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# **The Emperors Clothes – Corporate Social Responsibility creating shared value and sustainability**

## **Abstract**

Corporations in the 21<sup>st</sup> play a decisive role in the future of society. Their power and influence in world affairs often seems devoid of ethics and seems to exceed the reach and the means of many nations. As a result, the strategic positions they take towards value creation and ethics affects every individual on the planet. This paper explores strategic routes that organisations could apply to facilitate economic growth while ensuring their ecological integrity and ensuring social enhancement generating benefits to a wider scope of organisational stakeholders. By conducting a critical analysis and clarifying common misconceptions between Corporate Social Responsibility (CSR), Creating Shared Value (CSV) and Sustainability, it is possible to determine how these interrelated strategic approaches have evolved. This article argues the importance of transforming the purpose of organisations to encapsulate stakeholder value creation as the main reason for their existence.

**Keywords:** Business strategy, Business sustainability, corporate social responsibility, Creating shared value

## **1. Introduction**

Repeated financial crises, including failures of extremely large and powerful organizations such as Enron, Lehman Brothers and AIG, as well as government bailouts of prominent financial institutions and even whole systems have raised a debate about the purpose and function of business (Lipman, 2012). Buzz-words such as agency problem, conflict of interest, greed, unsustainable risk-taking and a short-term increase of shareholder wealth have been brought up time on time again, promoting a mixture of populism and demonization of profit-making, bonus payments and large corporations in general. This phenomenon has further been intensified by the effects of increasing globalisation, as well as freedom and accessibility of information through the internet, social media and other means of mass communication (Barbara, 2012). Supported by a power shift from businesses and governments to media and social operators/commentators within the realms of the internet and twitter are now strongly advocating a reassessment of key business drivers and values.

Bird (2012) argued that Corporate Social Responsibility (CSR), green management and business ethics have not brought the intended relief, nor have they established sufficiently profound acceptance within the business world. Friedman (1970) argues because corporations are an inherently abstract construct, which lacks the ability and sense of necessity to act responsibly and

thus take into account anything but the maximization of shareholder wealth (Mehalu, 2011). However, also have to do with the perception of the charity-like nature of CSR and business ethics, which have been used to soothe customer complaints and generate the superficial impression of sustainability and care instead of addressing real issues. Indeed, philanthropy could appear to be divorced from ethics - a strategic political act, external but intrinsic to business. Two of the possible reasons for this state of affairs could be first, that ethics and social responsibility are detached from other core business objectives, and secondly, that existing policies are implemented in a suboptimal manner.

There are several theoretical shortcomings of existing papers in relation to CSV as being corporate social values or corporate shared values. The shared value concept and its framing is undermined by a number of critical shortcomings, Porter and Kramer (2011) present CSV as a novel contribution; however they ignore the tensions between social and economic goals. Beschorner, (2013) argue that Porter and Kramer have:

*A very particular and limited understanding of CSR, one that neither reflects the academic debates of the past few decades nor captures most of today's CSR practices adequately. (...) Instead of dealing with a contemporary understanding of CSR, corporate social responsibility seems to be used instead as a straw man to rhetorically justify the authors' contribution and its proclaimed originality (2013: 111).*

Wach (2012) stated that the aspirations which underpin CSV's efforts to get corporations to look beyond the bottom line are not original. He noted there is a "*striking similarity between shared value and Jed Emerson's concept of blended value*" (2012: 7). Questioning whether CSV is "*merely a pious hope*" without any tangible improvement on contemporary ways of doing business - CSV is the trade-offs that businesses have to make.

This paper argues that CSV on a psychological level reinforces ethics and sustainability within business. Sustainability, the capacity to endure, is not merely an add-on or an afterthought but a central aspect of the future of business. Central to this is the concept of the 'triple bottom line' and this concept is a central concept of this article.

## **2. Methodology**

The methodology applied is a critical review of the relevant literature in CSR and business sustainability. The literature search focused on the use of secondary literature. The first step was to define the search parameters and a thorough review on literature that was relevant on the subject. The publications found were too broad. To help to define the subject matter and refine

the search, keywords were generated. Those keywords were applied to construct a relevance tree that posed the question “Can Corporate Social Responsibility create shared value and sustainability?” This relevance tree led to the research of two main concepts – CSR and business sustainability – and those two concepts were further on refined to other associated research terms like stakeholder theory, corporate governance, business ethics, microfinance and strategic CSR. Those research terms were further deconstructed in other relevant search terms. To ensure that the searches were objective and consistent the terms were catalogued relative to their eligibility on the research question based on a pre-determined set of criteria. The criteria applied to the research included the date of publication, theory relevance, and reference in other publications, the position of support or contradiction to the central theme of research, bias and methodological omissions. The second search with the applied criteria was refined in the secondary literature that addressed directly the topic in question.

The methodology follows Lockett *et al.*, (2006) systematic approach into examining CSV/CSR literature. Initially, the search parameters were defined broadly as literature on corporate social responsibility, creating shared value and business strategy. These three concepts were used to search abstracts on the Business Source Complete (EBSCO) database and Proquest searches of academic journals generated articles as follows – corporate social responsibility (6,662), creating shared value (1,103) and business strategy (35,661). To refine the search; keywords and concepts were searched together when these three concepts were searched together only seven abstracts were generated.

