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# Why companies engage in CSR

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## Abstract

To investigate the reasons why companies engage in Corporate Social Responsibility, CSR, this study conducts a survey with 47 companies and interviews with 7 company representatives in the UK. This empirical data and results are analysed in terms of theoretical ideas of CSR and economics. *Board of Directors or top management, Attract employees, Reputation, Moral, and Economic reasons* are, as in theory, pointed out as influential, whilst the empirics shows *Shareholders, Media and public debate, and Attract investors*, in opposition to theoretical claims, non influential. This study also examines the hypothesis that companies in different industries are engaging in CSR for different reasons. The results are mixed, possibly as a result of how hypothesis and industries were defined. The final conclusion is that companies have various reasons to why they engage in CSR, of which many appears to be shared between industries.

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## 1. Introduction

On the road towards the proclaimed main purpose of business; profit maximisation, a company faces the choice of increasing revenue or lowering costs. This is a basic founding of economic theory of the firm. However, some company behaviour appears hard to explain solely from a perspective of profit maximisation.

Nowadays numerous companies choose to engage in Corporate Social Responsibility. CSR, is a contested concept here defined as *voluntary social and environmental initiatives taken by the company that exceeds legal requirements*. The concepts influence has evidently increased, and today more companies than ever are presenting various examples of activities that they are undertaking in the field of CSR, e.g. management of externalities, and other contributions to society and the environment. These are activities often clearly associated with a cost. According to the basic principle of economics mentioned above, one would expect company revenue to be increased more than the cost of engagement. However, this is something that the research of CSR has not managed to fully confirm, and the reasons to why companies engage in CSR are therefore still largely undistinguished. This brings us to the question that this Bachelor thesis in Economics aims at bringing some clarity in:

Why are companies engaging in CSR?

No study, investigating the question with the combined methodology of survey and interviews, has been found. Hence, this is the approach I have chosen to conduct this study. Companies will be contacted to obtain a combination of quantitative and qualitative data that aims to outline the reasons for their CSR engagement. Moreover, an additional hypothesis in regard of potential industry differences will be examined. This hypothesis states that:

Companies in different industries are engaging in CSR for different reasons.

The question and hypothesis will be examined in the following chapters. The *Theory* chapter aims at explaining the concept of CSR and what other academics have put forward as reasons for engagement, complemented with relevant microeconomic theory. Chapter three describes the few quantitative studies

investigating reasons for engagement that are found. The reasons from chapter two and three constructs the foundation for the empirical methodology, presented in chapter four. Through a survey and interviews with company representatives', empirical data that reflects the reasons of their companies CSR engagement is obtained. Data and results will be analysed in chapter five, and discussed in chapter six. This chapter also discuss some of the microeconomic theories, presented in the theory chapter, that provide a pedagogical tool to explain why companies engage in CSR, and some thoughts on the execution of the empirical research.

With support from the conducted empirical research, this study will conclude some influential reasons as to why companies engage in CSR, moreover also contradict the influence of some of the reasons mentioned in theory. The aim is to contribute to the research on CSR by providing a combination of quantitative and qualitative data, complemented with reasoning that hopefully can constitute one additional piece of the puzzle explaining why companies engage in CSR.

## **2. Theory**

The academics and practitioners are eagerly debating over the true meaning and definition of CSR, and currently the only certain conclusion that can be drawn is that no universal definition exists (Whitehouse, 2006, p. 279). To outline what CSR theoretically is can therefore be challenging, although the reader will in the first part of this chapter find an ambitious attempt to this matter, which also includes the definition I use in this thesis. The second part will present an array of reasons to why companies engage in CSR, which have been found in literature on CSR and economic theory. In the end of this chapter differences in companies engagement will be explained, which consists the grounds of the hypothesis that different industries engage for different reasons. The aim of this chapter is to enhance the reader into what CSR theoretically is, and to explain the bases on what my definition and hypothesis have been built.

## 2.1 CSR concept

The amount of attention that has been given the CSR concept has increased during the last years, and since the 1990s the importance of CSR has grown considerably, with more and more companies showing examples of responsible actions (Vogel, 2005, pp. 1-6). Nowadays most companies do practise CSR or at least one of the existing version of the topic (Crane, Matten, & Spence, 2008, p. 175) since there exists not one solitary simple definition or version of CSR. The concept is debated (Whitehouse, 2006, p. 279) and Matten & Moon argues that this is due to the major definition problems that exists inherited in the concept itself. Firstly, they argue that CSR is essentially being a contested concept due to it including values that can be hard to specify or estimate, which they describe as the concept being "appraisive". In addition, the concept is complex and have relatively few general application-rules, which also makes it a contested term. Secondly, they describe CSR as an umbrella term which covers, overlap, and exists simultaneously with other business-society relation concepts. Thirdly, the perception of the concept constantly changes (2008, p. 405). In another text the explanation of CSR as an umbrella term is further expanded, by describing CSR as a cluster concept that overlaps with other concepts such as business ethics, sustainability, environmental responsibility, corporate philanthropy, and corporate citizenship (Matten & Moon in Crane, Matten, & Spence, 2008, p. 5).

With a wide concept, many definitions and ideas of what it denotes unsurprisingly follow. Below are some of the many definitions, and theoretical ideas, on what CSR feature.

### 2.1.1 Definition and core ideas

One of the most commonly cited definitions of CSR is one made by Archie Carrol (Crane, Matten, & Spence, 2008, p. 5). Carrol explains business practise as a pyramid of responsibilities with economic responsibilites at the bottom, follow by legal, then ethical, and with philanthropic responsibilities at the top. For Carrol CSR is about taking responsibility for the pyramid's top parts as well as the economics and legal responsibilities of the firm. Thus, Carroll significantly points out that CSR includes philanthropic contributions, however is not limited to it. Carrol develop this reasoning and explains that these responsibilities are less

important than the other three categories (Carroll, 2008, pp. 62-65). Carroll's definition of CSR proclaims that "the social responsibility of business encompasses the economic, legal, ethical, and discretionary expectations that society has of organizations at a given point in time" (cited in Crane, Matten, & J. Spence, 2008, p. 5).

Numerous scholars define CSR as being something that goes beyond what the company is expected to do. Vogel describes that CSR is "practices that improve the workplace and benefit society in ways that go above and beyond what companies are legally required to do" (2005, pp. 1-2). Davis contests that CSR is "the firm's consideration of, and response to, issues beyond narrow economic, technical, and legal requirements of the firm" (cited in Crane, Matten, & Spence, 2008, p. 5). Even a number of international organisations have chosen to present their definitions of CSR. For example, the European Commission defines CSR as "a concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis" (Commission of the European Communities, 2001, p. 4) and the government in United Kingdom defines CSR as "the voluntary actions that business can take, over and above compliance with minimum legal requirements, to address both its own competitive interests and the interests of wider society" (UK Government, 2009).

In this thesis CSR is defined as *voluntary social and environmental initiatives taken by the company that exceeds legal requirements*. This is a definition chosen from my own understanding and interpretation of what the subject is. This somewhat shorter, and perhaps wider, definition stem from others' definitions mentioned above and concurrently manage to capture many of the core ideas that are explained below. Because, despite the many definitions of CSR, the concept do comprise some core ideas. As Blowfield & Murray explain, many of the definitions share a common belief of CSR, even if different elements are emphasised (2008, p. 13).

One general description of these core ideas is made by Crane, Matten, & Spence, whom in their textbook outline six core ideas within the CSR movement. Firstly, CSR is generally considered to be *voluntary* and is pointed out as activities that

goes beyond the law. Secondly, CSR is about *internalising or managing externalities*, e.g. cleaner technology that reduce pollution or management of human right violations in workforce. For example a company that voluntarily chooses to invest in cleaner technology may avoid pollution fines where regulation forces the company to internalise the cost of the externalities. Thirdly, *multiple stakeholder orientation* emphasise a company's responsibility towards shareholders and consumers, employers, suppliers, and local communities etc. Fourthly, *alignment of social and economic responsibilities* describes how CSR should not conflict with profitability. Fifth, CSR is for many, a way to show *practices and values* of the firm. Sixth, "real' CSR" is about going *beyond philanthropy*, hence many emphasise that CSR should be integrated in the core business of the company and be more than solely philanthropy and community projects (2008, pp. 7-9).

In the existing array of definitions and ideas described above, my shorter definition of CSR as *voluntary social and environmental initiatives taken by the company that exceeds legal requirements* constitute some of the, in my opinion, most important ideas of CSR. This definition also encompasses the advantage of being easy to communicate to the companies that are being contacted for this study.

## 2.2 Examples of CSR initiatives

With a vast amount of ways to define and describe CSR, the existence of different types of CSR initiatives is a logic consequence. How, and as what, a company perceives CSR will largely influence its way of engaging in it. In this section some examples of CSR initiatives will be shortly described, with the help of Ashridge's Catalogue of CSR Activities (2005).

In the report made by Ashridge Centre for Business and Society, CSR activities are grouped into seven classes. CSR activities under the class of *Leadership, vision and values* are initiatives that are aimed at making CSR central to the company, and activities include alignment of purpose, value, and vision to ensure that CSR is coherent and incorporated in business. *Marketplace activities* include

responsible customer relations, product responsibility, product labelling, ethical competition, and making markets work for all. Examples of CSR related *Workforce activities* are skills development, diversity and equality, and employee communication. *Supply chain activities* include driving standards, to be a fair customer, and to promote social and economic inclusion throughout the supply chain. Activities related to *Stakeholder engagement* include mapping and management of the stakeholders, and communication with them etc. *Community activities* include being a good neighbour to the society but also more philanthropic approaches [my note] as giving cash, gifts, and encouraging employees to participate in community projects. Lastly described are the *Environmental activities* which include resource and energy use, pollution and waste management, and transport planning (Ashridge, 2005).

## **2.3 Why companies engage in CSR - reasons from theory**

As described in the introduction, the principle of profit maximisation might not solely be a sufficient tool to explain why companies choose to engage in CSR. As this chapter will show, there are numerous reasons for engagement explained in the literature of CSR.

Plenty of academics have sought out to explain the reasons for why companies choose, or should choose to, engage in CSR. The literature on this matter is described from a vast amount of perspectives and under several names and guises. Drivers (Matten, 2006), pressure (Matten & Moon, 2008), justifications (Porter & Kramer, 2006), arguments for (Werther & Chandler, 2006), and motivations (Idowu & Parasolomou, 2007) are just a few examples of how reasons for CSR engagement is described. It would be impossible to provide a full overview of all theoretical reasons for engagement. Nevertheless, this section will provide a description of some of the most prominent and recurring reasons, complemented with some important microeconomic theories that can help to describe why companies engage in CSR.

