Sustainability – A key business value of the 21st Century

Associate professor Annabeth Aagaard

University of Southern Denmark

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Introduction

Since the early 1990's, corporate responsibility (CR) has attained prominence in the political and business agenda in response to corporate scandals and the realization that development centered only on economic growth paradigms is unsustainable. This increasing need for a more pro-active role by states, companies and communities in balancing economic growth with environmental sustainability and social cohesion has motivated the following three interlinked concepts: corporate social responsibility (CSR), Corporate sustainability (CS) and corporate governance (Katsoulakos, T. & Katsoulacos, Y., 2006).

The Corporate Social Responsibility (CSR) field presents not only a landscape of theories but also a proliferation of approaches, which are controversial, complex and unclear (Garriga, E. & Melé, D., 2004). Despite numerous efforts to bring about a clear and unbiased definition of CSR, there is still some confusion as to how CSR should be defined (Dahlsrud, 2008). Many ambiguities surround the concepts of sustainability and CSR, including what business activities count as responsible behaviors (Vogel, 2009). Therefore, the central questions asked in this chapter relate to the concepts of sustainability and CSR and how they can be applied as key business values in organizations.

1. THE CONCEPTS OF SUSTAINABILITY AND CSR

The establishment of the concept of sustainability can be dated all the way back to the Greek philosophers, yet a cornerstone event in developing a global understanding and awareness of the need for sustainability is represented by United Nations decision to form a committee of the World Commission on Environment and Development in 1983. The chairman of the commission was former Norwegian Prime Minister Gro Harlem Brundtland. In 1987, the commission submitted its report to the UN General Assembly entitled "Our Common Future". The Brundtland Report, as it came to be called, defines sustainable development as follows: "Sustainable development is development that meets present needs without compromising the ability of future generations to meet their own needs."

The Brundtland Report, which led to a worldwide interest in the environment, largely set the agenda for both governments and consumers' environmental concerns and thus also for industrial conditions. In the Brundtland Report, sustainability is considered a necessity for the whole world, both in industrialized and non-industrialized countries, as the industrialized world accounts for 20 percent of the world's population but consumes 80

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percent of the world's resources[1] (The Brundtland Report). Developments in industrialized countries, therefore, affect the non-industrialized countries, because they use so much of the world's resources. The report provides a comprehensive overview of the major global environmental crises and gives suggestions on how problems can be solved. The six biggest global challenges facing humanity as reported constitute (WCED, 1987):

1. Population and Human Resources
2. Food safety
3. Species and ecosystems
4. Energy
5. Industry
6. Urban environment

The link between environment and development is central in the report, as these two factors are regarded as mutually dependent, and described as follows: "The 'environment' is where we all live, and 'development' is what we all do in attempting to improve our lot within the abode "(WCED, 1987). The Brundtland report has been absolutely fundamental to the establishment, development and integration that characterizes sustainability and CSR both as concepts, values and understandings of business today. According to Professors Andrew Friedman and Samantha Miles (2002) and other researchers, organizations are a key factor in the process of creating a better world, and companies are, therefore, according to several theorists under increasing pressure to demonstrate good and responsible corporate governance (Pinkston & Carroll 1994, the Bakker *et al*. 2005, Angus Leppan *et al*., 2010).

In most definitions, CSR involves a company's accountability to their stakeholders (Crook, 2005). This is represented by the triple bottom line "people, planet, profit" (Cramer *et al*., 2006), which brings together an expanded spectrum of values and criteria for measuring business and organizational success in three groups: economically, ecologically and socially. The triple bottom line underlines a more external focus of a company's operations, where a company is not only set in the world of profit-making, but also to improve social and environmental issues. In practice, this means that the business success which earlier was mainly measured by economic parameters now includes the company's environmental and social performance. In other words, a company is no longer solely considered as an economic entity, but as a social and ecological entity, which affects and is affected by its surroundings and stakeholders.

