed by a qualitative in-depth study of Nestlé's CSR activities. The research is a qualitative content analysis hence it is limited to only examining Nestlé's CSR activity, i.e. a specific context and company. The material is composed of mainly publications, articles, statements, annual and CSR reports. Additionally, material from Greenpeace has been used, such as the booklet *Caught red handed: How Nestlé's use of palm oil is having a devastating impact on rain-forest, the climate and orang-utans* (2010) and the report *How the palm oil industry is cooking the climate* (2007). Material from Greenpeace and Nestlé's webpage has also been used for this study. Thus, a qualitative content analysis and in-depth study makes a suitable approach. Qualitative content analysis intends to textual analysing the content and where nothing is measured or counted. Though, some problems might appear when data and content is interpreted (Bergström & Boréus, 2013, p. 50).

Complementary to the qualitative in-depth content analysis, the QDA analytical tool Atlas.ti will be used for the textual analysis, using this method will count the number of quotations from the reports. Applying this as a complementary method will search for the deductive indicators that have been established, which will be presented here in this section. It will also help to find the inductive indicators from the analytical work with the empirical data.

Since this study aims to find the factors behind engagement in CSR, discourse analysis would not be a suitable approach. Text analytical tools and methods are more suitable when searching for these factors. If discourse analysis would have been chosen as method, paradigm shifts within the discourse would be found. Hence, text analysis is a suitable



tool for this type of study and will be the most appropriate instrument for the theories that are utilised in this research.

This study deductively goes beyond Carroll’s indicators and factors when searching for main drivers. Using text-analytical tool and in-depth text-analysis, Nestlé’s drivers for engagements in CSR activities will be found. Taking Carroll’s tables and refining and interpreting them as shown in table 5. The deductively composed indicators that this research will look for are:

**Table 5: Deductively derived indicators for analysis**

<i>Economic indicators</i>	<i>Legal indicators</i>	<i>Ethical indicators</i>	<i>Philanthropic indicators</i>
Increased profits	Compliance	Sustainable/sustainability	Fundraising events
Profitable operations	Frameworks, United Nations (UN)	Well-being, good health	School/ kindergarten
Increased demand	Cooperation	Aid-work, assistance	Orphanage
Market position	Good conduct	Responsibility	Museum/arts
Maintaining good business	Better/higher standard	Ecological/biodiversity/ environment	Education

Applying quantitative data analysis (QDA) as a method and refining it so it is suitable for the text analytical aspects of this study will help utilising the chosen theories for this research. Using deductive indicators is an approach where the relationship between theory and research provides axioms in what we think will be found in the empirical data (Bryman, 2008, p. 711; Teorell & Svensson, 2007, p. 49). In cohesion with the refined take on QDA the result will be decisive on what makes Nestlé to engage in CSR. This has provided the research with operational definitions, i.e. our concepts are now measurable (Bryman, 2008, p. 161).

Another crucial factor for this study’s operationalization is when the deductive indicators need to contain elements that are comparable with reality; the indicators cannot lack relevance for the reality whereupon it will be applied (Esaiasson et al, 2007, p. 162). This is also closely connected with this study’s probability to reach high validity. Validity is when measuring what is supposed to be measured. To achieve good validity, it is important to have compliance between theoretic definitions and operational indicators

(Esaiasson et al, 2007, p. 61f). The validity problem with this thesis is if Carroll's components can be used to give us the deductively composed indicators that are illustrative for finding the main drivers for CSR engagement. Questions may arise if it therefore is a suitable operationalization.

Finally, this thesis needs to fulfil the methodological requirement of intersubjectivity. This means that this study's content shall pervade lucidity, transparency and patency, with the meaning that the research shall be able to be criticized by the scrutiny. The demand on intersubjectivity therefore means that the research's different parts, such as problem, theory, material and result, shall be able to be scrutinised by others than the author (Badersten, 2006, p. 189).

## **4.2 Material**

For an empirical and theoretical well-developed study, integral and relevant scientific material is needed. There is a broad existence of scientific research within the field of CSR which have led this researcher to find and use scientific material from Archie Carroll who is a preeminent researcher within the field. His article *The Pyramid of Corporate Social Responsibility: Toward the Moral Management of Organizational Stakeholders* (1991) is one of the theoretical foundations for this research. The second theoretical foundation for this study is the scientific founding's from Lyon & Maxwell and their piece on corporate environmentalism *The profitability of corporate environmentalism* (2013). Furthermore, this study has also used the work of van Marrewijk (2003) as laying the foundation for the conceptual section that guides us throughout this thesis.