### **2.3.1 Economic reasons**

The economic reasons of CSR are reasons that connects to the basic economic principle of profit maximisation, explained in the introduction. However, this

principle is in the literature of CSR most often not raised as the main reason itself. The words are rephrased, and in the literature of CSR we find "*The business case*" a way of explaining how profits can be increased through CSR initiatives.

Many proponents of CSR proclaims the direct and indirect economic benefits of engagement. The business case has therefore become one of the most embraced reasons to why companies engage in CSR (Matten, 2006, p. 9) and it is said to be impossible to exaggerate the importance of the contemporary claim of a business case's existence (Vogel, 2005, p. 16). The business case of CSR states that the returns of a social or environmental investment or initiative are larger than the costs associated with it (Kurucz, Colbert, & Wheeler, 2008, p. 84). This view sees companies as rational actors with activities driven solely by efficiency and profitability (Brown, Vetterlein, & Roemer-Mahler, 2010, p. 6) which is in accordance with the view of firms in microeconomic theory (Perloff, 2009, p. 228). Furthermore, the CSR proponents of the economic drivers point out that firms engage in CSR since they perceive the engagement creating benefits that exceed the costs (Branco & Rodrigues, 2006, p. 112), and accordingly the business case interpret the same idea as the economic principle of profit maximisation.

Many of the economic reasons can be seen as sound business practise, hence one could argue that companies would engage in these initiatives regardless of naming it CSR or not. This may be true, however it does not change the fact that these actions still falls under the scope of CSR since these voluntary initiatives benefits society and environment.

#### ***2.3.1.1 Direct economic profits***

There are situations when CSR clearly illustrate a strategy for profit maximisation, and can create a direct positive impact on profits, by either increasing revenue or cutting costs. These benefits are often expected to occur in the short run, and therefore differs from many other CSR benefits that are expected to occur in the long run.

Direct economic profits can be made through improving environmental practises. This could be exemplified by a company that invests in cleaner and more efficient production technology receives lower production costs. This consequently implies

higher profits, simultaneously as improving its environmental performance (Utting, 2000, p. 20). Moreover, improved environmental practises can also make the company eligible for eco-subsidies from the government. Typical examples of these are subsidies for renewable energy, bio-fuels, organic farming, and low carbon technologies (Visser, Matten, Pohl, & Tolhurst, 2007, p. 171).

Another way of creating financial profits of the firm is described by Prahalad & Hammond's "bottom of the pyramid" concept. The idea of the concept is that a company targets a poor undeveloped market and supply this markets with goods that initially were not available for the poor consumers in this market. Consequently, a new market is created for the company's products, hence greater income and revenue for the business, simultaneously as the new costumers receives the opportunity to engage in consumption and production which can help the poverty-stricken society out of poverty (Prahalad & Hammond, 2008).

#### **2.3.1.2 Investors**

In *The Market for Virtue* Vogel describes the business case to best be studied by analysing the three forces that drives it. These three are consumers, employees and, what this section will examine; the investors (Vogel, 2005, p. 46).

Since the general public has become more concerned about CSR issues, there nowadays exists a large and growing body of shareholders on the stock market that especially take ethical considerations into investment decisions (Matten, 2006, pp. 11-12). Investors with these values can be important for a company to attract. Therefore, to comply with criteria for social funds can create an additional way of retaining capital. In addition, if the demand for stocks of socially responsible firms is rising, then the prices of these stocks are expected to go up, which means that these companies will gain an advantage over less responsible competitors (Vogel, 2005, p. 61).

#### **2.3.1.3 Employees**

To attract talented and skillful employees through the company's CSR commitment is also a reason to why companies choose to engage (Matten, 2006, p. 9; Vogel, 2005, p. 16). Some advocators claim that CSR commitment can lower personnel costs since some workers would be ready to work for a lower salary at a company with an attractive CSR approach (Vogel, 2005, p. 56).

#### *2.3.1.4 Consumers*

The consumer influence on why companies engage in CSR is multifaceted. Various ways of how CSR can be used as a mean of attracting consumers and responding to consumer pressure will be described in this section.

As economic theory proclaims, the firm is to supply the market with what consumers demand. A consumers will buy the good that provides the highest utility for the consumer, given his/her's individual preferences, taste, and budget constraint (Perloff, 2009, p. 74). Many surveys show that consumers proclaim valuing CSR into their buying decisions (Vogel, 2005, p. 47; Hopkins, 2003, p. 89 & 118) and consumers are described to avoid what they consider irresponsible (Hopkins, 2003, p. 89). To meet demands and expectations for CSR therefore becomes important for companies to capture additional customers and/or more satisfied customers (Matten, 2006, p. 9).

Differentiation when engaging in CSR can create a comparative advantage for a company. As microeconomic theory states, if the company successfully manage to differentiate its offer to the market in a way that customers want, then the company will be facing imperfect competition. In this situation revenue can be increased, when the charged price exceeds the marginal cost of production. This situation where differentiated or rare products are supplied is called monopolistic competition and implies that the company becomes less of a price taker, and more of a price setter (Perloff, 2009, p. 432). As explained by McWilliams & Siegel, many authors have developed the concept of CSR as a differentiation strategy that can be used to sustain a competitive advantage (2011, p. 1482).

Differentiation can also be used as a mean of reaching niche markets that the company would otherwise not have access to. Crane exemplifies this by explaining that a company can choose to differentiate on basis of ethical products to serve a niche market where customers have strong ethical preferences (2008, p. 215). Although differentiation can also be used to serve a bigger market, and as Crane points out, most companies choose a more mainstream orientation instead of a niche ethical differentiation, to serve a greater market where they believe the customers' ethical concerns to be secondary to other considerations when purchasing. However, secondary does not imply that these companies should

ignore the influence of ethical differentiation, since this element is typically one of the elements in the portfolio of differentiating factors that are crucial to gain a significant market share in the mainstream markets (Crane, 2008, pp. 215-216).

As means of creating a competitive advantage towards less responsible firms communicating to customers, branding, and reputation, is important. CSR can be, and has been, used as a way of strengthening the brand and improving the reputation (Whitehouse, 2006, p. 287) which can attract customers.

Consumers encompass the power to punish companies that are not acting in a way that they consider responsible. Blowfield & Murray explains that consumption today play a pivotal role in our social life and personal identities, likewise brands has gain a role not significantly different from the role of religion or ideology in previous eras (2008, p. 11). As Kendall, Gill & Cheney proclaims there are many way for consumer action, both as individuals and collectively, that can force companies to act more responsibly. Among these actions are a selection of internet based options, telephone calls, boycotts, buycotts, social movement alignment e.g. anti-sweatshop, and military actions etc. Many of these actions have successfully come to change corporate behaviour, and it can be concluded that contemporary consumerism presents a possibility for political action (2007, pp. 244-248). Hence, CSR can be a way of managing the negative risks of consumer actions associated with acting in a non-responsible way.

To sum up the multifaceted reasons consumers comprise as reasons to why companies engage in CSR; the profit maximising strategy for meeting the demands of consumers can both be seen as a way of increasing revenue when finding, attracting, and satisfying customers today, but also as a way of managing risk, reputation, and brand for the future.

### ***2.3.1.5 Avoiding governmental regulation***

Since the 1980s a strong emphasise of the free market lead to several structural changes of the market, e.g. deregulations and privatisations of state-owned companies (Utting, 2000, p. 1). Consequently, governments lost some of its power and business gained more, which was also an effect of the globalisation that was taking place. Companies today are not, if they ever where, solely regulated by government and, as Abbott & Snidal explain, power is nowadays divided in a

"government triangle" of firms, NGO:s<sup>\*</sup>, and the state (Brown, Vetterlein, & Roemer-Mahler, 2010, p. 12). Today citizens are better educated, more affluent, and better informed, hence more concerned with that corporate excesses are checked and punished, than in earlier times when citizen were more tolerant toward corporate behaviour and/or had lower expectations (Sadler, 2002, p. 162). To be a good corporate citizen, and to engage in CSR, becomes a solution to an ongoing debate regarding the economic and political power of multinational cooperations in the global economy (Matten, 2006, p. 30).

Thus CSR engagement can steam from a contextual situation where the influence of civil society increased, as governmental power has been reduced and company power has risen. Additionally CSR can be a way of avoiding future governmental regulation. It is easy to understand that voluntary regulation from a corporate point of view, could be preferable to governmental. CSR, as a way for the company to voluntarily regulate itself, may forestall legislation and create or maintain a greater corporate independence from government (Matten, 2006, p. 9).

According to Sadler, for some companies CSR can even be a mean of keeping their licence to operate. Sadler explains that the international trend towards privatisation in the UK has made utilities, public transport, telecommunications, etc., privately owned. It now is the task of regulator or appointed authority to monitor the standards of service in public interest, and if this is found inadequate the licence to operate should be revoked or not renewed (2002, p. 162).

### ***2.3.1.6 Game theory application***

In the literature on CSR microeconomic game theory (Perloff, 2009, pp. 477-503) is seldom mentioned, and very few studies discussing CSR in terms of game theory were found for this paper. Possibly this is due to the difficulties of quantifying the effects of CSR engagement. As, among others Matten describes, the outcome benefits of CSR are difficult to measure (2006, p. 21), since many of the potential benefits are hard to quantify e.g. better relations with society or improved reputation. However, I personally find game theory an interesting and pedagogical way of expressing reasons to why companies engage in CSR and therefore include this theoretical perspective.

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<sup>\*</sup> Non governmental organisations

In Table 1 an example of a game theoretical application of CSR will be illustrated. If the theoretical reasons explained above are sound and influential, thus given that companies are engaging in CSR since that behaviour create benefits larger than cost, and a possible competitive advantage, then a possible matrix can emerge:

**Table 1 Payoff matrix for two companies**

		Company B	
		No CSR	CSR
Company A	No CSR	0, 0	$\leq 0, > 0$
	CSR	$> 0, \leq 0$	$\geq 0, \geq 0$

As described in section 2.1, companies are increasingly engaging in CSR, which in this matrix could be explained as a result of two scenarios. In scenario one, a company chooses to engage because the company perceives a potentially larger outcome if engaging and therefore do so. In scenario two, the action is a consequence of avoiding a negative outcome where the other company has already started engaging (and is enjoying first-mover advantage and highest possible gain because of differentiation). No CSR - no CSR would not be a stable outcome since both companies can see possible gains with engaging, furthermore, both companies face the risk of not engaging when the other company does. This No CSR - CSR outcome creates a loss for the company not engaging and the highest possible outcome for the company engaging. Hence, in this matrix, engaging is always the dominant strategy.