The two concepts of CSR and sustainability are often used interchangeably, and although they are extensions of each other, they are defined differently. The company's sustainability or corporate sustainability (CS) is regarded as the foundation of corporate social responsibility (Marrewijk, 2001) and is defined as: "The business's continued commitment to behave ethically and contribute to economic development while improving the quality of life for employees and their families and the local community and society as a whole" by the World Business Council for Sustainable Development (WBCSD, 2000). Another concept applied in relations to CS is CR, which is defined as: "Minimizing negative environmental and social impacts and maximizing positive environmental and

[1] The Brundtland Report

social impacts; open and transparent business practices that are based on ethical values and respect for employees, communities, and the environment; and designed to deliver sustainable value to society at large, as well as to shareholders. It is not a bolt-on to business operations – it has to be built-in to business purpose and strategy (Grayson & Spender, 2011)."

Marcel van Marrewijk, who is one of the key contributors to CSR theory and Director of the Institute "A great place to work" in the Netherlands, shows the relationship between sustainability (sustainability) and CSR as presented in Figure 1.

Corporate Social Responsibility (CSR) is defined as: "corporate social responsibility, including the economic, legal, ethical and philanthropic expectations that society has of organizations at a given point in time (Carroll 1979: 500; Carroll & Shabana, 2010: 89)". This definition includes the time aspect, namely that society's expectations for the organization changes over time, which requires that companies do not consider CSR as something static, but target their CSR work for future needs. Generally, sustainability concentrates more on the company and the environments effects on each other, whereas CSR focuses more on stakeholders and the benevolent and beneficial social activities that the company performs.

A green paper from the European Commission (2001) defines CSR as: "Corporate volunteering to integrate social and environmental concerns in their business operations and in their interaction with their stakeholders". This definition is particularly focused on the voluntary efforts to integrate social and environmental concerns and interaction with stakeholders. Corporate voluntary CSR is affected by the references and requirements for CSR reporting, which are made by both the UN and the EU towards larger companies. For

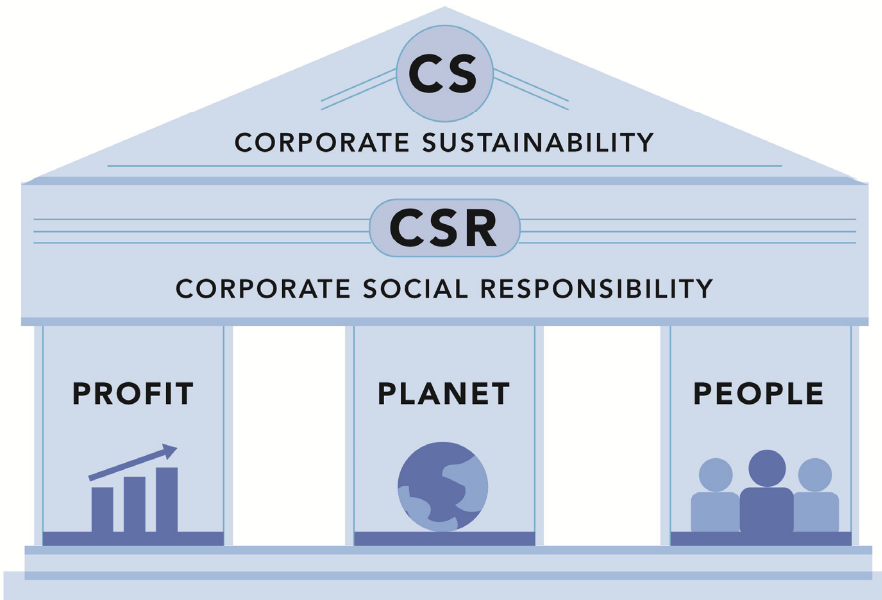


Figure 1 The relationship between CS and CSR, *Source: Marrewijk (2003)*

Figure 2 The CSR pyramid. *Source: Carroll (1999)*

these and other definitions, it appears that CSR and CS/sustainability are not identical but complementary.

Archie B. Carroll, a retired professor specializing in business ethics from the Terry College of Business, is one of the key researchers within the field of CSR. In his famous CSR pyramid (Figure 2), he presents the CSR requirements for a company.

