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MASTER'S THESIS

**ACHIEVING ECONOMIC SUSTAINABILITY THROUGH
CORPORATE SOCIAL RESPONSIBILITY**

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INTRODUCTION

Businesses have always been under pressure to change. In the early 19th century it was the pressure to keep low wages and to find cheap labor so as to maintain productivity. However, at the beginning of the 20th century, this climate started to change. Workers demanded more rights, minimum salaries and the right to form or join trade unions. This pressure had mounted on the business world and things started to change. The workers and the business were pleased to reach an agreement. One of the ways the business started to respond to these changes was through Corporate Social Responsibility (CSR).

The first discussions about CSR started at the beginning of the 1950's in the American Universities. A plethora of different opinions started to flourish with often, very different approaches and different opinions (Caroll, 1999, pp. 946-967).

Even though some of the problems between the society and the businesses were solved, new ones started to surface. Massive consumption, rise in income, education and demographic changes meant that business could produce even more goods while grasping for extra profits. This meant over-using resources without considering the effect on the external environment. The effects on the external environment arrived on the scene with the development of the media and the globalization. Since the beginning of the 1980's it became evident that the companies had not only influenced the environment in a negative way, they also influenced the social movements, trade unions and the non-governmental sector. These effects started to pinpoint to the responsibility of the company towards the external environment and therefore, the companies started to be subject of accountability (Caroll, 1999, pp. 946-967).

CSR started off rather simple. According to Bowen, which at that time wrote one of the staple books on social responsibility called "Social Responsibilities of the Businessman", the actions of the company can touch the lives of the citizens. It offered guidelines to the businessmen on how to act in a socially conscious manner, without jeopardizing the goals of the company (Bowen, 1953). This type of social responsibility, as the time progressed, was considered as a form of altruism and philanthropy without imposing an actual change on sustainability or the managerial practices inside the company.

With the change in perception as to what socially responsible business should be, the whole concept started to evolve and started to become much more complex. Social scientists started to explain and develop the concepts with different approaches. Davis was one of the first who claimed that besides the altruistic motives, the companies should engage into economic and legal type of responsibility, meaning that the business should take into account the implications of their behavior into this context. Therefore, the companies should create economic prosperity for the citizens in the society through the already established legal framework. With this, the companies are held accountable for their actions in the society and they cannot perform their social responsibility only through philanthropy (Davis, 1960, pp. 70-76).

In the 70's and 80's CSR became expanded even further and this time, the managers were held accountable. During this period of time, the social scientists were pointing out to the managerial aspect of the CSR policies (Carroll, 1999, pp. 946 - 967). The discussion about CSR policies had shifted to the ethical and moral implications of the managers' decisions. Throughout this time however, social scientists could not agree on one single definition of CSR.

By the 90's and 00's, sustainability had become one of the focal points of the CSR discussion. Global warming, polluted environment, unfair treatment of the workers, manipulation by the big companies started to become big issues in the modern world, even though part of the scientific community thought that some of these issues were a thing of the past that had already been solved. Therefore, in these last 20 years, the discussion has shifted again to how the companies can become sustainable through CSR policies and whether that is possible at all (Growthler & Aras, 2008).

Throughout this master thesis, besides the definitions on CSR, I will also focus on researching sustainable economics and sustainable development theories, CSR strategies like moral capital and shared value as part of the stakeholder theory. Moreover, since I am interested in exploring different actors in society and their involvement in CSR and sustainable economics, I will also research the stakeholder and institutional theory in CSR. At the end, I will examine the case of British Petroleum (BP) and how the company has developed its own CSR activities and strategies (especially moral capital and shared value), as well as the case of the Deepwater Horizon accident and how it affected the company. Moreover, we will look through the different stakeholders in BP's case as well as the institutional response.

Therefore, the goals of this thesis are:

1. Defining CSR.
2. Examining different stakeholders regarding CSR through the Stakeholder Theory.
3. Examining moral capital and shared value strategies from the Stakeholder Theory.
4. Defining Sustainable Economics and Sustainable Development.
5. Institutional theory and the responsibility of the institutions.
6. Sustainability factors and CSR strategies of BP.

The purpose of this master thesis is to encourage the discussion on CSR, mostly for managers who can use this thesis to develop their own CSR activities and policies. The end goal of the policies should be sustainable economic growth.

1 DEFINITIONS ON CORPORATE SOCIAL RESPONSIBILITY

It was not until 1946, when an editorial in the Fortune, asked the managers about the effect of their business on the external environment. This article argued that the managers are human beings and they do have “social conscience” and that their job should not follow only the profit and loss balance, but also their wider social influence (Bowen, 1953). Since this publication in the Fortune, the so called modern CSR started to evolve, initially in the American universities.

The first structured and contemporary piece on CSR was done by Howard E. Bowen in 1953. Bowen argued that the biggest businesses are centers of power and decision making. Based on this fact, he stated that “the actions of these firms touched the lives of citizens at many points” (Bowen, 1953).

Bowen’s book was a staple at that time since it was the first scientific approach to what CSR meant. However, in the 1960’s the literature expanded even more. Bowen’s idea was more in the social context rather than in the managerial and business context. It did offer certain guidelines for business and how to employ their CSR strategies, but they were too stringent. Davis argued that corporate social responsibility should be seen through the managerial context. Although he thought this was a nebulous idea, he also believed that it was necessary for the managers to use their social power and thus expand the long term economic prospects for the company through the new socially responsible outlook. Davis also argued that there is an “Iron Law of Responsibility” which meant that managers should use their business power with regards to their social responsibilities. In his view, he believed that avoiding the social responsibilities would lead towards a gradual erosion of social power on the part of the business. Moreover, throughout, he revised the concept and added the ethical dimension stating that the actions of businesses have far reaching consequences and affect the livelihood of others; therefore the business should be socially responsible (Davis, 1960, pp. 70-76).