This implementation of game theory and the conclusions are my own, and represents a game theory application that can show why companies are increasingly engaging in CSR. Game theory could be used to explain many of the reasons to why companies choose to engage in CSR. My application shows CSR as a profit maximising strategy of the firm, and emphasis that CSR creates benefits for the company which exceeds the cost of engagement. Another example of how game theory can help to explain why companies engage in CSR is made by Zhu & Li (2013). In opposition to my implementation, Zhu & Li points out CSR as costly and even profit decreasing. However, their analysis which includes

the government, shows that companies can still choose to engage, even when profits associated with engagement are negative.

Zhu & Li describe two matrixes, illustrated in Table 2 and 3. The first is a game situation similar to the one mentioned above, with two companies and their action of bearing social responsibility or not; CSR or no CSR. The outcome of this game differs from mine. Zhu & Li explain the advantage of not engaging in CSR when the other company does, being the highest possible outcome that the company not engaging can reach. This is due to the price of being the sole barer of the cost of CSR. The optimal outcome for both companies would be to both engage, but due to the advantage of not engaging when the other one does, no CSR - no CSR will be a Nash equilibrium in this Prisoner's dilemma scenario.

**Table 2 Zhu & Li's Payoff matrix for two companies**

		Company B	
		No CSR	CSR
Company A	No CSR	3, 3	9, 1
	CSR	1, 9	5, 5

**Table 3 Zhu & Li's Payoff matrix with government's involvement**

		Company	
		No CSR	CSR
Government	No supervision	0, 0	10, -10
	Supervision	11, -13	8, -10

Zhu & Li's second matrix explores how a game between a company and the government can solve the Prisoner's dilemma in the first matrix. The company still face the choice of CSR or no CSR. The government, representing the interest of the public, face the choice to supervise or not supervise. Supervision is associate with a cost of the supervision, a gain from fines, and societal gains from the company taking greater responsibility. Consequently, the government can receive a gain in all situations when supervising and also when the company is engaging but the government does not supervise. The company on the other hand loses in all scenarios except no CSR - no supervision. This initial scenario is a 0,0 outcome for both, and since the government can receive a higher outcome in any

other scenario its rational strategy becomes to supervise. As a result, the company's rational long run response will be to engage. This long run response gives government the possibility of not supervising and still receiving the advantages of the company engaging minus the income from the fines. This matrix indicates no clear outcomes and mixed strategies of both participants. The calculations in the article shows that it is somewhat likely for government to supervise and for company to engage.

Zhu & Li conclude their two analysis by pointing out that CSR in the long run is the optimal strategy for companies, however that companies in the short run will choose not to engage in CSR. They also point out the potentials for the government to encourage companies to take greater responsibility (Zhu & Li, 2013).

### **2.3.2 Moral**

The reasons above do all relate to the business case of CSR. The connection might not always be crystal clear and visible in the short run, but at least if seen in a longer perspective many have argued these to have a positive economic impact on the business. However, economic reasons are not the only ones explained in the literature of CSR, and many choose to emphasise the moral and ethical reasons to why companies engage in CSR (see, for example, Matten, 2006, pp. 22-30; Werther & Chandler, 2006, pp. 15-19). The moral and ethical reasons for engaging is often associated with concepts as "doing the right thing" (Matten, 2006, p. 22) or "Doing Good to Do Good" (Vogel, 2005, p. 17). Some models that explain CSR expressively points out moral and ethical reasons for engagement. An example is Brown, Vetterlein & Roemer-Mahler's model that categorise explanations of corporate social engagement into influences from the external and internal structure. Examples of internal structures are corporate culture, and among internal actors the influence of manager's values/beliefs and employees can be found (2010, p. 6).

Consequently, a company can choose to engage in CSR for the sole reasons of wanting to take a greater social and/or environmental responsibility. This decision can stream from a company culture that values and cares about this, from the employees, or from management.

### **2.3.3 Different companies, different motivations**

Above a sea of reasons for CSR engagement has been described, and as one can understand different companies will engage for different reasons. As Visser describe, each region, country, and community has a different combination of drivers (2013, p. 9).

This view also finds support in Katharina Schmitt's synthesis of surveys about CSR practices across four different sectors. An important conclusion that Schmitt draws is that companies are engaging in CSR approaches that connects to their business operations which, as she describes, therefore results in different industries having different CSR approaches (2009, p. 126). The study shows that the oil sector and banking sector engage to a higher degree than the fish processing sector and the automotive sector. Schmitt suggests this possibly being a consequence of the oil and banking sector having a longer history of involvement in voluntary initiatives which developed expertise, higher exposure to public scrutiny and pressure due to e.g. economic power or corporate scandals, and larger company size which imply more resources that can be devoted to CSR (Schmitt, 2009, pp. 126-129). This study is further described in chapter 3.3.

Another survey made by the Institute of Public Policy Research points out a difference between the industrial and service sector. These results states that the industrial sector is more likely than the service sector to implement policies across workforce and environmental issues. The report from the survey suggest that this can be a consequence of the industry sector experiencing greater pressure from various stakeholders about their social and environmental impact (Joseph, 2002, p. 5). For more information and results from this study, please see chapter 3.2.

The explanation that different companies will engage in CSR for different reasons is one that finds support in literature. In the research being made for this paper, no evidence or even suggestion that there would be a universal rationale for engaging in CSR has crossed my way. This has led me to one side of the coin constituting my hypothesis - that different companies will engage in CSR for different reasons. The other side of the coin reflect on the existence of companies that are similar. Companies in an industry are companies that I expect to be similar, since these most likely would face similar external factors and pressure, and with business

practise in the same field I would expect these companies to express similar reasons to why they choose to engage. Consequently the differences between different companies, and the similarities within a industry, has lead to my hypothesis stating:

Companies in different industries engage in CSR for different reasons.

### **3. Earlier empirical research**

As one could understand from chapter two the theoretical approach towards CSR is clearly extensive. As described, many scholars and academics are investigating, outlining, or arguing the concept of CSR. However, the empirical research conducted on the reasons for engagement, appears to be surprisingly small. There has, to my knowledge, not been any study investigating why companies engage in CSR through a combination of survey and interviews, and with a focus on industry differences, as in this thesis. Case studies and literature studies seems to dominate the research on this matter. In this chapter the three quantitative studies found, that address the reasons to why companies engage in CSR or industry differences, will be presented.

#### **3.1 The Economist's survey**

In The Economist special report on Corporate Social Responsibility called "Just good business" a survey carried out by The Economist and their sister company Economist Intelligence Unit was presented (The Economist, 2008).

This online survey was carried out globally and had 1,222 respondents. The survey consisted of seven questions about the respondent company's CSR definitions, priority, perception of responsibility, engagement, and main business benefits. Table 4 and 5 shows some of the results from this survey.

**Table 4 The Economist's survey of main benefits**

<b>What are the main business benefits to your organisation of having a defined corporate responsibility policy? Select up to three.</b>	
We have a better brand and reputation	52.9%
We make decisions that are better for our business in the long term	42.4%
We are more attractive to potential and existing employees	37.5%
We meet the ethical standards required by our potential and existing customers	35.6%
We have better relationships with regulators and lawmakers	27.7%
Our revenue is higher than it would otherwise be	6.5%
Our costs are lower than they would otherwise be	5.9%
Other, please specify	1.5%
None of above; Our corporate responsibility does not benefit our business	4.5%
Not applicable; We do not have a defined corporate responsibility policy	13.1%

**Table 5 The Economist's survey of CR**

<b>Which of the following statements do you agree with? Select all that apply.</b>	
Corporate responsibility is a necessary cost of doing business	53.5%
Corporate responsibility gives us a distinctive position in the market	53.3%
Corporate responsibility is meaningless if it includes things that companies would do anyway	22.6%
Corporate responsibility is a waste of time and money	3.8%

(Economist Intelligence Unit, 2007)

The results do not appear to support *Direct economic profits*, and the principle of profit maximisation solely, as the main benefit of CSR engagement, since CSR as a mean of increasing revenue or lowering costs obtain relatively weak support. Instead several other benefits receive stronger support. Better brand and reputation and creation of market position indicates benefits from differentiation and competitive advantage as described in *Theory*. Decision making for the long term, attracting employees, and attracting customers are the following main benefits mentioned and possibly reasons central for engagement. These benefits could be argued to be means of achieving profit maximisation, however, the results do not outline this connection as the main benefit, considering the earlier mentioned low support for CSR increasing revenue or lowering cost.

### 3.2 Institute for Public Policy Research - What's on the agenda?

"What's on the agenda?" was a survey carried out by Ella Joseph at Institute for Public Policy Research where 500 directors of UK companies were asked about their views on social and environmental activities in their organisations. The survey was conducted as telephone interviews and the selection group consisted of companies of different sizes, industrial sectors, and geographic regions (Joseph, 2002, p. 5). In the following paragraphs results relevant for this paper will be presented.

The survey investigates if CSR issues are raised in the boardrooms, and the results shows that 63% of the respondents environmental issues routinely or occasionally whilst 48% say to discuss social issues routinely or occasionally. 49% of the responding directors think that the organisation's social impact is important (Joseph, 2002, p. 5). These results indicates CSR being on many boardrooms' agendas, hence the *Board of Directors or top management* can be a significant factor to why companies engage in CSR.

Other results of the study shows that more than three fourths of the directors engage in CSR policies because they believe they benefit from doing so, with the exception of charitable donations. This does not vary between the investigated sectors. However, industrial organisations are, in comparison to other sectors, more likely to have CSR policies in all areas investigated except changing the profile of workforce. The largest difference between the sectors is in the initiative of reducing greenhouse gases (Joseph, 2002, p. 6).

Another section of the survey investigates who encourages improvements in social and environmental impacts. Table 6 shows groups that were stated as important by the directors.

Table 6 IPPR's survey

<b>Stakeholders that encourage organisations to think about their impact on society and the environment:</b>			
<b>Stakeholder</b>	<b>Total</b>	<b>Sector</b>	
		<b>Industrial</b>	<b>Services</b>
Employees	82%	85%	79%
Customers	81%	86%	77%
Business representative organisations	68%	71%	66%
Shareholders	65%	73%	59%
Government	63%	68%	58%
Investors	58%	61%	55%
Suppliers	54%	62%	48%
Media	51%	53%	50%
European Union	47%	56%	41%
Local councils	47%	58%	39%
NGO:s	39%	44%	35%
Devolved Governments (e.g. Scottish Parliament)	26%	30%	24%

(Joseph, 2002, pp. 57-60)

The results states that there are various actors that, according to the directors, encourage the company to think about CSR. These results are of particular importance for this study, since these actors are also likely to be factors influencing why companies engage in CSR.