The analytical coding categories from data were in the first instance categorised within certain CSR pillars (e.g. CSR in the workplace, in the community). In the second instance, the material was categorised in relation to CSR business issues (e.g. strategy and growth) and in the third instance business sustainability and CSV psychology. To ensure that the searches were objective and consistent the terms were catalogued relative to their eligibility on the research areas based on a pre-determined set of criteria. The criteria applied to the research included the date of publication, theory relevance, and reference in other publications, the position of support or contradiction to the central theme of research, bias and methodological omissions (Saunders *et al.*, 2007). Several cases studies were discussed generated from this material.

The limitation of this paper is the lack of primary data collected to determine the hypothesis posed. The validity of this paper is limited to a purely theoretical approach that needs to be further investigated with primary data collection.

### **3. Purpose of Business**

The purpose of business has been greatly contested. The psychological debate has focussed on the interplay between the rights of investors versus those of other stakeholders (Solomon, 1998; Woodcock *et al.*, 2011). In Anglophone jurisdictions, backed by the weight of company law and corporate governance, practice tends to emphasise a simple agency theory of the firm predicated on essentially economic principles (Moller *et al.*, 1998; Bruch *et al.*, 2005) whereas Northouse, (2010) and Bernstein (2010) advance reasons of how and why business creates value for its various constituencies. However, in the context of wider societal developments both agency and stakeholder theoretical positions of business have to address three interwoven concepts: corporate social responsibility (CSR); sustainable development and stakeholder approaches (Wheeler, Colbert & Freeman, 2003).

Friedman (1962: 46) argues that the sole purpose of business is “*to use resources and engage in activities designed to increase profits so long as it stays within the rules of the game, which is to say, engages in open and free competition without deception or fraud*”. In this view, a corporation is an artificial construct which consequently have only artificial responsibilities, which do not extend beyond basic financial, legal and ethical requirements. Handy (2002) in his consideration of the fundamental question of business, “What is Business For?” concluded in the shadow of the Enron scandal like Carroll (1991) that businesses needed to make a profit, and then give back to society. This argument was diametrically opposed to Friedman’s beliefs of the purpose of corporations. Indeed, Handy’s position has gained significant boardroom support and budgetary approval in recent years. Many senior level executive roles are now designed solely to cater for the socially responsible initiatives of corporations (Porter & Kramer, 2006). Pressures on organisations to demonstrate sound corporate governance policy and practice is increasing as more evidence of widespread abuse of managerial power emerges. Corporate governance has been defined by the European Central Bank (ECB) as,

*Procedures and processes according to which an organisation is directed and controlled The corporate governance structure specifies the distribution of rights and responsibilities among the different participants in the organisation – such as the board, managers, shareholders and other stakeholders – and lays down the rules and procedures for decision-making* ECB (2014: 4).

Definitions of the purpose of business vary according to the perspective of the individual. There is a view it encompasses the whole spectrum of cultural, ethical, legislative and institutional rules that specify what an organisation should do, and how it should behave. There is another much narrower definition of the term that locates it and corporate governance only in terms of ensuring a suppliers' return on investment. Within this discourse, the supplier supplies capital and defines the governance process which deals with the management, monitoring, and reporting of the capital deployed (Wheeler, Colbert & Freeman, 2003).

Others have presented the notion that corporate governance by extension, includes a responsibility to social and environmental problems as an ethical duty, or as a political responsibility or a response to business risks. (Crane, Palazzo, Spence and Matten, 2014)

Porter & Kramer, (2011) definitions of shared value, namely 'policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates' aligns more closely with corporate governance and more concretely links it to the purpose of a business. Thus, the corporate social value concept invites corporations to integrate social value with a wider strategic importance of social good as a purpose of business that is an integral part of corporate governance.

Thus the purpose of business and the context of the business drive stakeholder views on governance and indeed how corporate social responsibility and value might align with purpose generating better performance for the firm and through a virtuous cycle, create more benefits for society at large.

#### **4. Corporate social responsibility**

Corporate social responsibility is thus defined and practiced differently by business depending on the governance framework. In a macro sense, it is a product of each country's unique history of relationships between business, society and government, in interaction with cultural norms. Business is therefore not divorced from this debate but should be central to it.

As stated previously, Friedman (1970) regards self-interest as the prevalent drive in society's welfare, disregarding kindness or altruism. He states that *'The Social Responsibility of Business is to increase its profits'*. However, this unitary view of business builds on the premise that the only interest to be respected is the creation of shareholder value. Hayek (cited in Harrigan, 2010) opines that the relationship between shareholder value and social considerations in business produce

undesirable results and consequences. Friedman (1970) rejects the premise of social responsibility of business stating that it is a characteristic bound to individuals and not companies.