1.1 Corporate Social Responsibility as philanthropy in the 1960’s

Throughout 1960’s the definitional concepts of CSR have fluctuated. McGuire insists that business must extend their obligations beyond the economic and legal ones. He believes that business should strive to create welfare for the citizens, creating employment, investments in education and raising happiness of the employees. At the end, businesses have to justify themselves as everybody else, just like the ordinary citizens (McGuire, 1963). Given the new ethical dimension, the fundamental concern of Clarence C. Walton is that CSR should employ a certain degree of voluntarism. According to him, there is a unique relationship between companies and the society, which is quite intimate and this should always be kept in mind by the managers (Walton, 1967).

There was a clear path of progression with the CSR from the 1960's towards the 1970's. In that decade, the businessman was already becoming familiar with the CSR, however the trouble is the CSR cannot be sustained only as a concept. It has to be sought in the actual policies of the company. Moreover, businesses have grown a lot more complicated than they had been and now they have "multiplicity of interests". As businesses became much more dependent on suppliers, communities and employees, they have much bigger incentives to be socially responsible. The companies can arrange social programs that can boost profits to their organizations and achieve utility maximization (rather than achieve profit maximization, they can pursue multiple goals). One of the most important researches carried out about CSR was done by the Committee for Economic Development (CED) in 1971. In actuality, 1970's is one of the most important decades for the concept, since it included new variables and definitions such as researching the link between businesses and educators. The Committee has stated that business functions by public consent and the basic purpose of the businesses is to serve the needs of the society. It is also useful to note that this construct done by the CED was done at a time when strong social movements had started.

1.2 Social Obligations in 1970's

From a more economic perspective, excluding the societal and ethic dimensions, for a business to qualify as socially responsible, the business expenditure must be one for which the marginal returns to the company are less than the returns available from alternative expenditures, which must be purely voluntary and must be an actual corporate expenditure. This economic form of CSR was the main point of the debate between Henry Manne and Henry C. Wallich, which triggered a much more extensive, economic and cost-benefits analysis of CSR (Manne & Wallich, 1972, pp. 53 - 73). In conjunction, in the 1970's a very fresh and very important concept, the so called Corporate Social Performance (CSP), emerged. This introduced two new concepts: Social Obligation and Social Responsibility. The first concept, i.e. Social Obligation, referred to the company's behavior towards society with the market's legal and economic constraints. The second, i.e. Social Responsibility, was defined as the behavior of the businesses to a level where they respect the prevailing social norms and values (S. Prakash Sethi, 1975, pp. 58 - 64). Among the most important researches involving a structured content analysis of the annual reports of the Fortune 500 companies was done at the end of this decade by the Ernst & Ernst, one of the big 8 accounting companies. The analysis was based on the annual reports of the companies regarding their social involvement. The report developed six main categories: environment, equal opportunities, personnel, community involvement, products and other. The performance of the companies was evaluated according to these categories, but the report went unpublished since it contained loopholes, the main one being that there was no outsider and critical assessment of the performance; instead, Ernst & Ernst had taken the annual reports from the Fortune 500 companies in full, without conducting any further assessment of the information contained in the annual reports (Abbot & Monsen, 1979, pp. 201-215). This was further examined by Thomas Zenisek for which he had stated that there was a lack of theoretical and empirical evidence to sustain such reports (Zenisek, 1979, pp. 359-368).

Another point of view in the context of CSR from this period is Carroll's four points for managers. These points refer to the responsibilities of businesses towards society including the economic, legal, ethical and discretionary expectations that society holds businesses accountable for (Carroll, 1979, pp. 497-505). The economic responsibilities expect that the company can carry out profitable actions while remaining socially conscious. The legal responsibility expects that companies can achieve profit maximization and sell goods to the society within the legal framework. The ethical expectations of society regarding businesses are quite interesting, since it is expected that they would follow the social norms and values. Moreover, they are beyond the legal responsibilities and they are ever expanding. This means that society can hold businesses responsible outside the legal requirements that the companies are obliged to. The last responsibility is the discretionary one. It requires a voluntary action from the managers, expecting them to engage actively in society. This responsibility is exclusively aimed at the managers and should include philanthropic activities.

While the 1970's were a time where the theoretical framework of the CSR was established, the next decade was leaning more towards practical solutions. Public responsibility started to be much more active as a concept since there was no single coherent view on CSR and it did not fully offer a consistent relation towards the managerial unit's internal activities. This concept became much more prevalent since it defines that managerial organizations the companies have yet another function besides pleasing the stockholders, and that is their function towards fulfilling social norms (Preston & Post, 1975). With this in mind, the construct of CSR shifted towards the opinion that this was not an outcome of a certain policy that the company had started, but rather a whole process that should include all of the managers and employees alike that would lead towards sustainability (Jones, 1980, pp. 59-67).

From a practical point of a view, a new "two by two" matrix was developed to identify where social responsibility would fit best. This matrix contained the illegal and legal and the responsive and irresponsible dimensions. As expected, the company should behave as legal/responsible unit as every other law abiding citizens, something that is in the core of Corporate Social Responsibility (Dalton & Cosier, 1982, pp. 19-27).

1.3 Path to sustainability in the 1980's

One idea that surfaced was that profitability and responsibility are not mutually exclusive, but rather compatible notions. The reason behind this is that businesses need to view social responsibility as business opportunity. Good and stable society leads towards progress and much bigger consumption which translates into larger sales and higher profits for the companies. However, this notion is very tricky. Social responsibility should target the problems in a society. These problems can be complex and difficult to manage, and it can be very exhausting for companies to transform problems into economic benefit, productive capacity, human competence, well-paid jobs and wealth (Drucker, 1984).

This can lead to the question of whether socially responsible companies can remain profitable. This is very difficult to answer, since in the 1970's it was established that social responsibility can mean different things to different companies and different managers. But if we take the financial performance and the social performance of the companies we can put into context the overall performance via the reputation index as a concrete measure of CSR. This scale is based on Moskowitz's scale in which he categorized the companies with outstanding, honorable mention and worst rating. This scale has weaknesses since it does not capture the spirit that social responsibility is not just an outcome, but a whole process (Cochran & Wood, 1984, pp. 42-56).