### 3.3 Schmitt's four sector synthesis of surveys

Katharina Schmitt conducted a synthesis of four similar surveys with the aim to investigate the differences and similarities between industries, in CSR perceptions, policies and implementation, issue areas, and company size. These questionnaire type surveys was carried out in 2005 and 2006, in four different sectors; the oil sector, fish processors, banking, and the automotive (Schmitt, 2009, p. 63). Although this study was not conducted to conclude why companies engage in CSR and industry differences on this matter, there are still some interesting findings relevant to this thesis described in the paragraphs below.

Schmitt points out how the companies CSR approaches are closely in line with their core operations, and it is shown that there are variations between the sectors

in relation to their prominence to different CSR issues. When rating what CSR issues that are highly relevant for the company, the data shows e.g., that the fish processing sector is the only ones committed to sustainable fisheries, that the oil sector is most committed to migration of climate change, and that minimising risks for chemicals is important for the oil sector, fish processors, and automotive sector whilst not at all for banking sector (Schmitt, 2009, pp. 125-126). If companies in different sectors/industries are focusing on different initiatives, it is not unlikely they have different reasons for their engagement (as discussed in section 2.2).

Other results from this study suggests that different sectors are at different development stages of CSR. The oil sector and banking sector are targeting more CSR issues and they are stated to systematically measure their CSR performance to 70 and 90 percent respectively, whilst the fish processing sector and the automotive sector only measures to 13 and 23 percent respectively (Schmitt, 2009, p. 128). If there are different development stages in different sectors, as Schmitt's study suggests, then this might be one reason to why a company in a more developed industry chooses to engage in CSR.

The results Schmitt put forward are interesting and help providing a comparison between different industries CSR engagement. However, they are conducted from a synthesis of four different surveys and do only have a small number of respondents which do generate the risk of not showing a representable picture.

### **3.4 Overall impression**

In none of the three empirical studies presented, profit maximisation is directly outlined as being a main reason for engaging in CSR. Instead various reasons are mentioned. In The Economist's survey the seven main benefits can be related to *Economic reasons* of engagement, at least indirectly or in long run perspective. Companies in this survey also proclaim to perceive CSR as a necessary cost of doing business (53.5%). This might imply that companies do experience pressure to engage from some actors. In IPPR's survey it is shown that many stakeholders largely encourage CSR. The results presented from Schmitt's study do not outline

what reasons or actors that influence why companies engage in CSR, however, concludes that sector differences in engagement are evident.

The overall impression from the studies described is that there appear to be many actors and factors influencing CSR engagement.

## **4. Empirical methodology**

In this chapter the choice of methodology for this study's empirical part will be described. The aim is to investigate the reasons presented in theory through empirical research.

The empirical research consists of a survey and interviews with companies. This seeks to retain data easily quantifiable through the survey, in combination with qualitative data from the interviews. The combination can hopefully provide a more nuanced picture and greater depth than a choice of solely one method could offer, in examining the reasons for engagement and difference between industries.

### **4.2 Survey**

Seven questions constitute the survey (see Attachment 1). Some of the questions are of open character for the company itself to describe why they engage in CSR whilst other are of multiple-choice type. The factors chosen for these questions are factors recurring in theory (see chapter 2.3).

The analysis of the results will focus on data collected as response to Question 2, 6 and 7 (see Attachment 1). Question 1 is only included to avoid the same company responding twice. Question 2 interpret an division of wide industries that I concluded from the list of companies that were contacted. Question 3 - 5 describes the company's current CSR engagement, but not the reasons for engagement. Although this is interesting, I choose not to include it in my analysis for two reasons. Firstly, the data complicates the analysis and makes it harder for the reader to follow and for conclusions to be drawn. Secondly, it is not directly what this study aim to investigate. However, the questions were included in the survey in case they would provide additional useful information, or if respondents would have replied in an unexpected manner.

The survey data will be used to create diagrams that illustrates why companies engage in CSR. Data from Question 6 where respondents agreed or disagreed with statements in regard of factors influencing their CSR engagement will be converted into a diagram showing factors influence on a scale from -2.0 to 2.0. A student's t-test will be preformed to outline if the individual factors' influence statistically differs from zero, hence are influential. Data from Question 7 will be presented in a diagram showing the main reasons for the companies engagement, where the written responses have been sorted into categories.

To find a sufficient large selection group for the survey a list of companies in the United Kingdom provided by London Stock Exchange (LSE, 2013) was used and sorted to exclude financial instruments and funds that were listed among the companies. Furthermore the list was narrowed down to only include companies in the London region. This gave 610 companies. Contact details could be found for 543 companies and these were contacted by email. 47 chose to take part in the survey.

### **4.3 Interviews**

For the interviews, 15 questions are prepared (see Attachment 2). All questions aim to be of open character to give the respondent a chance to freely and in depth describe why their company engages in CSR. Three questions are asked "from a different perspective" to see how the respondents would estimate others reasoning in regard of the company's reasons for CSR engagement. Two questions discuss industry specific factors for CSR, to outline how they reasoned around the hypothesis in regard of industry differences that is put forward in this thesis. Due to the open character of the conversations, useful answers for this study will appear at different times in the different conversations depending on how the conversation develop. In the analysis of the interview responses, the main reasons being put forward will be summarised as a resumé from the interview made from my memory, notes, and recordings. Additionally the interview data will be presented as a summary of factors of engagement that were mentioned during each interview, in an attempt to quantitatively outline various factors' influence.

To find representatives to interview 76 companies were contacted by phone and email. Many of these companies are known for their CSR engagement and were

found through a list of companies praised for their CSR engagement (BITC, 2012) or through searches on the internet. Representatives from seven companies chose to participate: Sodexo, Costa, National Grid, The Body Shop, Superdrug, Deutsche Bank, and Willmott Dixon.

#### **4.4 Critics and thoughts with regard of selection groups**

Hopefully the two selection groups chosen and contacted for this study are representative for companies in UK in general, which is the group the data aims to present. However, as with all selection groups, there is always a risk that they are not. For example, there is an inherited risk that companies whom choose to take part in a CSR study are more interested and engaged in CSR, than the ones that choose not to participate, and possibly the reasons of their engagement can be biased.

Companies contacted for the survey were all on the London Stock Exchange, thus public limited companies owned by their shareholders. This could be a factor influencing the rationales for CSR engagement e.g. from harder demands on external communication and transparency. For the interviews, companies were found through searching for companies working with CSR, and with an appointed CSR, CR\* or sustainability manager that could be contacted. This was to facilitate that the person being interview most likely could answer the questions about CSR, however in the contact progress exclude all companies working with CSR without an appointed manager, which can also influence the results.

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\* Corporate Responsibility, another term for what in this thesis defines CSR.

## 5. Results and analysis

The results of the empiric research conducted will be dealt with in two chapters. In this chapter the results will be presented and analysed. The first part of this chapter spotlights the results for all companies, and aims to answer the main question of this study: *"Why are companies engaging in CSR?"*. The second part will present results sorted by industry, which aims to find support for or against the hypothesis stating that companies in different industries engage in CSR for different reasons. Chapter six will further discuss the empirical results and conduction of the research.

### 5.1 All companies

In this section data from all companies is presented, regardless of industry belonging. In the first section are the diagrams made from survey data, and results from the student's t-test of various factors influence. The second section will present the results from the interviews.

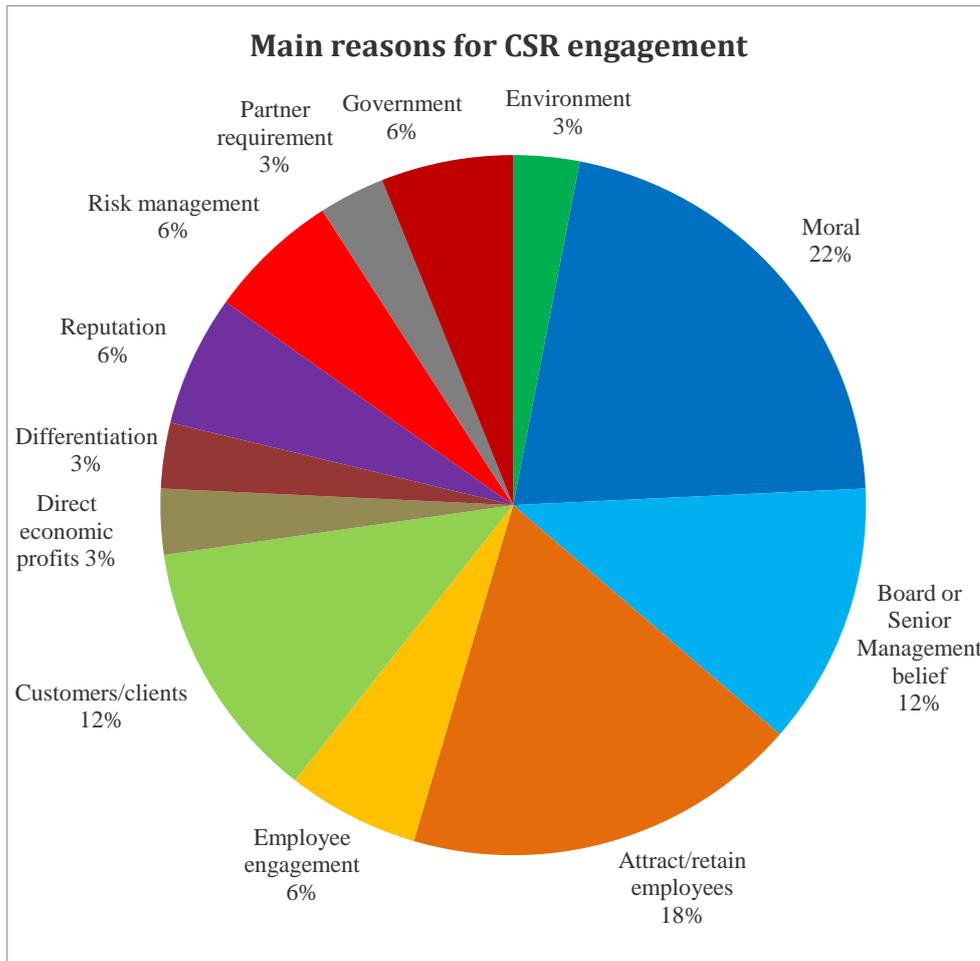
#### 5.1.1 Survey results

Survey results are shown as *Main reasons for CSR engagement* and *Factors influence on CSR engagement*.