As for the empirical material this study will mainly look at annual reports and CSR reports from Nestlé. Predominant factors that make Nestlé engage in CSR activities will be localised using annual and CSR reports from the years 2009, 2011, 2013 and 2014. The predominant factors that make Nestlé to engage in CSR will be localised by analysing reports, articles and other written material from Greenpeace. Civil society's and NGO's impact will be shown and connected to the actions undertaken by Nestlé.

Credible sources are momentous to give this research good reliability. Reliability signifies that we can measure exactly what we are searching for. This means that if we want to achieve high reliability we need to have absence of haphazard and unsystematic error of

measurement (Esaiasson et al, 2007, p. 70). Something that could make a problem with reliability is for the analytical part where deductive indicators have been derived to search for the factors that drive Nestlé to engage in CSR actions. Interpreting the indicators deductively may lead to error of measurement.

## 5. Analysis

*This section will present the analytical work on the empirics. The analytical work has been done through in-depth text analysis and using QDA tool Atlas.ti providing answer to the deductive indicators and will also provide inductive indicators. Firstly the annual reports from Nestlé for the years 2009, 2011, 2013 and 2014 will be presented. Thereafter Nestlé's CSV<sup>9</sup> reports for the same years will be analysed. Thirdly, Greenpeace's campaign against Nestlé will be analysed. Connecting the events that took place due to the Greenpeace's campaign to the increased responsibility in mitigating deforestation – both in Nestlé's business operations and the global market.*

When analysing the empirical data with the in-depth qualitative text analytical approach and the QDA tool, it was discovered that some of the deductively derived indicators were found to be right. The inductive indicators that were found are presented in table 6. Inductive indicators are the relationship between theory and research, meaning that what was collected and found through the analytical work is inductively derived (Bryman, 2008, pp. 19, 712).

**Table 6: Inductively derived indicators**

<i>Economic indicators</i>	<i>Legal indicators</i>	<i>Ethical indicators</i>	<i>Philanthropic indicators</i>
Profitable growth	Compliance	Environment	Education
Operational efficiency/ eco-efficiency	Frameworks/ United Nations (UN)	Good citizenship	School
Sustainable	Law	Biodiversity/ ecological/ deforestation	Poverty
Marketing/ communication	Principles/ Code of conduct	Aid-work, assistance	Charity
Consumer demand	Quality	Responsibility	Quality of life

<sup>9</sup> CSV reports are Nestlé's reports on their CSR activities.

## 5.1 Nestlé annual reports

Using the deductively composed indicators as codes for the QDA programme Atlas.ti a search was made for the main drivers in Nestlé's economic, legal, ethical and philanthropic performance. By utilising the deductive indicators Atlas.ti could find quotations linking the codes to the indicators which are presented in table 5. Table 7 presents the total of quotations related to the deductive indicators and the coded categories where one can see how many quotations are related to which set.

**Table 7: Total amount of quotations annual reports**

Deductive categories	Annual report 2009	Annual report 2011	Annual report 2013	Annual report 2014
Economic	50 quotations	41 quotations	150 quotations	43 quotations
Legal	11 quotations	49 quotations	55 quotations	29 quotations
Ethical	24 quotations	31 quotations	31 quotations	27 quotations
Philanthropic	2 quotations	3 quotations	3 quotations	8 quotations

This result gives some explanation to the indicators that are significant for Nestlé. 80 % of the most quoted category is the economic one from the deductively derived indicators. When analysing the annual reports more thoroughly, i.e. in-depth analysing, it becomes clear that market forces have great significance in Nestlé's positioning their business operations.

When looking more thoroughly in the annual reports for years that have been chosen, deforestation is only mentioned in the report for 2011. This is problematic, since Nestlé has devoted the company to play a bigger role in the fight to mitigate deforestation on a global scale. Because deforestation and the environmental impact they have in their production of produces it should be stated more frequently, especially after the statements they did in 2010 regarding deforestation. When mentioning deforestation in the annual report for the year 2011 they state:

Deforestation is one of the most serious global environmental issues. We work with The Forest Trust to address supply chain challenges specifically in palm oil and pulp and paper. Our most significant influence on forests is through sourcing, with priorities being paper and board, timber, palm oil and soya. We also advocate against the use of food crops for biofuels. (Nestlé annual report, 2011, p. 25).