This scale has been reformed since by including the definitional construct from a theoretical point of view for the first time. The definitional construct that was used was the one by Carroll (1975) which included the already mentioned four-part definitional construct (economic, legal, ethical and discretionary). Carroll's construct was organized in a way that grouped the economic definition as part of the concern of the economic performance of the company, while the legal, ethical and discretionary definitions were grouped as a concern for society. This new construct was done with the intention to show that the economic concern was not part of the overall social responsibility, but a different concept used by the businesses for profit, which was not the same. Therefore, it can be evaluated where social responsibility is at the company level versus the economic concern and concluded to what extent is social responsibility present at the overall strategy of the company (Aupperle et. al. 1985, pp. 446-463).

Yet again, one of the most important concepts of the CSR, the Social Performance, was reviewed. The new framework included principles, processes and policies. The CSR should embrace the ethical component of the principles of social responsibility, the processes of social responsiveness and the policies for managing social issues (Watrick & Cochran, 1985, pp. 42-56).

The 1990's are sometimes viewed as "revival of CSR". Carroll notes that this decade did not offer new and special theoretical constructs, but it did show how the companies started to practically engage in CSR policies from an empirical point of view (Carroll, 1999, pp. 946-967). Some of the biggest changes started to happen in this decade. A few empirical evidences show this:

Nike, alongside its American and European rivals that sell apparel and clothing, started to review the working conditions in their supplier partners in the developing world. British Petroleum, one of the biggest oil and petrochemicals producers in the world, was one of the first big companies to decrease their greenhouse emissions. Shell, also one of the giants in the extractive industries, started to monitor the situation with regards to human rights and environment abuse in the developing world. IKEA in India started to offer extra financial help to the employees in their factories there in order to prevent child labor. Citibank and

other worldwide financial institutions started to implement policies to determine the environmental effect of their lending decisions.

1.4 Focus on sustainability in 1990's and 2000's

During this period, CSR strategies were approached as a means to integrate environmental and social aspects into corporate activities. However, the economic aspect was neglected, due to the opinion that these two aspects could lead to sustainable economic growth (Baumgartner, 2013). In general, we can define sustainability as the ability to continue a defined behavior indefinitely. However, we can form subdivisions of sustainability and divide it into environmental, social and economic. In the context of CSR, we can include all the three subdivisions. Since the start of the 1990's, all three subdivisions of sustainability have been crucial to CSR and the companies could choose between them, or employ all of them at the same time. Here, I will give a brief overview of the subdivisions, however economic sustainability will be explained in details in Chapter 4, together with the stakeholder and institutional theory.

In this decade, the following types of sustainability emerged:

1. Environmental Sustainability: The ability of the companies to maintain renewable levels of resource harvest, pollution creation and non – renewable industrial resource use indefinitely.
2. Social Sustainability: The ability of society to function at a defined level of wellbeing indefinitely.
3. Economic Sustainability: The ability of the companies to produce to a determined level indefinitely (Basiago, 1990, pp. 145 – 161).

The following examples can show us that the companies started implementing real principles, processes and policies that benefited many. Those were CSR policies with the intention of achieving certain sustainability. We can observe that companies started to act from ethical principles (worker's rights in the case of IKEA), processes (implementing environmental monitoring in times threat of global warming in the case of British Petroleum and Shell) and policies (determining the environmental effect of the lending decisions in the case of Citibank and the big financial institutions).

In the 1990's such real implementations were called market for virtues. The market for virtues examines how and why some of the companies behave in one way or another, in regards to CSR, given the absence of legal requirements. One of the answers may be that the positive effects of CSR policies are difficult to quantify. Ultimately, CSR policies are viable for the companies only if they are financially rewarding. However, we should be aware that

they is no “one-size-fits-all” solution, which means that if a company manages to profit from certain CSR policies, the same might not be applicable to another company. (Vogel, 2005).

The market of virtues was prevalent because a lot of market forces existed and more importantly, they could influence the businesses to act in a socially responsible manner. These market forces included the so called “civic regulation” where pressure or lobby groups act. These groups include consumer rights group, Non-Governmental Organizations (NGOs), trade unions and pressure from socially responsible investors. How effective can these groups be? The answer lies in the previous paragraphs, where there are examples of companies that pursued active policies towards issues that affect society regarding the environment, equal pay and working conditions.

However, just as in any other market, there are limitations in the market for virtue as well. The biggest constraint that exists is the limitation of the market to increase the supply of corporate virtue in the market itself. There is a business sense for CSR in the market, but it is much less important or influential. The CSR strategies are still considered as niche strategies, but not generic ones. It can work out for some companies under certain circumstances, but that does not mean that it will work out for others. If we look at the broader picture, social responsible firms can thrive and can get acknowledgement, but the market is huge, spanning through a lot of industries, which means that there is also place for the companies that are not socially responsible (Vogel, 2006). The 21st century is dominated with empirical linkage towards the afore-mentioned theories. There is a strong tendency to combine the CSR with CSP due to the fact that most of the work related is based on the empirical evidence of the effectiveness and efficiency of CSR (Caroll, 2008).

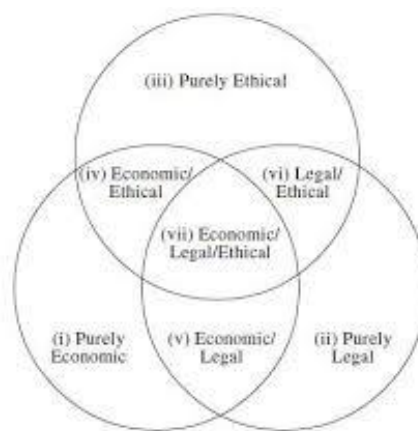
So, why does this tendency exist? Certainly, there is no single answer to that question; however, one of the biggest motors of this change could be globalization and the transparency of information. As new employment seekers are more socially conscious than previous generations, companies’ attitudes towards the external environment have to change if they want to attract young talent. This new generation is part of the new wave that pressures on the businesses to change. New job seekers consider CSP to be important in their assessment when applying for a job. Most important topics regarding the performance of the businesses are treatment of the environment, community relations, employee relations, diversity and product issues. This does not offer new conceptualized views, but rather it offers relevant dimensions of the CSP (Backhaus et al. 2002, pp. 292-318).