##### 5.1.1.1 Main reasons for CSR engagement

Diagram 1 shows survey results for main reasons for CSR engagement, which is an interpretation of how the survey respondents answered Question 7: "What are the main reasons for the company's CSR engagement?". The written answers have been grouped into categories with similar responses.

Diagram 1 Main reasons for CSR engagement



Results from survey Question 7 describing the first main reason of companies CSR engagement.

As the diagram shows, *Moral* reasons were mentioned the most times, followed by *Attract/retain employees*, and the *Board or Senior Management belief* and *Customers/clients* sharing a third position.

To analyse the main reasons it can be interesting to put them into three wider groups, which shows:

- *Moral: Moral and Board or Senior Management belief ( 34%).*
- *Employees: Attract/retain employees and Employee engagement (24%)*
- *Economic reasons: Customers/clients, Direct economic profits, Differentiation, Reputation, and Risk management (30%)*

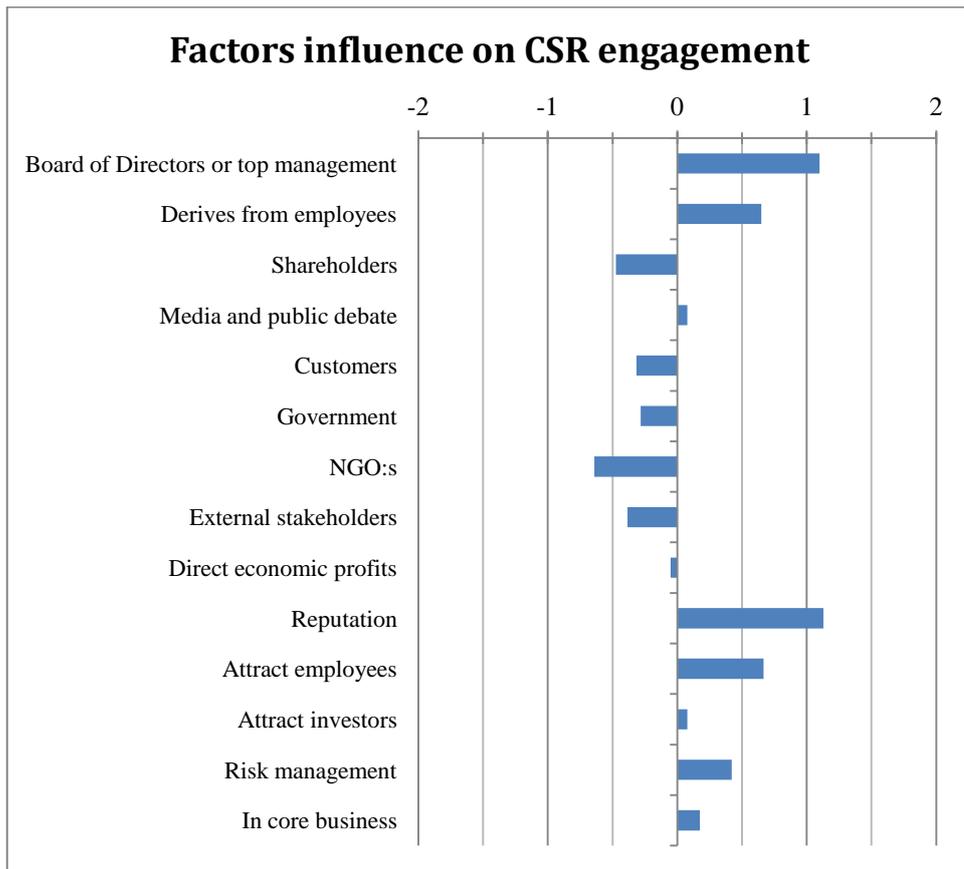
The responses appears to be relatively evenly centred around these three wider reasons. Of course, some employee related reasons could also fit as *Economic reasons* which would then make this reason category stronger than *Moral*:

- *Moral: Moral, Board or Senior Management belief, and Employee engagement (40%).*
- *Economic reasons: Attract/retain employees, Customers/clients, Direct economic profits, Differentiation, Reputation, and Risk management (54%)*

### 5.1.1.2 Factors influence on CSR engagement

Diagram 2 shows the results of how companies describe different factors' influences. This diagram is an interpretation of how the respondents agreed or disagreed with the statements in Question 6 (see Attachment 1).

Diagram 2 Factors influence on CSR engagement



*Interpretation of responses from Survey Question 6, explaining different factors influence on CSR engagement. 2.0 is the maximum strength a factor can be given ("strongly agree" from respondent) and -2.0 represent "strongly disagree".*

### 5.1.1.3 Student's t-test

To outline which factors that are influential to why companies engage in CSR, the factors described in Diagram 2 are tested with a student's t-test to outline if a factors influence differs from zero.

The table shows calculated results in italic.

Table 7 Student's t-test

Factor	Mean	Standard derivation	Number of observations	Calculated t-value	Test of hypothesis
Board of Directors or top management	<i>1.10</i>	<i>1.01</i>	40	<i>6.90</i>	H <sub>1</sub>
Derives from employees	<i>0.65</i>	<i>1.10</i>	40	<i>3.74</i>	H <sub>1</sub>
Shareholders	<i>-0.47</i>	<i>1.27</i>	38	<i>-2.30</i>	H <sub>1</sub>
Media and public debate	<i>0.08</i>	<i>1.35</i>	39	<i>0.36</i>	H <sub>0</sub>
Customers	<i>-0.32</i>	<i>1.32</i>	38	<i>-1.48</i>	H <sub>0</sub>
Government	<i>-0.28</i>	<i>1.19</i>	39	<i>-1.48</i>	H <sub>0</sub>
NGO:s	<i>-0.64</i>	<i>1.04</i>	39	<i>-3.86</i>	H <sub>1</sub>
External stakeholders	<i>-0.38</i>	<i>1.16</i>	39	<i>-2.07</i>	H <sub>1</sub>
Direct economic profits	<i>-0.05</i>	<i>1.35</i>	38	<i>-0.24</i>	H <sub>0</sub>
Reputation	<i>1.13</i>	<i>1.03</i>	39	<i>6.84</i>	H <sub>1</sub>
Attract employees	<i>0.67</i>	<i>1.26</i>	39	<i>3.30</i>	H <sub>1</sub>
Attract investors	<i>0.08</i>	<i>1.35</i>	39	<i>0.36</i>	H <sub>0</sub>
Risk management	<i>0.42</i>	<i>1.35</i>	38	<i>1.93</i>	H <sub>0</sub>
In core business	<i>0.18</i>	<i>1.47</i>	40	<i>0.76</i>	H <sub>0</sub>

Student's t-test outlining the influence of the various factors in Diagram 2. Critical values for t-distribution with significance level of 5 percent is 2.023 - 2.026. H<sub>0</sub>: Factor influence = 0. H<sub>1</sub>: factor influence ≠ 0.

The results of this t-test shows the respondents of the survey agrees with the following factors being influential to why they engage in CSR: *Board of Directors or top management*, *Derives from employees*, *Reputation*, and to *Attract employees*. The respondents disagrees with the statements indicating that *Shareholders*, *NGO:s*, and *External stakeholders* are influential. The other seven factors are statistically too close to zero for any influence to be outlined.

## 5.2 Interview results

Information from the seven interviews conducted will be presented in this section. As the nature of interviews, it is not possible to show all information obtained and the reader will find a shorter reproduction of what I found most relevant for this study. I have, to my best ability, compiled this in three parts. First, there is a short presentation of whom were interviewed, in the table below. Second, the reader will find a short summary of each interview. Third, a table with factors mentioned has been produced, and in this part influential factors are also concluded.

**Table 8 Companies interviewed**

<b>Company</b>	<b>Industry</b>	<b>Business</b>	<b>Representative</b>	<b>Representative's role</b>
Sodexo	Services	Services	Edwina Hughes	CR manager
Costa	Retail	Coffee shop chain	Sandy Gourlay	CR manager
National Grid	Electricity and gas utility*	Electricity and gas utility	Caroline Hooley	CR & Sponsorships manager
Superdrug	Retail	Beauty and health	Steven Woods	Sustainability manager
The Body Shop	Retail	Beauty	Christopher Davis	International Director of Campaigns & CR
Deutsche Bank	Financial	Investment banking	Sarah Wyer	Volunteer Manager, Corporate Citizenship
Willmott Dixon	Construction*	Construction, housing, and property development	Julia Barrett	Director of Sustainable Development

\* These industries were not included as industry in the survey due to few companies of these industry in the survey group.

### 5.2.1 Interview resumés

This section contains the summaries of the conducted interviews. For the interview questions, please see Attachment 2.

#### 5.2.1.1 Sodexo

Already when answering the first question and defining CSR, Hughes mentions the need for it to stem from Board of Directors and Corporate Executive. For Sodexo these are important internal forces and individual Board members' involvement appears to have driven the engagement of the company. Sodexo also

discussed marketplace oriented approaches, as "to meet expectations", competitors' engagement and about the importance of being recognised and telling others what you are doing in the field of CSR. It is important to communicate enough to let people know what you are doing, but not too much so you cannot keep what you promise, Hughes explains. The most important external force (Question 4 & 6) are charities and the government. Hughes states that "charities challenge us to meet their agendas", and explains that they cooperate with charities in different partnerships. Business In The Community ("BITC") is one of these, that invites Sodexo to participate in CSR orientated projects and then in return offers Sodexo advice and guidance in their work with CSR. Long running partnerships like this one between BITC and Sodexo is compared with repeated games, where both will gain insights and influence. The influence of the government is two-sided, since it both represents the legislator and a key to be prepared for the future, simultaneously as it is also Sodexo's biggest costumers. Hughes explain that it is important to meet the needs of and serve the government. Considering direct economic profit there can be money to earn through e.g. selling used oil to companies that reuses it.

As main reason of engagement (Question 15) Hughes emphasise the employees, and to make sure that they feel they are working for a company that represent values important to them.