This unitary perspective is filled with criticism. Harrigan (2010) considers that shareholder and stakeholder value are not bound together in zero-sum terms while Prahalad (2009) argues that serving the poverty line is actually a new market opportunity. Klein (2009) objects to Friedman's unitary point of view and argues that these criticisms build on the conceptualization of a pluralistic society. Porter and Kramer (2011) argue that individual morality is shaped by the society he/she belongs to and in order for the individual to be a moral being he/she must be part of a moral society. This builds upon McGuire's (1963: 33) position that *'A pluralistic society is one in which there is wide decentralization and diversity of power concentration.'* Power is distributed among society. Handy (2002) builds on the assertion of the pluralistic view by stating that businesses have a broader role in society and - profits in themselves are insufficient. The advantage of pluralism is the view of society as a whole with a variance of stakeholders interfacing in that society. Critics of the notion of pluralism argue that whatever sustains the profitability of the company will be the primary focus and therefore the positive repercussions it has on society will be a simple consequence of business actions (Radjou *et al.* 2012). Within the pluralistic position Corporate Social Responsibility (CSR) is defined as *"the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as of the local community and society at large"* (Watts & Holme, 1999: 5).

CSR emerges from the notion of a pluralistic society and the society's interests in business actions. Carroll (1979, in Bucholtz and Carroll, 2009) presents CSR as a responsibility of business to encompass the economic, legal, ethical and discretionary expectations that society imposes. Carroll's conceptualization of CSR builds on these four components. The basic building block is the financial sustainability of the company. Businesses also must comply with the law of the country they operate in. The ethical responsibility of business translates into acting in what the society considers to be right, just and fair. The expectation is therefore that the business acts as a good corporate citizen (Bucholtz and Carroll, 2009). This last responsibility of business is especially relevant for the definition of CSR. For Carroll (1991) the discretionary responsibility is based on the desire of businesses to engage in social actions such as corporate giving, employee volunteering, partnerships with local governments and other entities and involvement with the community. The interpretation of governance at a macro and business level thus informs the degree to which CSR is both an ideal aspiration and a pragmatic interpretation of that ideal by business in its societal context.

## 4.1 Psychology of Corporate Social Responsibility

The standard psychological approach to the study of CSR is normative or prescriptive, which focuses on morally responsible actors (Jones, 1991; Rest, 1986; Trevino and Weaver, 2006). The prescriptive tones that are inherent in this literature are clearly reflected in the popularity of organizational codes of conduct and moral guidelines issued by management (Adams, Taschchian, & Shore, 2001; Weaver, 2001). An underlying assumption of this approach is that it promotes the idea that individuals are rational purposive actors who act in accordance with their intentions and understand the implications of their actions. This logic is consistent with early explanations of business scandals (De Cremer, 2010). Psychologically this assumption is intuitively compelling and attractive in its simplicity. Normative perspective suggests, or at least implies, that people interpret moral dilemmas in a conscious manner and that cognitive guidelines can be used to avoid ethical lapses.

This rational approach, however, may not be able to account for the emergence of a wide range of unethical behaviours. Ethicality and intentionality are two important but distinct dimensions: individuals make both intentional and unintentional ethical and unethical choices (Tenbrunsel & Smith-Crowe, 2008). For instance, there is considerable evidence indicating that good people sometimes do bad things (Bersoff, 1999), and may not even realize that they are doing so. Research on ethical fading (De Cremer, Mayer & Schminke, 2010, 204) asserts that “*Individuals do not “see” the moral components of an ethical decision, not so much because they are morally uneducated, but because psychological processes fade the “ethics” from an ethical dilemma.*”. In addition, it is clear that we are not always rational in our actions and judgments. The idea that our decisions and judgments are not always coloured by conscious reasoning processes is supported by recent research on morality, intuition and affect. This intuitionist framework suggests that moral judgments and interpretations are the consequence of automatic and intuitive affective reactions. Haidt (2001, 818), for instance, defined moral intuition as “*the sudden appearance in consciousness of a moral judgment, including an affective valence, without any conscious awareness of having gone through steps of searching, weighing evidence, or inferring a conclusion.*” This approach suggests that psychological judgments are (or at least can be) quick and affect-laden rather than including elaborated and reflexive reasoning processes.

De Cremer (2010) argues that most individuals involved, both within and outside the business world, know that a range of behaviours are not acceptable in the marketplace, and society. Business people are aware of appropriate, ethical decision rules and moral behaviours and part of a psychological contract or a perverse psychological contract (McIntosh & Voyer, 2012). This is a fundamental, foundational idea in the emerging field of behavioural psychology. While Bazerman

and Banaji (2004, p. 1150) noted *“that efforts to improve ethical decision making are better aimed at understanding our psychological tendencies.”* This focus is on the actual behaviour of an individual (i.e., advocating a descriptive rather than a prescriptive approach) is central to the psychological of CSR.

#### **4.2 Reconciling a Stakeholder Approach, Corporate Social Responsibility and Sustainability with the Creation of Value**

Carroll (1999) reviewed several models which described the psychological concepts of ethics and corporate social responsibility which may be embraced by business. Two models, in particular, have undiminished relevance today. The US Committee for Economic Development, (CED) in 1971, described corporate social responsibility as: related to products, jobs, and economic growth; related to societal expectations; and related to activities aimed at improving the social environment of the firm. Sethi's, (1975) three level model included: social obligation (a response to legal and market constraints); social responsibility (congruent with societal norms); and social responsiveness (adaptive, anticipatory and preventive). In both the CED and Sethi models, the first tier was about compliance, while the second tier required an ability to respond to and balance reasonable stakeholder requests and to internalize basic societal expectations — perhaps with trade-offs in terms of choices available to corporations in terms of social responsibility and contrasted them with less negotiable components of a civil foundation of norms and expectations.