If we talk about concepts and definitional interpretation of CSR, Schwartz together with Carroll presented the three point domain on the basis of Carroll’s four above-mentioned categories of CSR. The new augmented conceptualization is especially useful in the discussion of business ethics. With the elimination of the philanthropic aspect, the concept is much easier to understand. This is partially because the philanthropic aspect can be motivated by the economic and the ethic principle, depending on what the main goal is for the managers or the company. This goal can be simply improving the image of the company as socially responsible, it can be the genuine concern for the external environment by some managers, or

it can be purely economic, meaning that the philanthropic activities can be also used as a marketing tool to improve the profits of the company. The new three domains are represented in the Venn's diagram which is also very practical when analyzing companies, since some of the domains can overlap. This representation leads to the conclusion that none of the domains is more, or less, important than the other (Schwartz & Carroll, 2003).

Bellow is the Venn's diagram on the three determinates, where we can observe in which ways the domains overlap. In the center is the economic/legal/ethical domain, which the companies should strive to achieve.

Figure 1: Venn's diagram on ethical, economic and legal determinates.



Source: Schwartz & Carroll, *Corporate Social Responsibility: A three – domain approach*, 2003, p. 509.

Another important point of view is the “best practice” perspective. In the business world there is a strong case for the best practice mostly because it demonstrates how the implementation of CSR strategies can establish a new way of doing business that will have a proactive attitude towards the stakeholders, but at the same time be respectful to the external environment (Kotler & Lee, 2005).

Philip Kotler and Nancy Lee, the two authors who have pioneered the best practice, offer 25 different practices that the companies can use while they implement different CSR strategies. The 25 practices are categorized into six categories of social initiatives. The categories are as follows:

1. Cause Promotions: Increasing awareness for social causes.
2. Cause-Related Marketing: Contributing to causes based on sales.
3. Corporate Social Marketing: Behavior changing.

4. Corporate Philanthropy: Direct contribution to causes.
5. Community Volunteering: Employees donating their time and talents to community issues.
6. Socially Responsible Business Practices: Discretionary practices and investments to support causes (Kotler & Lee, 2005).

In the past 20 years, CSR has been a global phenomenon. As OECD observed in 2001, more and more businesses have been engaging voluntarily into social initiatives than ever before. This is the effect of the institutionalized efforts to promote CSR initiatives into the business world. However, it should also be clear that the progress of CSR is uneven and there is a USA – EU divide. This is due to the historical base of the EU, where the European countries decided to integrate themselves into a single and large organization that has its own set of rules and social obligations are part of them. Moreover, in the EU, there are a lot more institutionalized day to day company programs, consulting services offering CSR initiatives and different management standards (OECD, 2001).

2 CSR THEORIES

In the previous chapter, I have researched the development of the CSR as a stand-alone category. But CSR is a very complex concept and many different theories can influence and can be applicable to the CSR case. In this chapter, I will look through several theories that have influenced CSR and the concept of CSR will be primarily viewed through the perspective of the stakeholder and the institutional theory, as well as three others: legitimacy, positive accounting and signaling theory.

I have chosen the stakeholder theory, since CSR is such a complex and vaguely defined concept that pinpoints to almost everyone in the society. Stakeholder theory does offer insight in the behavior of these groups towards the creation of CSR policies. Moreover, it offers two concrete CSR policies: moral capital and shared value.

The institutional theory is based on the stakeholder theory, but it reflects mostly on the external stakeholders and their influence on the CSR policies that the companies create through different sets of regulations and pressures.

At the end, I will also examine the three other theories.

2.1 Stakeholder Theory in CSR

After examining the different views on CSR, we can see the clear progression of the social initiatives undertaken by the businesses. More precisely, from a theoretical notion in the early 1940's to an actual theory between the 1950's until the late 1980's, and finally from the 1990's to date, supported by empirical research and theory application.

The traditional definition of a stakeholder is “any group or individual who can affect or is affected by the achievement of the organization’s objectives” (Freeman 1984). The general idea of the Stakeholder concept is a redefinition of the organization. In general the concept is about what the organization should be, and how it should be conceptualized. In this master’s thesis, we will look at the stakeholder theory and the company’s reorganization from the perspective of CSR.

After examining the development of the CSR theory, we can see that the definitions and the theories are not always centered on the companies. There are many different stakeholders when it comes to the CSR, inside and outside of the company. Moreover, as the development of CSR strategies started to grow throughout the years, the number of stakeholders that have influence on the strategies used by the companies had risen (Branco & Rodrigues, 2007, pp. 5 – 15).

Therefore, the stakeholder theory offers a different perspective on how the managers can use different mechanism and strategies without causing conflicts between the internal stakeholders. This is really important to note, since CSR is often viewed as a constraint in profit maximizing to certain groups within the company, while it is regarded as an important and integral part of the strategies undertaken in the company. The rationale behind this statement is due to the perception that the CSR strategies can bring sustainable economic development in the company. In the next chapters, we will examine the concepts of economic sustainability and sustainable development, the reason they are important to the CSR, and the way these two concepts are connected to the stakeholder theory (Branco & Rodrigues, 2007, pp. 5 – 15).

If we look CSR in the broader sense, we can observe that in actuality there are a lot of different stakeholders pressuring on the businesses to invest in social initiatives. This is clearly evident in the “market of virtues”, a criticism on the before mentioned models on CSR, since they do not acknowledge the fact that there are different groups in society and different groups in the corporations themselves, undertaking different initiatives under different causes (Vogel, 2006).

Although a criticism, this is a very important point, since there is no unified theory on what CSR is; therefore the CSR can mean different things in practice. Even if the NGOs and different stockholders can put pressure on the company to take social initiatives, they can be done for different reasons. The NGO may ask for direct involvement in the company with respect to certain social issues, such as human rights financing, child support, better benefits for the working mothers, while the stockholders who support these social initiatives, often consider these initiatives in the spirit of good promotion in order to improve the financial position of the company (Vogell, 2005, Waddock & Graves, 1997, pp. 303-319).

Dividing the groups into internal and external forces is very beneficial. This mixed model of both groups allows strategic planning to adapt to the changes in the perception of CSR and now includes non-traditional power groups (Roberts, 1992, pp. 595-612).