#### ***5.2.1.2 Costa***

As Sodexo, Costa also points out their CSR engagement to be, as Gourlay explains, "very much internally driven". Although in Costa's case it is being expressed slightly differently. Gourlay repeatedly points out how the employees own initiatives and engagement in community projects has a long going history in the company. It is this "true engagement of team members" to be ethical that creates a differentiation from other competitors and Gourlay reveal that CSR for Costa is: "A. The right thing to do, B. Creates business benefits". Carbon dioxide reduction cuts cost, however Gourlay also explains that many of Costa's initiatives cost money e.g. buying more expensive coffee and running the Costa Foundation. He does see other more indirect profits (Question 8) as a, for the industry, extraordinary low employee turnover and a great reputation that gives entrance to the market.

"Stakeholder engagement with our brand" is pointed out as main reason of CSR engagement, where the most important reasons, according to Gourlay, are: 1. Team, 2. Customers, 3. Partners (Question 15).

#### ***5.2.1.3 National Grid***

National Grid has a long history of social engagement of employees widely spread all over the company, but is now aiming at, through restructuring of their initiatives, together work towards the same CSR goals. Hooley explains CSR as a great tool in building trust and brand recognition. At the moment many unfortunately associate National Grid somewhat negatively, which Hooley explains steaming from the fact that the only time many of their customers actually "see" the company is when repairs or constructions are being made, which tends to cause irritation. To improve the image of the company, through showing and communicating more about what the company does, and to help their customers understand the big energy challenges of the future, CSR is a tool. As Hooley explains, National Grid's communication with their stakeholders is crucial.

The main reason of engagement (Question 15) is building trust.

#### ***5.2.1.4 Superdrug***

The interview with Superdrug differed slightly from the three conducted earlier, since Woods did not stress the employee engagement and employee retention as frequently, as the others, throughout the interview. Instead a greater amount of attention was given to practical examples of how energy saving and environmental initiatives, e.g. change of light in stores and reduction of packaging, has been done by Superdrug. In regard of profits from CSR, Woods states that the "energy-side initiatives have a massive financial impact on us", and explains how a direct profit is captured through reducing packaging and transport. Woods also points out that initiatives in the workplace hopefully will lead to less employee turnover and how branding can create a financial benefit.

As main reasons of engagement (Question 15) Woods concluded: 1. Create positive image to customers, 2. Staff morale, 3. Financial benefits.

### ***5.2.1.5 The Body Shop***

The Body Shop gave an impression of being different from the other companies in their approach to CSR, which appears to be more integrated into the business practise itself. Davis explained that "Body Shop is built differently from other companies", and has a great focus on community-fair-trade, campaigning, and environmental management that streams from the founder's belief that business can be used to make a change, which has been integrated into the business from the start. David explain that "people come to the company to buy products that are made with respect", if the brand was without this it would not have any customers.

Main reasons of engagement (Question 15) are describes as: 1. DNA, it is the way we were built, 2. Customers trust that we do, 3. Internally, are part of business for a good thing. Davis also adds a fourth reason: To save money.

### ***5.2.1.6 Deutsche Bank***

For the interview, Wyer prepared a list of reasons to why Deutsche Bank engage in CSR, including points as giving to society, values of the company, staff engagement in charity work, attract employees, branding, and differentiation. The bank runs many community projects and when asked about profits from CSR initiatives (Question 8 & 9) Wyer says that there are no direct economic profits. She explains that if Deutsche Bank would have been a retail bank then they might have made profits from market shares etc. However, it is an investment bank and therefore CSR does not create direct profits for them. The approach is described as more philanthropic.

The main reasons of engagement (Question 15) are: 1. Giving back to society and as a tool to live values, 2. Employees point of view, 3. Diversity, when giving employees the opportunity to work in charity projects.

### ***5.2.1.7 Willmott Dixon***

Willmott Dixon express several reasons to why they engage in CSR (Question 3). First of all, Barrett states that it is good business; it cuts costs, which increase margin and subsequently profits. CSR also improve the reputation of the business, hence more business can be won. In Willmott Dixon case, the CSR engagement internally stems from senior management which have chosen to devote a large

fulltime team to work with sustainability. Externally, government in the role as regulator is important, but the public sector is also an important client.

Barrett described the following three reasons as main reasons of engagement (Question 15): Minimising costs and therefore maximising profits, delighting our clients by keeping our promise, and reputation which enables us to win more business.

### 5.2.2 An overview

To present the findings from the interview in a more foreseeable way, Table 9 illustrates reasons that were mentioned during the interviews. It includes the same factors used for the presentation of the results from the survey, as well as two additional factors that were recurring or seemingly important.

**Table 9 Overview of factors mentioned in interviews**

Factor mentioned	Sodexo	Costa	National Grid	Superdrug	The Body Shop	Deutsche Bank	Willmott Dixon	Number of observations
Board of Directors or top management	x	x	x	x	x	x	x	7
Derives from employees		x	x		x			3
Shareholders								0
Media and public debate								0
Customers	x	x	x		x		x	5
Government*	x	x		x	x		x	5
NGO:s	x	x		x	x	x		5
External stakeholders		x	x	x	x	x	x	6
Direct economic profits**	x	x	<i>Unknown</i>	x	x		x	5
Reputation	x	x	x	x	x	x	x	7
Attract employees	x	x	x	x		x	x	6
Attract investors								0
Risk management	x						x	2
In core business***			x		x		x	3
Differentiation	x	x		x	x	x	x	6
Competitors engage	x					x	x	3

*Table showing what factors that were mentioned in the interviews and how many times a factor was mentioned in total.*

\* Mentioned as in role of legislator in the interviews.

\*\* From some of initiatives.

\*\*\* Negative answer to Question 9.

Factors mentioned in a minimum of five interviews will here be considered as influential factors. Hence, *Board of Directors or top management, Customers, Government, NGO:s, External stakeholders, Direct economic profits, Reputation, Attract employees,* and *Differentiation* are factors pointed out in the interviews.

*Shareholders, Media and public debate,* and *Attract investors* were not mentioned in any of the interviews. Accordingly, these factors do not appear to be influential reasons to why companies engage in CSR.

Other factors where mentioned in some but not all interviews.

### 5.3 Industry comparison

In this section results have been sorted to show what different industries answered to be the reasons to why they engage in CSR. In the first section data from the survey is presented and analysed. In the second section results of the interview will be analysed.

#### 5.3.1 Survey results

Table 10 presents the number of respondents from the chosen industries.

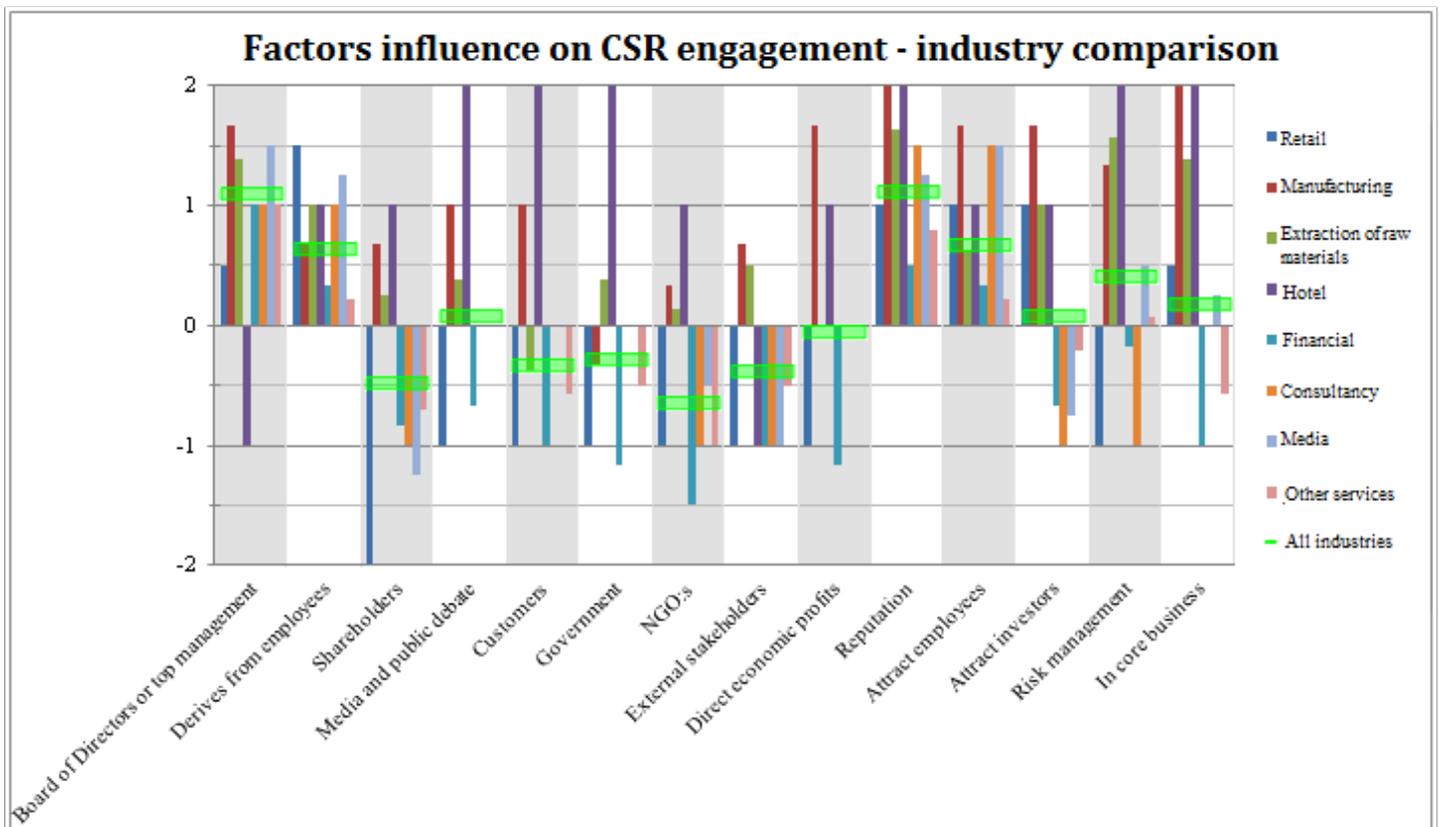
**Table 10 Survey participation**

Industry	Number of participants
Retail	2
Manufacturing	3
Extraction of raw materials	9
Hotel	1
Financial	7
Consultancy	5
Media	4
Other services	16

Since the participation in this survey was relatively low, the results presented in this section will not be strong enough to statistically show evidence for, or against, the hypothesis that companies in different industries engage in CSR for different reasons. The results can still indicate some trends or patterns, and will therefore be presented and analysed.