The CSR pyramid and Carroll's articles from 1991 and 1999 show how certain requirements for the company are rooted in practice, while other claims are desirable and expected today, but potentially legal requirements for companies would be most desirable in the near future. That the company can generate profits and comply with laws has always been a demand from society. The fact that a company is and acts ethically is expected by society and is legal in a few areas, but certainly not all. And that one company is responsible is desirable, but not required by law. However, this is changing in some countries, for example, Denmark has introduced a new Accounting Act, which specifies that all listed financial companies are to report on CSR from 2009.

CSR is also closely related to the corporate governance concept. Corporate governance is the company's choice of ethical standards, which are part of the company's compliance. Compliance is a common term for the laws, regulations, norms, standards and codes of ethics that companies choose to comply. Compliance shall be provided not only to ensure that there are no violations, but also to counter the risk that the company's business or reputation will be adversely affected.

Corporate governance is generally not regulated, but consists of a variety of recommendations and "Code of Conducts". Originally, the focus of corporate governance relationship was between the executive and supervisory boards of listed companies whereas corporate governance today has a much broader perspective and is more about ensuring a wide and more forward-looking strategic vision for the company. CSR and corporate sustainability involve assessment of the company's economic, social and environmental impact, taking steps to improve it in line with stakeholder requirements and reporting on relevant measurements. Corporate governance reflects the way companies address legal responsibilities, and therefore, provides the foundations upon which CSR and corporate sustainability practices can be built (Katsoulakos, T. & Katsoulacos, Y., 2006).

1.1. The critique and challenges of CSR

Both theorists and practitioners list pros and cons of CSR. On the theoretical side, it is the American economist and professor, Milton Friedman, who through a shareholder perspective argues against CSR as a valid strategy. He is still known and often quoted as saying in an article in the New York Times Magazine: "The business of business is business" (Friedman, 1970), namely that the most important task for companies is to maximize profits for owners or shareholders. At the same time, he states that leaders do not have the expertise or interpersonal skills to work with CSR, and that it dilutes their principal purpose and makes companies less competitive globally. With the article, he tried to say that companies only need to make sure that they create growth and jobs, as they thereby pay the "debt" that they may have to society.

A known theoretical advocate of CSR is the American philosopher and Professor Edward Freeman, who through a stakeholder perspective combines the resource-based and market-based perspective with the political and social approach to running a business (Freeman, 1984). The point of the stakeholder concept is that there are others than shareholders who have an interest in the company. There are many different definitions of who should be included under the term stakeholder.

Freeman (1984: 189) has a broad definition of stakeholders as "any group or individuals who can affect or be affected by an organization's goal setting", which actually includes all those who interact with the company and its activities, which in practice means all stakeholders. The stakeholder concept is a significant addition to CSR, which would otherwise have lacked a concrete indication of who the company is actually responsible to.

Porter & Kramer (2002, p. 5) emphasize that executives find it hard if not impossible to justify philanthropy and charitable expenditures in terms of bottom-line benefits. In addition, giving more does not satisfy the critics – the more companies donate, the more is expected of them. In response to these challenges, companies seek to be more strategic in their philanthropy. Although what passes for 'strategic philanthropy is never truly strategic, but some form of public relations.

The communication challenge of CSR is also addressed by several researchers. Morsing & Schultz (2006) argue that when companies want to communicate with stakeholders about their CSR initiatives, they need to involve those stakeholders in a two-way communication process, defined as an ongoing iterative sense-giving and sense-making process. Managers need to move from 'informing' and 'responding' to 'involving' stakeholders in CSR communication itself. Also, they need to expand the role of stakeholders in corporate CSR communication processes if they want to improve their efforts to build legitimacy, a positive reputation and lasting stakeholder relationships.