However, the division is also limited to the impact that the internal or external groups can have. Usually, the external groups can demand or influence, depending on what type of group we discuss (NGO or Government) on the company overall, without pinpointing or asking for responsibility from a certain group within the company. Although this pressure or demand influence on the company, the real change in strategy can come solely through the internal groups within the companies. Even if a conflict starts between groups within the company, the decision making managers have responsibility to deter the negative effects from these types of conflicts (Branco & Rodrigues, 2007, pp. 5 – 15).

The internal stakeholders in the companies are many. From the stockholders to the employees, creditors and customers, everyone has a different approach when taking into consideration the social initiatives. Their influence is changing the course of the strategic management and it has become even more complex than before. These influences go beyond Porter's five competitive forces (Prahalad & Hammel, 1994, pp. 5 - 16).

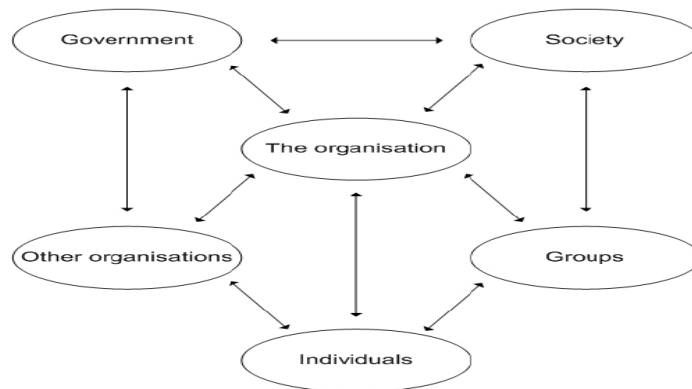
Moreover, the customer demands are changing together with their expectations, environmental concerns, regulatory changes and problems with excess capacity and what to do with the excess products. The new demands from the internal stakeholders have different influences on the strategic management in the company and the new socially responsible expectations from the company (Freeman, 1984).

A very important notion is the interaction between the stakeholders and the strategic management. The success of the corporate social performance depends on the successfulness and ability of the managers to deal with the different demands of the stakeholders and the way they balance them. Accordingly, it is very important to note that the demands of the different stakeholders in the company should be met, but in a balanced way (Wood 1991, pp. 691-718, Waddock, 1994, pp. 1-17).

So what has been the answer of the managers in different companies regarding the needs of social initiatives from different stakeholders? In the past years, the companies have created wealth funds, or more precisely social funds the aim of which is to invest in social initiatives. The amount of these funds is huge; 650 billion dollars by some estimates (Waddock & Graves, 1997, pp. 303-319). This huge amount should not be looked only as explicit costs of the company. Instead, it is very helpful to look at it like a safety net and part of the risk management of the company. Different industries work differently and act differently on the external environment, so social responsibility cannot be the same across different industries in the economy.

Below is the matrix developed by Crowther and Alas which explains the internal and external stakeholders and their influence on the organizations.

Figure 2: CSR Matrix with different stakeholders



Source: David Crowthler and Guler Alas, “*Corporate Social Responsibility*”, 2008, p. 26.

A good example is fire protection and here we can see how different stakeholders in the company can interact with each other. Imagine if part of the business of one company is selling heavy industry products. To produce these products, a complex and often dangerous method of producing is required, where the workers are under threat from fire hazards. If this scenario happens, the fire hazard can injure workers, damage the production facility and the stakeholders in the end will bear the costs, since the company will have to pay for reparations and the orders for the products will be late. Instead, the company can insure itself against fire hazard. The workers will enjoy the premiums from the insurance payment, the facility can be repaired and the stockholders will not bear significant cost except the immediate one. The expenditure for the fire insurance is part of the costs in the balance sheet of the company but if we take into account that the market is not perfect in actuality risk reduction adds value to the stockholders (Stulz, 2002).

In the example mentioned above, we can clearly observe the relationship between the managers and the shareholders. The workers will have full coverage in case of an accident, which translates to better working environment and the stockholders value is protected against fire hazards and accidents.

2.1.1 Moral Capital

From the stakeholder theory, we can understand that there are many factors that can influence on the sustainability of the company. These factors are very important if we look at the companies from the outside and how they can pressure the management to behave in a responsible manner. However, this is a one sided view of CSR. Companies, as stakeholders, can also work on policies that can contribute for expanding the sustainability of the company. One of these policies is moral capital (somewhere between intangible and tangible capital). In comparison to the other policies of CSR that are about promoting sustainability, moral capital is the opposite; it preserves the value of the company through implementing sustainability

policies, which can range from improving worker's rights, projects for eliminating carbon dioxide, cooperation with NGOs and many other. When the company is using this tool, it is less prone to mistakes and criticism from society, and it can eliminate the negative externalities, while at the same time preserving the value.

Although the development of the so called moral capital may appear as a purely altruistic motive for a company, in most of the cases, moral capital is part of the risk management of the company. We already know that risk management is a big part of the CSR programs of the companies. As mentioned previously, companies can protect themselves from certain negative outcomes with programs that can benefit society.

However, the question is how moral capital is structured in the triangle between shareholders, corporate social responsibility programs and risk management? Well, for one thing, we should first ask the question: When do the shareholders gain if a firm's strategy includes disbursing corporate resources through participation in social initiatives? (Gardberg & Forburn, 2006 pp. 329–346).

Up until now, we have seen that stakeholders in society and firms alike are willing to develop social programs to minimize the risks from negative events. However, the point of moral capital is not to create, but rather to preserve the shareholders' value through social initiatives. This insurance like mechanism provides benefits for the shareholders in protecting their capital. This goes hand in hand with the previous statements that CSR can be looked as risk management in the companies (Schnietz & Epstein, 2005 pp. 327– 345).

Even though moral capital sounds like a very progressive idea and a beneficial risk management, it has three very important limitations;

Moral capital as a concept does not have a proper theoretical background and it does not have rationale on the broader scope. This means that the theory behind moral capital does not provide answers to why some companies suffer losses from certain events and why others do not sustain similar loses, even when both companies have risk management programs that have accumulated moral capital throughout the years.