In Diagram 3, the reader can see that different industries seemingly value different factors differently. In many cases the industry response differs from the average from *All industries* (same as Diagram 2). To conclude a factor's influence here, focus will be given to reasons where the value exceeds 1.0 or is smaller than -1.0, which specify that the respondents either agreed or disagreed with the statement. Responses from Retail and Hotel will not given large attention, due to the very low participation from these industries.

Diagram 3 Factors influence on CSR engagement - industry comparison



Interpretation of responses from Survey Question 6, explaining different factors influence on CSR engagement, as an industry comparison. 2.0 is the maximum strength a factor can be given ("strongly agree" from respondent) and -2.0 represent "strongly disagree".

The influence of *Shareholders*, *Media and public debate*, *Customers*, *Government*, *NGO:s*, *External stakeholders*, *Direct economic profits*, *Attract investors*, *Risk management*, and *In core business* could be industry related. However, only *Direct economic profits* where Financial industry disagrees with the influence and Manufacturing agrees are results that differs enough to point out as different motivations, according to proclamation made that a value should be

larger than 1.0 or smaller than -1.0 to indicate an industry important factor. This factor would in this analysis therefore be the only factor to support the hypothesis about different industries different reasons for engagement.

### 5.3.2 Interview results

To make conclusions about what industry specific factors are reasons for companies engaging in CSR from the interview results can be somehow problematic. At least if these companies are chosen to be seen as representatives for their whole industry and if coincidence played a part in what reasons that were mentioned, or not mentioned, in the interviews. Therefore this section will only shortly analyse the results in this matter (see section 5.2 and in particular Table 9 for more information about specific interviews), to then explain what the interviewed companies themselves believed about company differences, which is opinions that constituted some more useful support for the industry hypothesis.

As shown in Table 9, the different companies respond differently. For example Deutsche Bank did not stress environmental initiatives and *Direct economic profits*, and *Differentiation* was not mentioned by National Grid. These two examples, that could be industry related, will be further discussed in chapter six.

More interestingly all the interviewed companies answered (Question 10) that they do believe other companies in their industry to work with CSR for the same reasons as theirs. When asked whether they believed that all companies are working with CSR for similar reasons (Question 11) their responses were more vague with some claiming that they do not know.

In regard of these responses to Question 10 and 11, some partial support for the hypothesis that companies in different industries engage for different reasons is found, as the companies' representatives appear to be more supportive of industry similar reasons than similar reasons for all.

## 5.4 Summary of results

In this section a synthesis and simplified version of the results is presented in this chapter. Furthermore, motivation of why these specific factors are outlined as influential or not influential is also presented.

### *Most influential factors*

*Board of Directors or top management* is mentioned in the survey as main reason for engagement, as presented by 12% of the respondents. Student's t-test outlines importance as factor of engagement and all the interviewed companies mentioned this factor.

*Attract employees* is described as main reason by 18% of the survey respondents. Student's test outlines the importance of the factor and CSR to attract employees is mentioned in all but one interviews.

*Reputation* is only mentioned as the main reason by 6% of the survey respondents. However, student's t-test outline importance and that factor is mentioned in all interviews.

*Moral* is the factor most commonly mentioned reason, by 22% of the respondents. To this *Board or senior management belief* 12% could possibly be added, if assuming that these beliefs are of moral character. The survey questions were not constructed to outline *Moral* as a single factor, however *Moral* is likely to be a significant factor for both *Board of Directors or top management* and *Employees*. In the interviews it was often pointed out that CSR stemmed from individuals will and interest for engaging in charity work etc. (e.g. National Grid and Costa). Hence this versatile factor appears to be a highly influential factor of engagement.

Another versatile factor of influence that stands out is *Economic reasons*, however not necessarily when limited to only include *Direct economic profits* which received relatively low results in the survey. On the other hand *Economic reasons*, as a group, received 54% of the main reason responses in Diagram 1, two of these reasons (*Reputation* and *Attract employees*) passed the t-test, and all interviews mentioned potential business benefits (e.g. Costa's "differentiation", Superdrug's

"cost-cutting environmental improvements" and Willmott Dixon's "increased profits").

### ***Non influential factors***

*Shareholders* is the factor that has the strongest support of not being influential, since it was not once mentioned as the main reason in the survey, the t-test outlined it as non influential, and none of the interviews mentioned this factor.

*Media and public debate* was not mentioned in any of the interviews, which considering the amount of factors that were mentioned during the interviews, is considered a strong support of it being a non influential factor. It was not mentioned as a main reason by any of the survey participants, however the result of the t-test did not support or reject the factor's influence.

*Attract investors* was the third factor that was not mentioned in the interviews or as main reason in the survey, but its influence was not statistically outlined in the t-test. The motivation for being included as non influential is consequently the same as the reasons for *Media and public debate*.

### ***Other factors***

For other factors the results from the empirical research is more vague, and at times even contradictory. Therefore conclusions about these factors will not be taken.

### ***Industry related***

The empiric research shows mixed results in regard to the industry hypothesis.

The analysis do point out some reasons of engagement as potentially industry specific, where *Direct economic profits* in the survey data finds strongest support. However, due to a small survey group, the findings are hard to use for a general conclusion on whether there are industry differences or not. The fact that all the interviewed companies did expressed that they believe other companies in their industry to engage in CSR for similar reasons as theirs, also constitute some

support for the hypothesis. These two indications support the hypothesis but is unfortunately not enough to validate its accuracy.

In addition, the existence of the seven factors outlined as important for all companies might show similarities rather than differences between industries, which does indicate that the hypothesis could be false.

Consequently the empiric results cannot be used to verify or discard the hypothesis stated as companies in different industries engaging in CSR for different reasons.

## **6. Discussion**

How did the empirical results from this study relate to the reasons described in theory and to results from earlier research? This is what the first part of this chapter will discuss. The second part will discuss my thoughts on this research, which includes my own opinion of this study's strengths and weaknesses.

### **6.1 As in theory?**

This section will discuss the empirical results of this study in terms of theory, earlier research and my own thoughts. First, the factors outlined as influential and non influential will be discussed. Second, the reader will find some thoughts about the industry hypothesis. Last, is a discussion about competitive advantages that ultimately ties together with my own game matrix presented in chapter two.

#### **6.1.1 Factors outlined**

This study concludes *Board of Directors or top management*, *Attract employees*, *Reputation*, *Moral*, and *Economic reasons* as factors with influence. All of these factors were described in CSR literature. The outcome of many factors appearing to be influential for why companies engage in CSR does somewhat explain the presence of the various reasons that were described in the *Theory* chapter, and also supports my initial assumption that profit maximisation solely is not sufficient to explain the existence of CSR (see chapter one).

Joseph's study pointed out that directors are engaged in CSR related activities. My study concludes that *Board of Directors or top management* is an influential factor to why companies engage in CSR. This finding can complement, and give Joseph's research additional strength, since this factor's stated influence shows that the opinions of the directors are very important for a company's CSR engagement.

The *Board of Directors or top management* factor was not included in The Economist's survey. However, most other factors outlined as influential in this study were in The Economist's survey too. Especially the influence of the group of reasons that I have chosen to call *Economic reasons*, can find strong similarities with the results of The Economist's survey. In regard of *Moral* the results differ, and this reason received no or, at most, low support if included in "Other" or "None of above" responses. Hence, the results from my study concur with this study in regard to economic factors, but differs in regard to the moral factors.

All the factor that were chosen to be included in the survey, where factors found in literature on CSR, hence were expected to have an influence on companies CSR engagement. The fact that some of these factors could be outlined as non influential is therefore highly interesting.

*Shareholders* is perhaps not the most recurring reason mentioned in the presented theory. However, it is pointed out as one of the stakeholders, furthermore is a group that potentially can be pushing for improved CSR to increase the value of their shares. Even though, the factor's influence was shown not to be a reason to why companies engage in CSR. One may argue that the reason to why shareholders were not mentioned in the interviews might be that none of the interviewed representatives were working directly with its companies' shareholders. Although, I assume the survey to have been conducted by people in different positions, and presumably some directors, hence, the fact that the t-test concludes the factor as not influential increases the validity of the conclusion that *Shareholders* are not a reason to why companies engage in CSR.

I was personally surprised that *Media & public debate* is found to be a non influential factor. In theory this factor is often mentioned, especially in cohesion with discussions of how government's power has decreased, whilst companies power increased. In this discussion civil society and media's watchdog role are

pointed out as important powers to regulate companies where governments earlier controlled. If this is not the case, the power of business might be significantly stronger than literature proclaims. This is a topic that I could discuss through several pages, however I have chosen not to, since it is not a conclusion that my research can support. My research only points out that this is not important, and not the underlying reasons to why it is not.

*Attract investors* is, in contrary to what academics proclaimed, concluded as a non influential factor. In the literature of CSR this factor appeared to be an important factor to why companies engage in CSR. In Vogel's book this factor is even outlined as one of three forces that drives the foundations of the business case for CSR (see section 2.3.1.2). On the other hand, among the earlier research presented in this thesis, it was not mentioned as excessively influential. Thus, my research presents additional empirical support for this not being a factor influencing why companies engage in CSR.

### **6.1.2 Hypothesis of differences among industries**

Even if the empirical research could not statistically outline if different industries engage in CSR for different reasons, some interesting point can be discussed from the empirical results.

In section 5.3.1 it was shown that only *Direct economic profits* could be described as a factor potentially differing between industries, where the financial industry disagrees with influence and Manufacturing agrees. It is interestingly noted that the more capital intensive and product producing industry agrees with *Direct economic profits*, whilst the industry less associated with these characteristics disagrees. Perhaps the manufacturing industry is using CSR as a way of cutting production cost, which would not be as applicable on companies in the financial industry. Thus, Deutsche Bank's focus on philanthropic initiatives instead of environmental and *Direct economic profits* could also illustrate this industry differencing factor, where Deutsche Bank choose to act where they can make a greater impact.

Although none of the other factors were outlined as differing between industries, some of them open up for discussion with the assistance of economic theory. One example is *Differentiation* in the gas industry. In the interviews National Grid was

the only company not stressing this factors influence. National Grid is also the only of the interviewed companies that possesses monopoly power, due to its monopoly position in the gas market (Economics Online). As a result of the company's position, one could argue that the answers of the company become representable for the whole gas industry, hence e.g. outlining *Differentiation* as a non influential factor for this industry. Unfortunately, opposing this, one could also argue that the reasons for *Differentiation* not being important for National Grid is due to the lack of competitors, not the industry itself. Thus, I will not draw any conclusion leaning on the proposed suggestion that National Grid would be resrepresentable for its industry.