In addition to the theoretical criticism, CSR has also received criticism in practice, in relation to how sustainable businesses can be competitive and create measurable positive results on the companies' bottom-lines. Several analyses of whether CSR has a positive effect on the bottom line have been conducted. Among others, professor Joshua Margolis of Harvard University and Professor James Walsh of the University of Michigan analyzed 99 international studies from the period 1971–2001 concerning the relationship between earnings and CSR (Danish Commerce and Companies Agency, 2006: 3). The analysis revealed that 55 of the studies showed a positive correlation, four a negative correlation, 22 unrelated and 18 an unclear relationship (Margolis & Walsh, 2001). The problem with this comparative study is that the studies vary according to the method of operationalization and data collection, which makes it difficult to draw definitive conclusions about the link between CSR and the financial bottom line. Another major international survey conducted in 2007 by Goldman Sachs shows that companies that prioritize CSR have 25 percent higher returns than companies that ignore it.

A survey among Danish SMEs in 2005, which was conducted by Economic and Business Affairs and prepared by Harvard University and the Foundation Strategy Group (FSG), also indicates a positive relationship between CSR and financial performance (Harvard University, 2005). The study showed that there may be positive economic effects of especially four types of CSR activities:

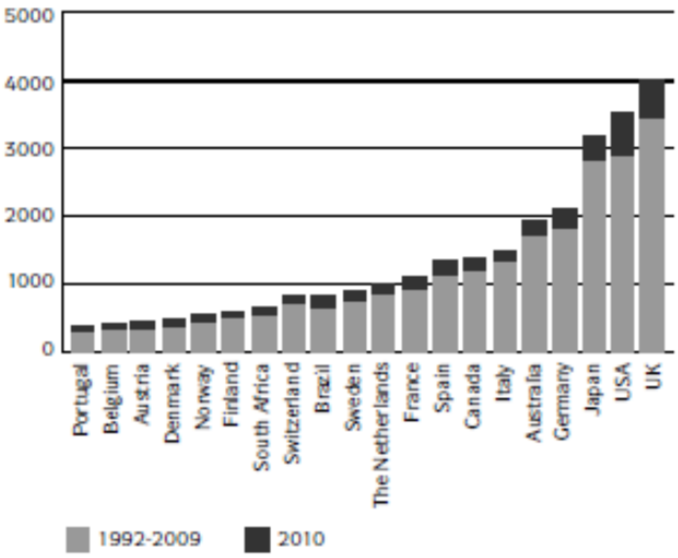
- Activities aimed at addressing CSR in the company's product.
- Activities that improve workers' conditions.
- Environmental activities that have a quantifiable positive economic impact on the corporate bottom line, such as savings in resource consumption.
- Activities that affect business conditions, such as support for the educational institutions from which the company derives its employees, or participation in the development of a regional economic strategy.

How one defines and measures return on investment is a much discussed area in managing CR initiatives. Measurement protocols either do not exist or have not yet proved sufficiently robust to be accepted by (for example) accountants (Grayson & Spender, 2011). There is, therefore, no clear-cut data on whether CSR generate bottom line, although the majority of CSR research point to a predominantly positive relationship between CSR and bottom line, independent of company size.

1.2. Status on Global CSR Integration

The global development of CSR integration is often measured by the number of registered CSR reports, and the extent of CSR reporting across all sizes of companies has grown steadily since 1992 and appears to be unaffected by the global recession. CorporateRegister.com, which is the global register of corporate responsibility (CR)-reporting could in 2010 show that about 5000 companies had enrolled CSR reports. If the non-Latin (Asian) reports had been included, the figure would be closer to the 6000. Europe has had the lead on CSR reporting over the last 20 years and continues to produce

Table 1 Distribution and development of CSR reporting



Source: Corporate Register, CSR report (2011).

more than half of all registered CSR reports. Until 2009, the UK was the most productive country in relation to CSR reporting, but from 2009 the U.S. took the lead in most reports per year.

Fourteen of the most CSR reporting countries are European. Japan is expected to produce the most CSR reports within the next years and do so now, if the statistics included reports published in Japanese. The fact that Corporate Register does not yet include non-English-language reports gives Europe and the U.S. a "false" overweight. Due to the strong growth in Asian (non-English) CSR reporting, Corporate Register now includes non-English reports to ensure a more accurate picture. Most Asian CSR reports come from Japan, but several countries in the region, in particular, China has become a leading contributor in these years (Corporate Register, 2011: 4).