The concept is often viewed monolithically, often with only one variable, or with few variables that are similar. Usually there is only one proxy variable that is centered round philanthropy. If we perceive moral capital as part of risk management, than it should have more variables besides the philanthropic.

The third limitation is based on the fact that most of the studies are done only on the basis of a single industry or economy event. Therefore, we should match firm specific characteristics with firm specific events.

If we take into consideration the three limitations of moral capital and if we take into consideration that moral capital is risk management we should try to answer the question above: when and where is the gain of the stakeholders in the company?

The answer to the question can be at least interesting and confusing to some. While the concept of CSR was developing, it was thought that the social programs should be developed out of altruistic motives mostly. That is why the stakeholder theory is very applicable and important to CSR; it provides the possibility for the CSR programs to be provided not just from an altruistic point of view, but rather as a risk management program to safeguard the company's interests (Van Herpen, Pennings & Meulenberg, 2003, pp. 1-32).

The answer is quite simple: the gain is in the preservation of the company's value through the social programs. This means that the company is providing these programs to preserve its reputation and image. Having a clean image and reputation means that the company can remain stable; in case of emergency, the company can manage to react to the newly created circumstances that can damage the value.

In summary, it is not enough for the company to show just altruistic behavior. This may hurt the relations between the company and some of its stakeholders. The reasoning is in the primary goal of the company: to make profit. If the company has purely altruistic intentions it will definitely hurt its profit ratio, which would translate to lower income for some of the stakeholders in the company. Indeed, the decision makers in the company should sustain the balanced line between the stakeholders in the company and the external stakeholders. To the external stakeholders, the social programs of the company should represent its values, therefore showing that the company is not self-centered and not just a profit making machine (Godfrey, Merrill & Hansen, 2009, pp. 425-445).

When the two signals are balanced towards the internal and external stakeholders, there is a positive attribution of moral capital. Because the purely altruistic motives do not exist, moral capital is one of the instruments of risk management. Although moral capital works in theory, it is a very difficult task to sustain the balance. As there are many stakeholders, it is almost impossible to please them all and to maintain a healthy profit ratio. Since we also live in a dawn of globalization, the companies can perform sustainability in countries where there are strong legal requirements and far worse in countries with lax legal requirements. The effects therefore can be localized or global. It has happened for certain groups of stakeholders to boycott a company or its products. This is extremely damaging for the company, since financially it can have devastating effects on the company. If boycotted, the companies for sure will have lower sales, lower profits, which will for sure translate into value lost. However, this is a general point of view. If we look into details, we can distinguish several options:

1. Bad actors, bad actions: When the company is run by the so-called bad actors (irresponsible management) that leads to bad actions, meaning irresponsible behavior of the company towards society.

2. Bad actors, good actions: When the company is run by the bad actors again, but their actions afterwards lead to good results to society.
3. Good actors, bad actions: When the management of the company is responsible, but the actions that they undertake lead to bad results and actions towards society.
4. Good actors, good actions: When the management of the company is highly qualified and responsible and their actions towards society are purely positive.

Although there are four possible outcomes, they are not perfect. There are many layers in between. As mentioned before, when the overall theory of the CSR was looked through, we saw that it was almost impossible to define it and to devise a general definition. Taking this into account, it is impossible to have only four outcomes of the actors and their actions. There are many layers in between with different magnitude of the actions undertaken. Some outcomes can be more damaging/better than the others and can have local or worldwide consequences. It really depends on the company's accumulation of moral capital. The companies with high moral capital will be far better off than the companies that do not, although it really depends on the situation and the reach of the actions.

2.1.1.1 Determinates of success of moral capital

There are two main determinates of the success of moral capital and its value in the company. These two criteria are:

1. CSR activities of the company must be public information.
2. CSR activities must be substantial in order to create genuine intentions.

The two determinates are interconnected. Since the activities are public, the media and other institutions can evaluate the work and the progress of the programs. Moreover, these external factors are crucial as to the importance of the reach of the social programs (Godfrey, Merrill & Hansen, 2009, pp. 425-445).

Although this is a simple concept with two determinates, these two criteria are highly important for the social commitment of the companies. It shows that if the company wants to accumulate moral capital and be effective, it must be public and visible to society, and be able to generate some kind of value for the company in a genuine manner with the right intentions. However, this concept is flawed, because as mentioned above, there is no such thing as purely altruistic motives (Godfrey, 2005, pp. 777-798).

In conclusion, moral capital as insurance mechanism will deter the negative outcomes and reduce the negative sanctions from the stakeholders. However, it should be noted that it is impossible to put moral capital in a general framework. Proper allocation of resources regarding moral capital depends on the situation. For moral capital to work properly and to

have the best effect, it should be public and it should be substantial enough as an investment in order to be noticed by the stakeholders.

In order to observe how in actuality the moral capital works, since it is one of the most important aspects in today's CSR programs, we should look into real event situations and the ways in which the companies have reacted, taking into account the determinates of success, as well as the general framework of actors and actions. Moreover, we will identify and take into consideration the actual stakeholders in these situations.

2.1.2 Shared Value

Besides moral capital, another strategy that companies can use is the shared value concept. Just like moral capital, shared value connects the societal and economic progress and it represents the next wave in sustainability.

One problem that the companies and society have is the absence of synergy between them. For a long time, companies were regarded as if they were in conflict with society. The reason behind this is quite simple. It lies in the fact that often we tend to think that companies' goals, such as profitability and revenue maximization, are in opposite with the needs of society. In fact, the societal needs can drag down the prosperity of the companies. Under the assumptions of the modern capitalist societies, when the companies have to deal with issues in their local communities or on a global scale, they could lose money and profits. Therefore, there is a tradeoff between profitability and societal needs (Porter & Kramer, 2011).

This old perception of the tradeoff started to wander down with the start of CSR and the policies that companies can bring regarding these societal issues. Just like moral capital, which is used as a risk management mechanism, shared value is a policy concept that companies can use to unleash the next wave of global growth.