This gives attention to, when analysing the annual reports, that Nestlé maybe just make these kind of statements ostensibly, since they do not mention anything about deforestation for the years 2013 and 2014. Even though actions outweigh words, Nestlé should present and mention deforestation for their stakeholders where they emphasise the importance on taking actions to mitigate the environmental damages. They should also try to affect other companies to become more aware of the devastation that deforestation means for this planet.

Further analysis of the annual reports pinpoint the other component parts of Carroll's theory where the legal components are present where compliance to law, especially Swiss law, is mentioned. A result that was found through the analytical work with Atlas.ti was that Nestlé works with the UN on climate change through frameworks and is active in UN's Every Woman, Every Child programme (Nestlé annual report, 2011, p. 15). Mentioning UN and their activity with development programmes also gives indications of the ethical and philanthropic components of Carroll's theory.

Connecting statements from the annual reports to corporate environmentalism by Lyon and Maxwell (2013) clarifies and explains that Nestlé acts in the "win-win" manner. Implementing greener productions and greener products they aim to meet consumer demand and the changed preferences from society. An example of this is where they state in the annual report of 2014 that they had 72 factories achieving zero waste in their productions (Nestlé annual report, 2014). But what they do not mention is that it is 72 factories of 442 ([www.nestle.com](http://www.nestle.com)), which make out approximately 16.3 %<sup>10</sup> out of their factories reaching zero waste. In other statements made by the company they also state that by 2015 they will have zero trail of non-sustainable palm oil in their production.

Connections to the theories from the annual reports have been done where the research now can distinguish how Nestlé presents themselves as an environmentally sustainable corporation. Further discussion and results will be presented in the next chapter.

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<sup>10</sup>  $\frac{72}{442} = 0.1629$

## 5.2 Nestlé CSV reports

Analysing the CSV reports in Atlas.ti using the same deductively derived indicators as in section 5.1 gave an expected result, showcasing larger amount of quotations falling under the ethical and philanthropic categories as table 8 will depict. Intriguingly, for the year 2009 the economic category presented a remarkable 114 quotations, for a report that should show CSR activity. On the other hand, it also had most quotations for the ethical and philanthropic categories. Nestlé showcasing more quotations for the upper part of the pyramid, i.e. ethical and philanthropic responsibilities, was expected.

**Table 8: Total amount of quotations CSV reports**

Deductive categories	CSV report 2009	CSV report 2011	CSV report 2013	CSV report 2014
Economic	114 quotations	32 quotations	62 quotations	50 quotations
Legal	57 quotations	46 quotations	54 quotations	75 quotations
Ethical	87 quotations	40 quotations	37 quotations	56 quotations
Philanthropic	38 quotations	12 quotations	30 quotations	34 quotations

However, it is interesting that for the year 2011, where in the annual reports mentioning deforestation and more ethical responsibilities emphasising on the environmental issues they instead lack in the philanthropic one. It could be argued that philanthropy isn't a necessary aspect for a company to consider for being a socially responsible corporation (Carroll, 1991). It gives some indications that some statements are only ostensibly composed to advertise and marketing the business, i.e. greenwashing. Searching for indications of greenwashing is important when analysing these types of reports where the company has a chance to present their environmental work and their agenda on how to emend climate change before it is too late. In the CSV report for 2009 Nestlé mentions their concern about non-sustainable palm oil and that they are aiming at by the year 2015 only have Certified Sustainable Palm Oil (CSPO) (Nestlé CSV report, 2009, pp. 12, 80). This statement was made before the Greenpeace campaign regarding their involvement using non-sustainable palm oil. Another indication that Nestlé were aware of the problem with deforestation and the palm oil industry, but acted still in a way where they purchased non-sustainable palm oil from suppliers. In their CSV report for 2011 they started to mention deforestation when assessing their work on having CSPO palm oil in their products. A year after their statement which was a result from Greenpeace's campaign

against Nestlé, they still had the same action plan as they had in 2009. The only thing they've added is membership in TFT.