CSR activities are widely disseminated externally by companies, aiming at building social awareness and increasing corporate goodwill (Kitchin, 2003) without undergoing the deep-rooted cultural transformation required, which acknowledges societal improvement contributions as the purpose for their existence. Instead, an organisation that place CSR at the periphery of their business, continue to see CSR as an outcome of the business-as-usual approach in the external communications of actions such as charitable donations to placate the public with their social performance. Arora and Puranik (2004: 100) argued that CSR is in a confused state where companies stand divided between philanthropic obligations and sustainable business strategies.

This notwithstanding, since 1979 Hayek's and Milton Friedman's neo-liberal beliefs have become predominant within the execution and conduct of business. The profit motive<sup>1</sup>, and in most cases the short-term view of it, was regarded as the only purpose of business and providing products and services, as well as employment opportunities to their communities was the maximum extent

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<sup>1</sup> The profit motive is an economic concept which posits that the ultimate goal of a business is to make profit. The profit motive functions on the rational choice theory, or the theory that individuals tend to pursue what is in their own best interests. Accordingly, businesses seek to benefit themselves and/or their shareholders by maximizing profits (Hazlitt, 2013).

of legitimate social obligations (Werther and Chandler, 2006). However, Geldon, (2010) criticises the underlying principles of the free market<sup>2</sup>, arguing that meaningful contracts and free choice and markets, have been corrupted by the advocates of free-market theory, by creating a competitive advantage through overly complex contracts and transaction principles, effectively hindering free consumer choice. This, in turn, has led to information asymmetry, moral hazard, and agency problems. Going further to what was long considered the other side of the spectrum, but has now become somewhat of a mid-point, is the concept of CSR. The underlying idea is for business to create wealth and well-being for society whilst simultaneously driving progress and also funding governments through their tax contributions (Werther and Chandler, 2006, Bliesner and Rohn, 2010, Davis, 2005).

Werther and Chandler (2006) suggest three types of organizations: for-profit which create gains for their owners, governments which set the rules and guidelines, and non-governmental organizations (NGOs) –not for profit- which step in where self-interest and rules fail to provide accurate guidance. Recently, a fourth concept has been added – the for-benefit organization. This type of organization combines the profit motive with the belief in the not-for-profit ethos. It acts as a valuable addition to the overall stability and sustainability of the economy (Sabeti, 2011). The three main stakeholder groups in this process are organizational (employees, managers, stockholders, unions), economic (customers, creditors, distributors, suppliers), and societal (communities, governments, regulators, NGOs and not-for-profit organizations, the environment). Together, these groups interact towards creating a business' triple bottom line is of an economic, environmental and social nature (Werther and Chandler, 2006, Fisher, 2009, Mintzberg, 1983). These objectives, in turn, can be grouped hierarchically, from economic over legal and ethical and, finally, discretionary responsibilities. (Carroll, 1991) The integration of CSR into corporate strategy and thus its action as a filter for business decision and a key driver for competitive advantage are further essentials. Every organization, however, is thought to 'fit' a different CSR level within Carroll's hierarchy with varying competencies, making the customization of this concept a vital element to effective implementation (Werther and Chandler, 2006).

### **4.3 Corporate Social Value**

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<sup>2</sup> A free market is a market structure in which the distribution and costs of goods and services, along with the structure and hierarchy between capital and consumer goods, are coordinated by supply and demand unhindered by external regulation or control by government or monopolies (*ibid*).

While attempting to discover viable routes to maximize stakeholder value that go beyond shareholder profits, Porter and Kramer (2011: 9) proposed a strategic re-definition of the purpose of corporations and the role of CSR as a social value enhancing vehicle, *“The concept of shared value – which focuses on the connections between societal and economic progress – has the power to unleash the next wave of global growth.”* They argue that CSR programmes have not met society’s expectations to deliver true value because such initiatives are reactive measures to counter balance the actions – often negative – that business undergoes in their pursuit of profit. We examined this concept earlier in this paper when discussing the evolving thinking about the purpose of business. CSR is thus perceived to be based on the notion of duty, a responsibility of businesses to give back part of their earnings to communities. Such charitable-like donations are bounded by budgetary allowances for such ends, meaning that the value that is generated is restricted to the amount of profit that a company generates.

The limitations of this approach to social value are particularly relevant in current times of crisis where company’s CSR activities are frequently threatened as a result of company’s poor financial performance in the global economic downturn (Yelkikalan and Koese, 2012). Porter and Kramer’s suggestion is to increase the size of the pie, instead of cutting the existing one in smaller pieces. To achieve this, corporations must redefine their overarching strategy, as well as undergo a cultural transformation, where the notion of sustainability becomes a corporate value and is now seen as the core purpose of the organization. By doing so, visionary organisations can proactively create shared value to all its stakeholders, in every sphere of the triple bottom line, whilst pursuing their strategic goals. When this occurs, the very own strategic goals of a corporation – including strong financial performance and economic profits - are intrinsically linked with the notion of shared value across a wider scope of stakeholder groups – including ecological preservation and social enhancement. Thus, taking the principles of sustainability to the core intentions of the business, and as a result, share the created value across multiple stakeholders.