CSR is becoming a requirement from society to the company's way of doing business, particularly in the Western economies. Bob McDonald, chairman and CEO of the American mega company The Procter & Gamble Company, puts it this way: "I do not think that sustainability is an option anymore. The world today is so flat and transparent because of the Internet, and individuals' influence has been so great because of our ability to blogging and tweeting and other things that customers will know what they are buying into when buying your brand. They will know the company behind it. They want to know what the company stands for and how it fits on the environment (PWC 2011: 13)."

This statement emphasizes that CSR has become a business premise, which companies find it difficult to get around. The power that the customer has achieved through increased access to and dissemination of knowledge through the Internet, has put even greater emphasis on the need to reveal "the true color" of the company, in relation to what the company stands for and what responsibilities it takes. In a PWC's global CEO survey from 2011, 1200 business leaders and government officials from 69 countries were asked whether they actively support policies that promote growth that is financially, socially and environmentally sustainable. And 72 percent applied, “yes”. These data show a dominant trend that more and more business leaders comply with and actively support sustainable practices and prioritize growth, not only financial but also social and environmental.

Fundamentally, companies’ work with sustainability should be based on the social responsibility that the companies acknowledge, but there are also many benefits associated with CSR. To act sustainable provides financial benefits that make CSR interesting from a business perspective. When a company strengthens its relationships with its stakeholders, it can prevent and reduce potential conflicts in connection with its activities and products. The closer dialogue with stakeholders also enables the company to make better decisions based on a deeper understanding of the expectations that society has of the company and how it runs its business. At the same time, a company’s work on sustainability and the communication hereof can help to improve the company's reputation and the stakeholders’ and public confidence in the organization. Thus, companies can gain a competitive advantage and provide access to new markets and new opportunities for innovation through their approaches towards CSR and through their sustainable product services.

Especially for large international corporations, the improvement of the organization's risk management is a critical factor. This is done through the incorporation of e.g. "responsible supply chain management" and "Code of Conducts" in the organization's various national and global supplier partnerships. With responsible supply chain management, a company can strengthen its risk management, as it minimizes the potential risks of external collaborations and when the outsourcing made to subcontractors fails to comply with its requirements (Walker et al., 2008). When the requirements for cooperation is clearly agreed and specified, the likelihood of misunderstandings between the buyer company and the supplier organization are reduced. And if the supplier chooses not to comply with the requirements anyway, then the buyer company can terminate cooperation and demonstrate to the public that the requirements had been agreed upon and impaired.

The challenge is that even though the company has acted correctly and has maintained the necessary sustainability requirements, any dispute in which the supplier has violated a code of conduct and for instance has used child labor will still generate bad PR for the downstream business. Responsible supply chain management in practice, therefore, requires more than written agreements, it also requires ongoing supervision and dialogue. A side benefit of working with ethical values and environmental and quality certifications is that they can help the company avoid being charged detailed supervision and limit the amount of administrative work if the company has to undergo some sort of control of standards and practices.

For companies that are dedicated to the environment and saving energy in their CSR strategy the savings from increased resource efficiency, lower energy and water consumption and minimized waste can result in both practical and economic benefits. Similarly, organizations that prioritize the employee aspect in their CSR work can measurably improve employee health, well-being and safety and thereby retain employees and reduce employee absenteeism.

Another important advantage of CSR is that it can strengthen the company’s ability to recruit and motivate employees. Many companies use their CSR strategy and sustainability efforts in their branding and to create greater interest among new employees, especially from Generation Y, which according to several studies value accountability, development opportunities and meaningful jobs highly when choosing workplace (Tapscott, 2008). Generation Y, also known as Generation Why, is the generation that was born between January 1977 and December 1997, and represents a generation of young, talented and educated young people that has entered the labor market in recent years.