Analysing the report for the year 2013 deforestation is presented more thoroughly where they present that by the year 2020 their products will have zero contribution to deforestation (Nestlé CSV report, 2013, p. 21). This is a statement without any clear action plan; it is of course positive when a company wants to reduce deforestation to a zero level. Making these types of statements without any clear plan on how it is possible is also giving indications of greenwashing. Since Nestlé purchases their supply of palm oil from other companies they do not have full control on how the palm oil is produced. They do however state that they have auditors monitoring on occasion. Yet, this is not enough if they want to reach a zero level of deforestation.

The analysis of the CSV report for the year 2014 gives rather a disappointing result when looking for further work on deforestation and sustainable palm oil. Nestlé only repeat statements that have been made in the previous reports but adding their cooperation with NGO's on how they can be better in mitigating deforestation. This gives lead to the theory of corporate environmentalism and the power of civil regulation. Working with NGO's is a way to circumvent further regulations from governments, giving indication that they are able to self-regulate their operations. They do even mention that they operate under the legal aspects from both theories where the criteria of "law-abiding citizen" are fulfilled and that they operate under the national laws (Nestlé CSV report 2013, p. 28). Hence, the research is starting to pinpoint the main drivers that make Nestlé to engage in CSR activities.



### 5.3 Greenpeace – give the rainforest a break

In 2007 Greenpeace released their report *How the palm oil industry is cooking the climate* where they criticised Nestlé and their use of non-sustainable palm oil. Hence, the work by Greenpeace to make Nestlé to change their behaviour started a couple of years before having their breakthrough reaching to a consensus with them. Greenpeace went to Nestlé and other of the world's major traders and users of palm oil to find out what their strategy was for dealing with the links between palm oil, deforestation and climate change (Cooking the climate, 2007).

Greenpeace had a campaign in 2010 against Nestlé and their use of non-sustainable palm oil which gave great result. In their booklet *Caught red handed: How Nestlé's use of palm oil is having a devastating impact on rain-forest, the climate and orang-utans* (2010), they provide evidence to the massive impact on deforestation that Nestlé's supplier Sinar Mas have. Greenpeace presented hard proof how Nestlé is contributing to deforestation and extinction of orang-utans in Indonesia by purchasing palm oil from this area.

The environmentally concerned NGO was very critical in how Nestlé hide behind their advertising campaign for their launch of their new Fairtrade<sup>11</sup> brand. The Fairtrade brand only accounted for 1 % of Nestlé's cocoa use. This was an attempt by Nestlé to present themselves as a responsible corporate citizen but in the same time they ignored the social and environmental crimes of their palm oil suppliers (Caught red handed, 2010, p. 10). The evidence from Greenpeace also showed that Nestlé's suppliers were violating Indonesian forestry law when operating their business, which indicates that Nestlé indirectly also broke the law when purchasing palm oil from their supplier (Caught red handed, 2010, p. 8). This is not in coherence with Carroll's criteria of being a "law-abiding citizen". One could argue that Nestlé weren't aware of this but being global company, Nestlé should've had better information in their suppliers operations. Claiming to be concerned about the global environment and acting on climate change and thus being a responsible corporate citizen. Nestlé fails to live up to its own sustainability standards and supplier codes. Greenpeace had on several occasions made Nestlé aware of their supplier breaking not only Indonesian forestry law, but also violating the supplier code by Nestlé which were non-negotiable (Caught red handed, 2010, p. 9).

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<sup>11</sup> Fairtrade is an independent product labelling which do not only take the economic situation in consideration but its criteria's also promote democracy and environmental considerations.

By using social media as a platform for their campaign against Nestlé, Greenpeace could succeed in their work in making Nestlé to change their corporate behaviour. This was not only effective looking at the result but also effective in a sense that they didn't need to spend more money in marketing and advertising their campaign. This is in compliance with Lyon and Maxwell's civil regulation in their theory of corporate environmentalism. Thus another connection has been made in the effectiveness of activist NGO's pressure against companies making them to act in a certain way to circumvent governmental regulation. This is also in accordance with Carroll's ethical component of CSR, which a company should act in a way that meets the societal expectations.