Rodin (2005) and Freeman and McVea (2001) criticised CSR concept in relation to its importance to stakeholder value. Where Friedman and his followers attempt to discredit CSR, Porter and Kramer raise a critical question regarding this matter in their work on corporate strategic philanthropy or philanthrocapitalism. Porter and Kramer (2002) remark that philanthropy has been used as a public-relations tool to enhance the company’s brand image. The argument that is brought to light is that philanthropy is used by companies to improve competitiveness. When combining the external and internal perspectives of the industry they argue that companies should also include in their strategic position the combined social and economic benefit. They argue that

CSV is not charity or social responsibility: it is a conduit to achieve economic success. Shared value within this position is defined as *'(...) policies and operating practices that enhance the competitiveness of a company while simultaneously advancing the economic and social conditions in the communities in which it operates.'* (2011, 17) They argue that CSV is re-inventing products and markets: redefining productivity in the value chain and building supportive industry clusters. They explicitly state that CSV supersedes CSR because philanthropy is driven by external pressures which focuses on the company's reputation while CSV's purpose is to bring economic and societal benefits relative to cost, as the basis of profit maximization<sup>3</sup> with a concomitant approach to community value creation.

An example of this is PepsiCo's reduction of water consumption throughout its supply chain. The company needed drastically to use efficiently the water consumed in their factories in order to improve product outputs and reduce costs. They developed an eco-friendly agronomic technique called 'direct seeding' of rice paddies. Direct seeding avoids puddling, transplanting and growing in standing water (three operations that are water-intensive when planting rice). With this technique the company is saving on average 30% of the usual requirement of water in paddy cultivation. Indirectly, the company is also contributing with this technique for a 70% cut of greenhouse emissions. The CSV model is closely positioned in a unitary view of society (Lee, Dong & Bian, 2010).

CSV positioning as a unitary perspective of society is dependent upon the fact that its value is to bring economic and social benefits relatively to cost thereby maximising profit with a concomitant community value creation. It is not anti-capitalism but rather the next step of the ideology of capitalism. Another example is that of Nespresso that is part of Nestle, one of the largest multinationals in the world. Nestle has used the idea of CSV effectively in its business practices. Productivity and innovation are influenced by the clusters of companies, suppliers, service providers, IT infrastructure and so on in the same geographical area. Coffee regions are also clusters for productivity and innovation in the coffee making industry. Nestle sought out new procurement practices in its agricultural, technical, financial, and logistical endeavours in each coffee region to improve the quality of local production. In the process the company had to secure

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<sup>3</sup> In [economics](#), profit maximization is the [short run](#) or [long run](#) process by which a firm determines the [price](#) and [output](#) level that returns the greatest [profit](#). There are several approaches to this problem. The total revenue–total cost perspective relies on the fact that profit equals revenue minus cost and focuses on maximizing this difference, and the [marginal revenue–marginal cost](#) perspective is based on the fact that total profit reaches its maximum point where marginal revenue equals marginal cost (Hazlitt, 2013).

essential agricultural inputs such as plant stock, fertilizers and irrigation equipment; to strengthen regional farmers' cooperation and finance wet-milling facilities. This led to an intensive collaboration with Rainforest Alliance, a worldwide NGO, which taught the farmers sustainable practices in coffee production. This, in turn, benefited Nestle in terms of improving operational productivity and the quality of the coffee produced (Porter and Kramer, 2011).

Within their work, the authors define true corporate social responsibility as something that would even be executed if no one knew about it (Porter & Kramer, 2011). If no comprehensive strategic plan including criteria for business strategy, leadership, management development, finance, environmental issues, ethics, human resource management, diversity, industry and community issues, health and safety, corporate governance and labour relations is obeyed, CSR turns into a meaningless phrase which will do more harm than good (Fisher, 2009).

Although many indices exist which measure CSR, including the Global Responsibility Initiative Index, the Dow Jones Sustainability Index and a list of the 100 most sustainable companies compiled by the World Economic Forum, there is no commonly accepted standard to instil confidence and trust in the various stakeholder groups (Fisher, 2009). Thus Chouinard, Ellison and Ridgeway (2011) call for the development of Value Chain Indices. While a value chain is a chain of activities that business performs in order to deliver a valuable product or service for the market. Value Chain Indices would measure and assess the non-economic impact of business conduct and serve as an orientation for all stakeholders when comparing organizations. These indices should, according to the authors, include a valuation of assets which do not have a price, such as the environment, serve as a reliable orientation for socially responsible investors (opening up trillion dollar markets), inform regulation and serve as a guide for consumer choices.

After examining the success cases previously mentioned, it is possible to find some common factors present in these various organisations. Such mutually shared behaviours help formulate implementation models that leaders can use to shift corporate practices towards business models that are conducive to Creating Shared Value. However, those who have shaped the CSV concept receive such one-size-fits-all models with scepticism. Jerry Baker, editor in chief of the Wall Street Journal, interviewed Michael Porter in the 2012 version of the World Economic Forum. Porter acknowledged that there is not a 'rubberstamp' solution for companies wishing to develop CSV business models because of the intricate differences across industries, markets and businesses in general. Instead, Porter advocates an ad-hoc approach towards CSV, where the particularities of every organisation are carefully examined in order to propose CSV solutions (World Economic Forum, 2012).