One related concept to profit maximization is the notion of externalities which companies and societies face. For example, one externality is pollution, which the companies do not have to face, but society must impose taxes to curb the negative influence of pollution to the environment. However, the companies are largely excluded when it comes to social issues, mostly because they are taxed or regulated when they produce negative externalities, but are not always part of the decision making process. This process is left to the Government and NGOs, while the companies use CSR policies which are there to improve the reputation and are treated as necessary expense and anything more is viewed as irresponsible spending of stakeholders' money. On the other hand, Government regulations make it hard for the companies to engage with society and to create shared value. Shared value tries to overcome the obstacles that divide societal needs and economic profitability and companies from Governments. It reorganizes the concept in a way that emphasizes on the lost value that companies can create if they engage more closely in society. For example, companies acquire internal costs such as raw materials, costly accidents and prolonged training for its employees

due to the lack of education. Even if the name suggests that, shared value is not just a redistributing concept; it is more about expanding the economic and social value (Porter & Kramer, 2011).

One interesting aspect of expanding the economic and social value is the fair trade movement in purchasing. This type of fair trading aims to increase the revenues collected by the poorest families by paying them a higher price for the same crops. The difference between fair redistribution and shared value lies in the fact that while redistribution is noble and altruistic, it does not take into account the real needs of the society. For example, shared value focuses on improving growing techniques of the crops, research and development, strengthening the local cluster of suppliers which leads to higher yields and better quality of the crops, which makes the local farmers more competitive on the local and international markets. One study in Ivory Coast showed that cocoa farmers increase their income by 10 to 20 percent and the shared value investments sky rocketed to more than 300 percent (Porter & Kramer, 2011).

Therefore, wider cooperation with different stakeholders in the society is needed. For the businesses to be successful, they need stable and successful societies, not only to create demands for their products, but also to provide critical public assets and supportive environment. On the other hand, societies need successful businesses in order to create welfare for its citizens. This means that the policies from both ends should not undermine the other, because that leads to undermining themselves. Now, we know that shared value is policies and operating practices that enhance the competitiveness of the company, while at the same time it advances the economic and social conditions in the societies in which it operates.

When we discuss shared value, we should first determine what creating value means for the companies. The economists' explanation is that value is created when we take into account benefits versus costs. In business, this means that revenues must be higher than costs for the profit to be maintained. Still, businesses largely ignored this approach when it came to societal needs, and treated them as peripheral issues. However, it is also up to the Governments and NGOs to support the value added principal when they discuss societal needs in order to engage with businesses. Previously, the companies focused on how to increase the demand for their products, without paying attention to the problems in their societies. The increase in demand does come at a cost; when the demand is expanding, the influence of the negative externalities also expands. Moreover, the increase of the competition, leads to relocation costs to lower costs countries, restructuring and personnel relocation. This means that there is a commoditization, little or no organic growth and minimum innovation. When this happens, communities have little or no benefit at all, except the perceived increase of profits for the company, which does not reflect the needs of the society. Instead of the benefits, societies carry the burden of extra profits for the company themselves. For example, rise in unemployment due to cost cutting, pressure on community services and distress to the local businesses are some of the burdens that societies have to withstand (Porter & Kramer, 2011).

However, it was not always like this. We have to remember that companies are societal constructs and once businesses were very much involved in supporting the needs of the workers, communities and supporting other businesses. Other social institutions started to operate, but later on, their influence was limited due to delegating. Shortening affected the way businesses think about investments. Globalization brought the thinking that vertically integrated companies can outsource and move part of their businesses to other parts of the world, which reflected on their connection with societies. Therefore, many companies started to perceive themselves as global, multinational or international, instead of local. These strategies did improve the economic efficiency, but the options for value creation were lost due to this process. The incentives were more in favor of the industry attention, rather than the social needs and progress. In order for this to change, the companies can create values through three ways:

1. Reconceiving Products and Markets.
2. Redefining Productivity in the Value Chain.
3. Enabling Local Cluster Development.

2.1.2.1 Achieving Shared Value

1. Reconceiving Products and Markets

The needs of societies are huge. Healthcare, nutrition, aging population, financing public programs and education are some of the needs of society that are difficult to obtain and Governments and NGOs are mostly responsible when dealing with these issues. The companies drift off without consideration if their products are providing added value for the company, but also for society.

An interesting phenomenon that is currently happening in the advanced economies, but also in the developing economies, although on a much smaller scale, is that the demand for sustainable products has dramatically risen. This demand has pushed the companies to open their businesses to sustainability and to offer products in this range. For example, General Electric's Ecomagination line of sustainable products is worth more than 18 billion dollars. Other companies, such as IBM and Intel devised ways how to help the utility companies to optimize their energy use. These examples show that value creation can be effectively introduced by the companies. It is an interesting notion to see how the line between profit and nonprofit is blurring. New types of hybrid enterprises are emerging such as WaterHealth International, a for profit organization that uses purification technologies for water treatment and distributes clean water for more than one million people in India, Ghana and the Philippines. WaterHealth International is financed by different stakeholders, from the socially conscious Acumen Fund, to the United Nation's International Finance Corporation and Dow Chemical. There are also many other examples for hybrid types of enterprises. What is important here is that the types of products and services offered by this hybrids change the nature of the products and markets. They blur the line between profitability and social responsibility, which go hand in hand with value sharing (Porter & Kramer, 2011).

2. Redefining Productivity in the Value Chain

A company's value chain affects the external environment on many levels. Resource use, water quality, worker's conditions and health are just some of the things which the companies influence. Therefore there is a big open space where the companies can change and become much more efficient and create value for both them and society. Moreover, these externalities and costs can be avoided if the companies are willing to change and redefine their value chains. For example, the companies can lower their energy output through change in logistics. Marks and Spencer's overhaul of their logistics system saves them about 175 million dollars per annum, simply by stopping the shipments of materials from one hemisphere of the world to another. The resource use can also be improved and more efficient. Several companies such as Coca Cola and Dow Chemical have managed to lower their water consumption for 9 % with end goal to reduce it to 20 % through innovative techniques. The companies can also create value through procurement. For example, Nespresso, which produces premium coffee machines and coffee as well, uses a new approach in procurement. Since the coffee farms are small and relatively unproductive, Nestle (Nespresso's parent company) works closely with the farmers in Africa and South America, providing them with loans and offering them training and education. What happened was that the coffee yields improved significantly, Nespresso's supply of coffee has become far more reliable and the farmers now have stable jobs and income. Moreover, the companies can create value with change in the distribution. Micro financing, for example, offers businesses new distribution channels for financial support. When the companies also try to improve their employees' productivity, value is created. For example, from 2002 to 2008, Johnson and Johnson started a program that targeted the employees who smoke. The company now saves around 275 million dollars in health care costs. These examples illustrate that there are many ways the companies can redefine their value chain and create value (Porter & Kramer, 2011).