## 6. Conclusion & Results

This research aimed at finding a conclusion to what factors are predominant when engaging in CSR activities. It also aimed at finding how corporate environmental factors drive Nestlé to engage in CSR activities. What can be concluded is that Nestlé engage in CSR activities due to corporate environmental factors where they emphasise the importance in maintaining a strong market position. They do however; also take the component parts of Carroll's theory of the pyramid of CSR into consideration when forming their CSR engagement. As has been presented in the analytical part, the differences can be distinguished between the interpretations of the different responsibilities. It is however in coherence with both theories when searching for the main drivers and which factors that is predominant in Nestlé's CSR engagements.

Interestingly, Nestlé use a pyramid for their CSV initiative which is similar to Carroll's CSR pyramid *see figure 1 and 2*. Connections can be made to the legal and economic responsibilities in Nestlé's CSV pyramid to Carroll's CSR pyramid. The upper part of the pyramid provides with the concept "Creating Shared Value" which roughly can be translated to the ethical and philanthropic responsibilities. The analysis saw that these factors and components were found in the reports from Nestlé. The economic aspects are the most important ones in both pyramids, which is also what was found in the analytical work. To be profitable and have economic sustainability is the most important factors for Nestlé; this gives doubt to the engagements from Nestlé in their CSR activities. Undertaking ethical and philanthropic responsibilities seems to be a way for them to present them as socially responsible actors, but it does however give some indications of greenwashing. This presents an indication of market forces being a predominant factor for Nestlé to engage in CSR activities to still maintain a profitable business operation.

However, due to the legal responsibilities reinforcing the ethical responsibilities, it can now be shown that the governmental and civil regulation affects Nestlé's engagements in CSR. It seems as if Nestlé engage in CSR to circumvent political regulation from governments and hence establish voluntary programmes to appear as if they are environmentally concerned. Since the legal responsibilities reinforce the ethical responsibilities, it shows that the activist NGO's affect Nestlé's business behaviour and how the company responds in changing their operations. Hence, Lyon and Maxwell

(2013) are right in their assumptions on the external factors that may affect the companies' behaviour in an environmental sense.

Do corporate environmental factors drive Nestlé to engage in CSR activities? Yes, they are a main driver behind Nestlé's engagement in CSR where market forces and civil regulations are the predominant factors from corporate environmentalism. Being the major drivers they also emphasise the economic aspects where being profitable is the most important factor. One can understand that a company wants to be profitable and provide the shareholders with profits, but the ecological and environmental aspects need to take a larger place within the business operations if they want to be able to have any products in the future. The climate change and deforestation is having a devastating impact on our planet and change need to be done. Nestlé have made statements where they want to have zero contribution to deforestation in their production line by 2020. If this will be the case remains untold for now, but this research can critically say that it is doubtful.

Does Nestlé engagement in CSR activities fit into the factors within the pyramid of Corporate Social Responsibility? It was found that the component parts of Carroll's pyramid plays a big role in Nestlé's CSR activities, but if these component parts are the most important ones is rather hard to say. It is however clear that Nestlé takes these responsibilities from Carroll's theory in consideration when forming their CSR actions, at least in how they report in their annual CSV reports. The main factors are economic, legal and ethical, which also was expected when doing the analytical work. Nestlé do however lack in their presentation of solutions to environmental issues, they do mention the problems that climate change and deforestation have on the planet. But if they want to be considered as a socially responsible corporate citizen they should provide more evidence on their work on mitigating the environmental damages.

Hence, the predominant factors when forming Nestlé's CSR engagements are economic and market forces; to maintain a strong market position "win-win" by implementing greener production operations and producing greener products. Ethical and civil regulation factors make them engage in CSR to circumvent governmental regulations – through voluntary programmes. By doing so, they show that they are environmentally concerned and are doing something about the climate change. This is doubtful, because of the indications of greenwashing.

It was interesting to find a statement from Nestlé's chief executive officer (CEO) Peter Brabeck-Letmathe where he in an interview with Reuters in 2011 said:

I was just shocked that in a very short period everybody started to say, 'Yes, I agree we have to give back to society,' and I was thinking, 'Well, we're creating value for society,'" he said. "If you have to give back it means you have taken something that doesn't belong to you. (FOX, 2011,*Reuters*).

This may give some indications on what Nestlé thought about being socially responsible corporate citizen for a couple of years ago. Hopefully they see it differently today.

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