This poses a limitation to the dissemination of CSV as a practical, and feasible alternative for contemporary businesses. The authors believe that CSV business practices help organisations improve their sustainability performance, and hence contribute towards the improvement of global economic, social and environmental conditions. In order for CSV to become widely practiced in businesses across the world, frameworks and models are required to offer leaders guidance and assistance in their efforts to transform their companies into more sustainable enterprises. This has led to the emergence of CSV-centred consulting firms and research organisations, such as the Foundation Strategy Group's (FSG) Shared Value Initiative, which is supported by Harvard University and the Clinton Global Initiative. They offer action-led frameworks for companies - from SMEs to Multinationals - to move towards business models that Create Shared Value to their stakeholders ([www.sharedvalue.org](http://www.sharedvalue.org)).

From their various reports and business case studies, it is possible to discern four key steps, which may be used by start-ups, SME's and multinational corporations alike, in order to create shared value through their business practices.

#### CSV Implementation Steps

1. Value-driven mind-set clarification
2. Reconceiving value propositions and markets
3. Redefine performance measures across the value chain
4. Cluster development

Step 1, Value-driven mind-set clarification, is important in order to develop CSV business models. This will require the organisation's leaders to promote, in a top-down manner, a value-driven business mentality, as opposed to a solely profit-driven one. Changing a business' mind-set is a very challenging feat, in particular for well established multinational companies. It is, however, not impossible (A. Bartlett and Ghoshal, 1994). A great example this is Interface, the world's largest designer and manufacturer of carpet tiles, with presence in over 80 countries. Under the leadership its former CEO, Ray Anderson, Interface developed a value-driven mind-set that has trickled down to every business unit and department, and has allowed this world-class corporation to be internationally recognised as a leader in terms of sustainability performance. Recipient of the International Green Awards prize for 'Most Sustainable Large Corporate', Interface follows their 'Mission Zero,' that acts as their guiding purpose, and which was formulated under the leadership of the late Ray Anderson, as a way for the company to shift from a petroleum-intensive manufacturer that plunders the planet (Hawken, 1993), into a corporation with a value-driven mind-set that advocates shared stakeholder value. According to Anderson, this notable

accomplishment took enormous efforts and over 12 years to achieve, but the results - which included 82% CO2 net tonnage reductions, 75% sales increase, and doubling their profits – are well worth it (Interface Global, 2012).

Value-driven mind-set clarification is less challenging for SME's and even less so for startups. In the case of SME's, due to their agility, size and number of employees, there are fewer people whose mind-sets need to be changed and individuals tend to be less geographically dispersed, than in the case of multinational corporations (Sheehan, 2013). For instance, Tri-Ciclos is a Chilean waste management SME whose value-driven mind-set was clarified, also in a top-down manner by their three founding partners, in order to promote their purpose to address the country's growing waste crisis, which was affecting the socio-economic and environmental wellbeing of inhabitants. By ensuring a mutually shared Value-driven mind-set across the company, Tri-Ciclos became certified as a 'B Corporation,' right from the start, which ensures their commitment to strict transparency and accountability standards, in order to ensure that their CSV business activities are upheld (Shared Value Initiative, 2014).

Step 2, Reconceiving value-propositions and markets, requires companies to view their offerings as value propositions in the context of the marketplace, as opposed to standalone goods and services. This is what General Electric has done with HealthyManagination, GE's global initiative to provide improved healthcare for people all over the world, by investing in innovations that offer affordable solutions to an increasing number of people (General Electric, 2013). Their work on preventive disease control in prenatal children - and their mothers - in developing countries, clearly exemplifies the concept of value-propositions that contribute towards CSV. For example, GE's VSCAN is a pocket-sized ultrasound scanner that operates on rechargeable batteries. Due to its small size, it is extremely mobile, which allows trained practitioners to access remote communities in order to carry out critical tests. GE is in partnership with the Malaysian government, which provides the funds required to make this corporate initiative profitable, while at the same time allowing for life-threatening medical problems to be promptly detected, thus allowing the company to Create Shared Value, both for the organisation, as well as for the citizens of Malaysia. According to Sue Siegel, CEO of GE Ventures & Healthymagination, over the US \$4.2 billion have been invested in the R&D of more than 100 new products, which have delivered life-improving value propositions to more than 1.5 billion people, as well as 2/3 of GE's global employee's population (General Electric, 2013).

**Step, 3** Redefine performance measures across the value chain, involves identifying, measuring and tracking those key performance indicators (KPIs), which are relevant to CSV. Moreover, this

step is about shifting priorities in terms of how to measure success, so that the business concentrates on measuring what really matters in order to create shared value. Specific KPIs will vary depending on the nature of the business, but in essence, they will focus on measuring parameters across the 'triple bottom line:' people, planet, and profit. For example, since the late 1990's Hilton Hotels had embraced the idea of creating value for all stakeholders and its former president for hotel operations, Dieter Huckestein, realised that this would not be possible without a comprehensive performance management system, where a set of KPI's were identified, measured and tracked in order to deliver value to their wide stakeholder network (Huckestein and Duboff, 1999).