The few results and vague conclusions on the hypothesis in regard of industry differences, can inevitably not be tied to theoretical reasons more than they could in the beginning of this work. Although it is interesting to note that the mixed results implies that some support was put forward in favour and some in disfavour of Visser's explanation that companies do have a different combination of CSR drivers (see section 2.3).

### **6.1.3 Competitive advantage and game theory**

To further emphasise the connection between theory and the empiric results, some additional reasons mentioned in the interviews will here be discussed. This discussion relates to the perception of competitive advantages, which will be connected to my suggestion of a game theoretical approach (see section 2.3.1.6).

As one can see in the presentation of the interview data, all but one of the company representatives mentioned differentiation as a reason of CSR engagement and many of the respondents clearly pointed out how their CSR engagement made them differ from their competitors (e.g. Costa). This supports the microeconomic theories presented earlier (see section 2.3.1.4) and shows that CSR can be used as a tool to differentiate the companies' offers to the market, from the competitors'. In the interviews it was never mentioned that they would or would not gain a higher mark-up because of this differentiation. However, the company charging a higher mark-up could possibly be an outcome of CSR. If this is the situation, then the company would be likely not to tell an outsider, as me, since this could be sensitive information that would risk the good reputation they

are working on achieving. *Reputation* was, as described in the results, one of the stronger influential reasons to why companies engage in CSR.

Another point worth mentioning is that *Differentiation* and *Reputation*, appears to be two reasons that are linked. In interviews, both were stressed. Additionally many representatives also pointed out the importance of communicating CSR to be able to capture the gains, or avoid the risks of not doing so (e.g. Sodexo). Here, marketing becomes an important tool of achieving the differentiation that creates a situation more similar to monopolistic competition, and once again an economic advantages of engagement can be sketched out.

The differentiation in combination with the perception of competitors engagement in CSR, expressed in interviews, can also be tied together to the game matrix I presented (see Table 1). From the interviews I discovered that at least three companies where first stating they use CSR to differentiate, to then later in the conversation explain that other companies also engage in CSR, which appears to be contradictive. However, after considering how this could be possible I realised that this ought to be a consequence of imperfect information and the forces that underpinned the game matrix presented. The companies does not know exactly who and how others engage. Furthermore, they do perceive great advantages of being differentiated, which they could also be in their approach to CSR not only as in whether engaging or not. Therefore they will choose to engage and, if possible, to engage differently. Due to imperfect information about what competitors do, companies will engage to capture first-mover advantages, but they will also set out to try to engage differently than competitors. This approach to differentiation, firstly validates my theoretical discussion about engagement being a dominant strategy (at least for the interviewed companies), secondly widens the discussion by integrating a game of differentiation in the CSR - CSR scenario.

## **6.2 Thoughts about this research**

One of the strengths of this paper, is that it does provide an outlining of influential reasons to why companies engage in CSR. Furthermore, it could also conclude that some factors that were expected to influence did not. Consequently, this

research constitute a contribution to the research on CSR, investigating the reasons for engagement.

It happily noticed that the factors chosen for the survey (Question 6, Attachment 1) very much corresponded with most of the factors mentioned in the interviews. It is therefore likely that the survey and the analysis of the results in fact managed to examine the most important factors. Additionally, the open character of Question 7 gave a great possibility for companies to freely describe their main reasons of engagement without the constraints of my knowledge of existing factors.

Moreover, as it turned out, the combined method of using a survey and interviews gave an opportunity to obtain a greater understanding of how data from the survey could be understood, as for example shown when Deutsche Bank explained how they did not perceive themselves gaining *Direct economic profits*, whilst other types of banks would have been more likely to. The understanding of the influence of *Moral* was also further enhanced when several companies explained different actors beliefs, moral, and ethics underpinning their work.

The mixed results in regard of the industry hypothesis brought up some interesting discussions. However, I now reflect that a hypothesis stating different industries valuing of factors might had been one easier to investigate, considering that many companies proclaimed the same, and not different, reasons. To facilitate for such a change, Question 6 in survey (see Attachment 1) could had been constructed as a scale for respondents to value different factors influence. However, with the current hypothesis about different reasons in different industries, the question type used in this survey constitute the great advantage of making the respondent read the statements more carefully than they would if they were only valuing a factor.

For practical reasons, not all 42 industries in the original contact list for the survey could constitute the industries for this study. The industries were broaden to include more companies, hence give greater number of respondents in each group. Consequently, the chosen industries came to include more different companies, which might have influence why conclusions in regard of the industry hypothesis could not be unambiguously drawn.

To sum up, this section has discussed some of the weaknesses of this study, and possibly where lessons can be drawn, furthermore, some significant strengths. To be able to present results that outlines a number of factors as influential or non influential to why companies engage in CSR, thus, a contribution to the research on CSR, is an achievement I am proud of.

## 7. Conclusion

From an economist's perspective, companies increased engagement in CSR is most interesting to investigate. A potential change in the market is evident when more and more companies engage in CSR and voluntarily choose to carry a greater responsibility for society and the environment. This greater responsibility most often comes with an additional cost to the company, thus there must be reasons as to why companies choose to engage. Profit maximisation, as economists most often proclaim drive companies, does not solely provide a sufficient explanation for this behaviour. Therefore, the reasons of CSR engagement ought to be examined. These are the reasons explored in this thesis. On the path towards this aim, a hypothesis stating that companies in different industries engage for different reasons has been discussed.

The current literature on CSR consists of numerous ideas and suggestion as to why companies engage in CSR, however, relatively few quantitative studies to outline their influence. Economic theory is not the most frequent way of explaining why companies engage in CSR. Nevertheless, microeconomic theories, e.g. competitive advantages through differentiation and game theory, has in this paper been used to help explain why companies engage in CSR.

The survey and interviews that constituted the empirical research, showed that *Board of Directors or top management*, *Attract employees*, *Reputation*, *Moral*, and *Economic reasons* were the most influential reasons to why companies engage in CSR. *Economic reasons* was brought forward since several factors that can be expected to create indirect or direct gain to business were frequently mentioned in both the surveys and the interviews. The research also concluded

*Shareholders, Media and public debate, and Attract investors* as non influential factors, which was somewhat surprising considering their importance in theory.

With regard to the hypothesis on differences among industries, the results were mixed. The reason of direct economic profit appeared to be a differentiating factor, and it was showed that the manufacturing industry agrees and the financial industry disagrees with the reason's influence. However, results showing that many companies regardless of industry mentioned the same reasons, contradict the hypothesis.

Consequently, this study concludes that there is not one single reason to why companies engage in CSR. The reasons are several, with extensive factors as moral and the perception of economic gains standing out as largely influential. The reasons to why companies engage in CSR appears to be almost as complex and overlapping as the concept itself.

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## Attachment 1: Survey questions

Question 1: Company name: \_\_\_\_\_

Question 2: Which of the sectors below does best describe the sector your business operate in?

- Retail
- Manufacturing
- Extraction of raw materials
- Hotel and similar leisure services
- Financial sector services
- Consultancy services
- Media
- Other services

Question 3: To what extent is the company currently engaged in CSR?

No engagement - Low engagement - Neither low or high engagement - High engagement - Highest possible engagement.

(If no engagement, please skip Question 5-7)

Question 4: What activities are the company currently engaged in? (Choose all that apply)

- Go beyond expectations in treatment of employees (e.g. paying more than minimum wage).
- Actively work to minimize environmental impact of our business practice (e.g. in transport or production).
- Actively work to minimise environmental impact of our product/service when it has reached the customer.
- Producing ethical/environmental-friendly product that has obtained external recognition for this.
- Including the views of external stakeholders in business decision making procedures.
- Provide assistance in public policy discussions where we do not have economic incentives to participate.
- Give charitable donations.
- Carrying out a community project of your own (initiating, administrating and financing).
- Other \_\_\_\_\_

Question 5: Which (ONE) initiative is the most prominent? (Given most attention from the company)

Question 6: Statements

Please describe to what degree the statements below represent the view of the company.  
Strongly Disagree - Disagree - Agree - Strongly Agree

- Our CSR engagement derives from our *Board of Directors or top management*.
- Our CSR engagement derives from *our employees*.

- Our *shareholders* pressure us to engage in CSR.
- *Media and public debate* has strongly influenced our CSR engagement.
- Demands from our *customers* has strongly influenced our CSR engagement.
- Pressure from *government* is a important driver in our CSR-work.
- Pressure from non-governmental organisations (*NGO:s*) is an important driver in our CSR-work.
- Pressure from other *external stakeholders* (e.g. producers, neighbours) increase our CSR engagement.
- CSR directly creates *economic profits* for us.
- CSR benefits our *reputation*.
- Our CSR commitments help us *attract talented employees*.
- Our CSR policy helps us *attract investors*.
- CSR is for us an important *risk management tool*.
- CSR is part of our core business, and we would not be able to conduct our business practise without engaging in it.

Question 7: What are the main reasons for the company's CSR engagement?

1. \_\_\_\_\_
2. \_\_\_\_\_
3. \_\_\_\_\_

## Attachment 2: Interview questions

- (1) How would you define CSR?
  - (2) Which initiatives would you say are the most prominent ones (given most attention from the company)?
  - (3) Why are you engaging in CSR? (Shortly)
  - (4) Is there any group or influence that in particular has sparked off/driven your engagement?
  - (5) How would you describe forces/voices within the company are influencing your CSR engagement?
    - Which are the most prominent ones?
    - How do they influence?
  - (6) How would you describe external forces (e.g. media, government, customers) influencing you CSR engagement?
    - Which are the most prominent ones?
    - How do they influence?
  - (7) Does your CSR initiatives create direct economic profits or increase revenue? (E.g. saving water as part of CSR, increased consumption of your goods/services)
  - (8) Does your CSR initiatives create other (indirect) profits that are important for your company?
  - (9) Would it be possible for the company to operate without engaging in CSR?
  - (10) - Do you believe that other companies in your industry are working with CSR for similar reasons as yours?
  - (11) - Do you believe all companies are working with CSR for similar reasons as yours?
  - (12) Who, external to the company, do you believe cares most about you CSR related activities and policies?
- If you were to see your company's CSR engagement through their eyes:
- (13) Which of the company's initiatives do you believe them to find most important?
  - (14) What do you believe they would assume your main CSR drivers would be?
  - (15) If reasons for engagement was narrowed down to a maximum of three reasons, what would you say are the main reason(s) of your company's CSR engagement?