Similarly, CSR is used to retain and gain new customers and investors, as to open up sustainable partnerships with customers, suppliers, NGOs and other partners who can help to develop the company. The companies especially benefit from linking their CSR profile and CSR activities to their branding and communication strategy, where CSR can be targeted in the company's internal and external communications.

2. CSR AS STRATEGY AND BUSINESS VALUE

Both researchers and practitioners agree that CSR policies and CSR strategies are important tools to gather and communicate an organization's work with social responsibility, just as these tools also oblige management to act responsibly (Muller, 2006, Russo & Tencati, 2009). Fundamentally, CSR is about behaving properly and socially responsible, and the company's CSR strategy and policies are helping to describe and explain how the company expects to live this out in practice. There is growing recognition that good ethics can have a positive economic impact on the performance of firms. Many statistics support the premise that ethics, values, integrity and responsibility are required in the modern workplace (Joyner & Payne, 2002).

Generally a CSR policy can be described as a formulation of how the company reacts to social responsibility, and how the company takes responsibility for society, the environment and its stakeholders in their production, operations and business. But it is not always enough to create a policy that expresses the company's good intentions. There should also be a strategy or plan that explains how the company will adhere to the fine intentions in relations to concrete actions. The strategy can be used as a guideline of how to work with and integrate CSR across the internal and external organizations. In addition, it can be used as a communication tool to employees, partners and other stakeholders, of how to implement concrete activities and how to work with and exhibit social responsibility in the organization and through collaborations.

The fact that companies do not have an explicit CSR policy is, of course, not to say that companies do not work with CSR, but the lack of communication can backfire. For it is not only politicians who make demands on CSR, so does employees, customers and stakeholders (Dawkins, 2004; Panapanaan, 2006; Sones & Grantham, 2009). The company's commitment to CSR can also be a way of signaling its social responsibility more clearly to the outside world, which again can improve its brand and recruitment of talented employees, loyal customers and investors. The opposite is also applicable, as companies that are known in the press, for example, to pollute the environment or exploit their employees will find it more difficult to recruit qualified employees, customers and partners. To prioritize CSR in corporate strategy and business has quite simply become a business premise and a symbol of good corporate practice.

However, several approaches may be applied in integrating CSR into corporate strategy. Gyves and O'Higgins (2008) have suggested four different approaches and their benefits:

1. Coerced non-strategic CSR activities that mostly include charitable donations that companies feel obliged to give. These types of CSR activities have shown to be of little or no value to the companies studied (cf. Gyves and O'Higgins, 2008).

2. Coerced strategic CSR activities where companies comply with government legislation on environmental or social issues. However, coerced strategic CSR barely produces sustainable increases; hence, this approach adds little value to the company. Gyves and O'Higgins (2008) found that companies often started out by doing coerced strategic CSR activities, which in effect led them to realize new opportunities within voluntary strategic CSR activities.

3. Voluntary non-strategic CSR activities are charitable donations, but instead of just giving a specific financial donation each year a company would spend more time on selected cases that are important to the board or society. However, there is no link between these donations and the business strategy taken by the company. Benefits of this type of CSR are public recognition, reputation building, increased levels of employee morale and pride, increased ability to attract and retain staff, brand enhancement and PR, and advantage when tendering for business. However, it has not been possible to see any long-term gains by this approach.

4. Voluntary strategic CSR is where companies need to fit their CSR activities into their strategy and value chain activities. This is not possible unless the effort is designed to focus on the core strengths of the company, which requires that CSR is integrated into the strategy (cf. Gyves and O'Higgins, 2008).

The complete anchoring of CSR into the business can only really be said to be a reality when we no longer need CSR departments and no longer apply terminologies like CSR and sustainability. Senior Allan White from Tellus Institute says that "paradoxically companies pursuing CSR experience that it becomes less visible as it is integrated, not just in strategy and workflows, but also in corporate governance (White, 2005: 6)." He describes CSR integration as consisting of the following three phases:

- Alignment / alignment with corporate objectives and overall business strategy
- Integration across business units and functional areas
- Institutionalization of CSR by embedding strategies, policies, processes and systems in the fabric that the company is made of.