Huckestein retired in 2006 but the shared value performance measurement seeds he planted blossomed in October 2011, when Hilton announced it had joined the highly exclusive club of multinationals to achieve dual ISO certification for their global operations: ISO 9001 for quality management and ISO 14000 for environmental management. This meant that their entire corporate system, comprised of over 3,750 properties across 85 countries, now boasted the ISO logo (Reuters, 2011). For Hilton, this achievement allowed them to generate significant cost savings through environmental management improvements, such as energy reduction while at the same time minimising their ecological footprint. Moreover, for their clientele, this ensured that the level of service quality offered throughout their global operations was on a par with rigorous quality standards. Therefore, by enhancing their performance measurement methods across their value chain, they moved closer to CSV.

Step 4, Cluster development, truly represents the essence and significance of 'shared' in CSV. Nestle's case, as previously mentioned, is a great example of how a company can develop a cluster of suppliers in order to improve the overall stakeholder value across their network. However, the capacity to develop clusters is not limited to large multinational corporates. For example, Cine Colombia is a leading film entertainment company, managing movie theatres across the country. The negative effects of illegal groups, youth recruitment, and drug-related violence, in Colombia often leads to vandalism and property damage, which gravely affects Cine Colombia's operations in impoverished rural areas, such as Aguablanca in the vicinity of Cali, where the Rio Cauca multiplex is located. The company's approach was to develop a cluster of collaborators in order to gain acceptance and respect with the local community. For instance, they recruited local workers to build an eco-friendly venue and trained personnel to operate the multiplex, thus creating a sense of belonging amongst the locals. Furthermore, they began to source food and beverages from local business, with whom they established partnerships and created knowledge exchange

programmes in order for their produce to match the nationwide standard, while catering to the tastes of the community.

These strategies permitted Cine Colombia to develop a profitable business model, which was adapted to the clusters they developed. Moreover, they took this opportunity to disseminate cultural messages before films, during intervals and in weekend matinees to educate their public. This innovative approach led to lower vandalism cases, resulting in lower maintenance costs for cine Colombia, as well as a happier community who is now able to enjoy the latest entertainment (Compartamos con Colombia, 2014)

CSV positioning as a unitary perspective of society is dependent on its value to bring economic and social benefits relative to cost. However, profit maximization whilst simultaneously creating community and stakeholder value creation is not as it is sometimes perceived, anti-capitalist. On the contrary, it is potentially a revolutionary stage of capitalism and must, therefore, be supported by awareness campaigns of the models and frameworks that will openly communicate and promote the benefits to communities and employees, and thus gain strong public opinion support.

#### **4.4 Corporate Sustainability**

This paper has discussed sustainability as an expanded view of CSR as that of a business approach that creates long-term shareholder value by embracing sustainability opportunities whilst at the same time successfully reducing and avoiding sustainability costs and risks. Corporate Sustainability is a proactive strategy to ensure an organisation's long-term growth, taking a balanced development approach to profit, people and planet. As with CSR an organisation's sustainability policy represents an expanded view of the 'core purpose' of an organisation. A 2010 IMD/Burson-Marsteller Corporate Purpose Impact Study showed that a strong, strategically coherent and well-communicated corporate purpose is associated with better financial performance.

The most cited definition of sustainability is that of the World Commission on Environment and Development (WCED), the 'Brundtland Commission': "*development that meets the needs of the present without compromising the ability of future generations to meet their own needs*" (Watt and Holme, 1999: 2). From a business perspective, the World Business Council for Sustainable Development, which comprises 150 of the world's largest companies and which operates at the CEO level, now explicitly describes the purpose of business in terms of three responsibilities: to create economic, social and environmental value: i.e. in terms of 'sustainability' and the 'triple bottom as a common vision of the longer term, rather than simply fight over an unsatisfactory 'current reality'. (Wheeler, Coleman & Freeman, 2003)

Although much has been accomplished, economic, financial and social crises continue to highlight weaknesses in the system and thus demand a more coherent approach. Chouinard, Ellison and Ridgeway (2011) considered that the next step of sustainability will be for it to become the nature of business rather than an objective of it. However as an executive of multi-billion dollar automotive supplier, stated in 2010, *"We just survived a near-death experience," he summarized slowly and purposefully, as if he had given the answer a thousand times before to his employees. "As far as the triple-bottom-line goes, we are going to focus on the bottom line for the next three to four years"* (Newman, 2013: 1).

Sustainability and the thought of strategically embracing the triple-bottom line is not part of corporation strategy in any meaningful way. There is no doubt that the issue of sustainability is on the minds of executives. For example, the UN Global Compact Survey (2010) indicated 93% of global executives believed sustainability would have an impact or a profound impact on their operations (Newman, 2013). Deloitte's (2012) research into sustainability illustrates that spend on sustainability has risen commensurate with an increase in sustainability activities inside the organization. However, the same study notes that only 39% of executives feel that it is important to communicate the value of sustainability to their employees.