According to Galbreath (2009), the question among CEOs is no longer if CSR is beneficial for business; "CEOs acknowledge that addressing societal expectations is an important consideration for competitive success." (Galbreath 2009, p. 109) Rather, there is still confusion about the practical level of the integration process – on how to build or integrate CSR into strategy. In his article "Building corporate social responsibility into strategy", Galbreath explores if CSR can be more fully integrated through six dimensions of strategy: 1) the mission 2) strategic issues, 3) markets, 4) customer needs, 5) resources, and 6) competitive advantage. All six dimensions are inherently the foundation of creating strategy, and the level of integration is, therefore, judged by the level of integration within these six dimensions.

Porter & Kramer (2006) state that it is important to include CSR into the value proposition of a company and thereby making it an integral part of the strategy. In a case study among eight Danish companies, the findings revealed that the companies, which have worked diligently with CSR over a duration of time, had integrated sustainability in some fashion in the corporate values of the company (Aagaard, 2012). This transformation and development process sometimes implies that the company no longer needs, or chooses to phase out, many of the CSR divisions and CSR tools, which are necessary in the beginning. Sustainability becomes an integrated way of acting and working, a business premise and a natural part of the company's business strategy, objectives and collaborations. CSR is, unlike many other managerial and strategic tools, fundamentally based on voluntary work, values and ethics. Hence, CSR requires a different approach and anchoring, which puts emphasis on management's visibility and leadership as active role models. This means that the individual managers and the management team overall need to be at the forefront of the CSR-related activities and focus areas, which the company chooses to prioritize (Aagaard & Lemmergaard, 2011).

2.1. Sense-making - when CSR integration makes good sense

The literature emphasizes that CSR has to make sense and that sense-making is key to the success of CSR integration. This implies that CSR should be applied and explained in relation to a practical context, so it makes sense for the individual stakeholder (Angus-Leppan *et al*., 2010). In practice, this means that each supplier, customers, secretary, accountant or production employee understands what CSR means to them and their daily work and collaborations, and knows what they specifically have to do differently in relation to past practices, behaviors and routines. In many ways, CSR requires a new perception of the organization, strategy, business and communication (Aagaard, 2012)... Therefore, it is also important to assess how CSR should be presented and communicated within the organization. In a study by Jacqueline Cramer, Jan Jonker and Angela van der Heijden (2006), the process of sense-making and developing meaning with regard to corporate social responsibility (CSR) was examined across 18 Dutch companies. The paper reveals how the application of change agents can promote CSR within companies and in making better sense of the meaning of CSR. Sense-making is inherently social (Weick 1995), as we 'make sense of things in organizations while in conversation with others'. Making sense of CSR in organizations, therefore, requires a two-way dialogue and the typical one-way communication from management to employees.

CSR also has to make sense across national borders. This implies that the cultural differences that exist in the company's international divisions, units and collaborations should also be reflected in the ways that the company chooses to work with CSR inside and outside the head division. Some CSR initiatives will make good sense in Western countries, but seem out of place in e.g. an Indian subsidiary. There must, therefore, be room for a cultural alignment of the individual CSR initiatives and CSR values and how they are applied and integrated in the individual subsidiaries and units (Aagaard, 2012).

For CSR to be successful, a clear link has to be established between the business of the company, the strategic goals and the company's CSR strategy and values. Gyves and O'Higgins (2008, 217–218) underline that "for strategic CSR to generate sustainable mutual benefits it needs to be part of the fabric of the firm, incorporated into the value system and value chain of the company." The mutual dependence of corporations and society imply that both business decisions and social policies must follow the principles of shared value. This means that the company choices must benefit both sides and that shared value must be performed by integrating a social perspective into the core of the company (Porter & Kramer 2006, p. 7). In practice, this means that the organization should choose to invest in initiatives, which not only benefit society but also create competitive advantage for the organization. "In the long run, then, social and economic goals are not inherently conflicting but integrally connected." (Porter & Kramer 2002, p. 3).

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