Newman (2013) questions whether there is a real perceived strategic importance in sustainable business models and triple-bottom line decision making, if only a minority of those same executives feel the need to engage employees by communicating the importance of these business practices. Newman suggests that there is an 'engagement gap' among the majority of top executives when it comes to sustainability. He suggests three reasons for the gap: a lack of understanding as to what sustainability means to the organisation; a lack of understanding as to economic benefit and a lack of skills inside the organisation.

## **5. Discussion**

While certain corporations go through a continuum of transition from a Friedman approach to business purpose, into an enhanced model of corporate social responsibility creating shared value and sustainability; the greatest challenge that corporations face is embedding a new set of values into corporate DNA in order to trigger the deep-rooted cultural transformation required to become truly sustainable businesses. Managing corporate culture should be at the top of CEOs agendas, in order to transform their people and their purpose as a business, as well as to drive the organisation towards higher levels of performance in their quest to fulfil their corporate vision.

Google's executive chairman and former CEO, Eric Schmidt, emphasises the critical importance of strengthening business culture in order to augment value and build a corporate identity that drives employees towards a self-directed approach to achieve the strategic goals of the organisation. Realising the fundamental role of corporate culture is critical when converting the

purpose of the business into a sustainable source of competitive advantage through the creation of shared value. General Electric (GE) and Nestle are good examples of companies that, after years of strategic and cultural re-engineering, have achieved corporate culture transformations which place shared value creation at the core of their business (McKinsey Global Institute, 2011).

GE's Eco-imagination concept is driving innovation, research and new product development. This core corporate concept has become the guiding intention of the business and through it, the company aims to deliver value propositions to its customers. By merging usability and functionality into environmental preservation, GE has achieved strong financial growth, whilst improving their corporate citizenship actions. For GE, Eco-imagination made it possible for the company to increase the size of the pie; by improving their products and increasing sales, allowing the company to simultaneously offer enhanced levels of value to society through products that are more eco-friendly. Charitable donations through the CSR umbrella still do good deeds and are continued through their foundation, but these donations alone would not have been able to provide such cultural transformation and growth. Similarly, Nestle has re-designed their strategic intentions, and thus transforming their culture, by adopting a multi-stakeholder approach to the creation of shared value. Like GE, they still have a philanthropic foundation that took over their CSR initiatives, allowing the concept CSV to slide its way into the foundations of the business and act as a guide as to what type of products and growth strategies to undertake (*ibid*).

These success examples are both inspiring and daunting for modern CEOs who must overcome strategic myopia, which blurs their vision of the business's ideal value generating purpose to all stakeholders. Responding to market demands for organisations to transform their culture and place sustainability at the core of the business, consulting companies are now re-inventing their approach to corporate advisory. Gold Mercury International (GMI), a London-based independent think-tank, has a strategic advisory branch that has developed organisational and cultural health diagnostic frameworks that facilitate cultural transitions and business model innovations that support core-guided sustainable practices and shared value-creating strategies. Working with organisations such as Spain's energy giant Iberdrola, GMI enabled a cultural transformation that helped position their client as a world leader in wind energy, in conjunction with UK's Scottish Power. Iberdrola went from a 19<sup>th</sup> position in terms of market capitalization in 2000 (€13.16 billion), to being the fifth largest electricity company in the world in 2011, with a market capitalization worth of €28.47 billion (Iberdrola, 2013). This is an evident example of how adopting a corporate vision for sustainability can maximize the market value of a corporation whilst providing products and services that contribute to the triple bottom line. Increasing the size

of the corporate pie has allowed companies like Iberdrola to increase their profitability while offering value propositions that benefit society, something that their philanthropic CSR foundations would not have been able to do in isolation (Gold Mercury, 2012).

## **6. Conclusion**

Although change cannot be feasibly achieved in the very short-term, the evidence supports its implementation which suggests that it is realisable in the longer term. There has been a continued progression to sustainability in which value chain indices and enhanced governance and social responsibility practices challenge traditional ways of doing business. For the future, the disappearance of sustainability as a business objective and its transcendence into the business DNA, is an increasingly achievable paradigm and hence the emergence of a new worldview. External and internal factors should be harmonised and profit orientation can be enhanced not as a barrier but as a conduit to long-term sustainability.

The concept of Creating Shared Value (CSV) is a progressive evolution to the social pillar of sustainability; which until now has been widely dominated by the practice of Corporate Social Responsibility (CSR) initiatives. CSV offers a proactive approach to business improvement that seeks to augment the overall value that stakeholders receive from an organization as well as across the company's value chain. Existing success cases demonstrate that this is achievable, and although challenging, is the way forward for corporations of the 21<sup>st</sup> century to break the status quo, re-design their corporate culture, and create a new business paradigm where doing good for society is not a charitable obligation to raise companies' good-will, but rather their ultimate purpose as a business; allowing it to grow sustainably and transform, not only organisational cultures, but our entire global society into a better one.

The originality and value of this paper highlights that CSR has a strategic potential that is unfulfilled. The research paper addressed the topic of CSR and the lack of strategic focus. The premise used is that an expanded strategy model should be considered when addressing CSR and that the concepts of the bottom of the pyramid and CSV should be considered as alternative models of strategic intent towards social responsibility. This research can benefit other scholars and debates in the field in particular the field of healthcare is a strong area of theoretical and managerial insights.

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