3. Enabling local cluster development

The companies are not self-contained and they depend on their suppliers, buyers and other stakeholders in society. Therefore, it is good idea for the companies to encourage the development of local clusters. In this highly globalized society, clusters play an important role in driving productivity, innovation and competitiveness. Local clusters improve the logistical efficiency and ease the collaboration, which is very important when we talk about value creation. However, it is not only up to the companies to improve the development of local clusters. Governments should also be held responsible. For example, bad public education leads to increased costs for education for the companies. Bad transportation systems lead to increase in costs for transportation for the companies, as well as diminishing efficiency in their supply systems. Moreover, if Governments cannot tackle issues such as poverty and environmental degradation, the companies will for sure suffer, since they are unable to fix these issues on their own (Porter & Kramer, 2011).

A key way to improve the local cluster development is for markets to be open and transparent. Monopolized or inefficient markets are bad for value creation. Suppliers do not get a fair price, the possibility for exploitation of the workers is high and price transparency is lacking. This combination leads to a loss in productivity, which is in contrast to the value creation. Changing this environment allows for securing reliable suppliers and giving suppliers better incentives for quality and efficiency, while at the same time improving the company's profits and sustainability and the wellbeing of the communities.

Although this concept is beneficial for both sides, in order to be truly successful, a wider and deeper cooperation between the stakeholders in the society is needed. In the meantime, initiatives between profit and nonprofit organizations should be encouraged. However, the fact remains that shared value as a concept is still localized and it remains in the hands of the companies (Porter & Kramer, 2011).

2.2 Institutional Theory in CSR

The idea of institutional theory is relatively new. At the beginning of the 1970's, the CED analyzed, on a micro level, how the company should be involved in society. On a micro level, the company should employ three distinct functions:

1. Internal function: The company should generate economic prosperity that will generate new jobs and income to the local communities, through distribution of products and services.
2. Intermediate function: Meet the expectations, values and social priorities of the stakeholder.
3. External function: Reduce social and environmental imbalances in society.

The aim of these three functions is to banish the simplification of the CSR as purely philanthropic actions or donations made by companies to legitimize their actions. In addition, the Committee proclaims that CSR must become a tool that will engage the companies in the societal issues (Committee for Economic Development, 1970).

It is also very important to note that the beginning of the mix between institutional and stakeholder theory is based on research data from the 1970's that includes two important areas: the first being the environmental studies conducted by relevant scientists from that time that were also involved in the 1992 Rio de Janeiro Earth Summit on one hand, and on the other hand, the social scientists that researched the societal effects from the environmental changes and the business practices of the companies at that time that did not focus their attention enough on these changes.

This is a very important first step into managing three different aspects of sustainability. If until the 1970's the CSR was viewed purely as philanthropic efforts by the companies, now it got a broader aspect on how it could be used in sustainability. The economic growth created

by the companies must be underpinned by developing solutions that will contribute towards eliminating common problems that influence the daily life of the society. For example, the companies should invest into green infrastructure on their own part, which would include recycling, renewable energy and wider cooperation with agencies that deal with these issues. On the other hand, by dealing with these topics, the companies will certainly help in eliminating the social problems such as inequality, poverty and underdevelopment in their own communities. Investing into green infrastructure as opposed to traditional managing of the environmental issues will generate new jobs and prosperity for the community (Committee for Economic Development, 1970).

This first step that led to observing CSR as a way of maintaining and providing sustainability produced two new actors on the stage that were previously detached from the company's obligation towards sustainability. These two new actors were the Government agencies and institutions and the Non-Governmental Organizations that deal with a wide array of topics that are of societal importance.

From this point on, in 2000, in the beginning of the new millennium, a new World Business Council for Sustainable Development (WBCSD) was introduced in order to develop sustainable strategies using CSR on the side of the companies, enable institutional changes and reforms by the Government agencies and project cooperation with different NGOs that work on scientific, environmental and social initiatives. One of the most important aspects of achieving sustainability is to ensure wider cooperation between different subjects in society that directly influence the changes. In this way, we cannot speak of Corporate Social Responsibility as an isolated concept in achieving economic sustainability. Every part of society should be involved in achieving this and every part has its own responsibility. Therefore, WBCSD's definition of CSR is: "CSR can be understood as a commitment of business to contribute to sustainable economic development, working with employees, their families, the local community and society at large to improve the quality of life of their groups" (Vogel, 2006).

The problem that arises from this mix of stakeholders and CSR programs are that the stakeholders are many and none of them has the same idea of how a socially responsible company should act. Stakeholders do have business identities and interests that vary and are cross national, while the other agency oriented analysis are too simplistic (Aguilera & Jackson, 2004).

Therefore, one of the proposals is to create the so-called institutionalized theory. Previous theories suggest that the companies and the management in the company have enough powers to undertake social initiatives. These are agency based theories. However, it is increasingly evident that the companies do not act in the same manner from continent to continent and from industry to industry. Moreover, there is an obvious dichotomy between the "American" and "European" CSR. There are also differences between the social programs of the companies from industry to industry. Therefore, it is quite obvious that the agency based view does not take into account all of the factors such as that the stakeholders in the company

are different and that they are not directly responsible to the management, as well as the fact that the institutions also create social norms and that different industries need different social programs without damaging their profits (Aguilera & Jackson, 2004).

However, the institutional theory does not dismiss the agency based one, it just upgrades it. The stockholders, employees and management are still important, but they are viewed through their national, cultural and institutional contexts. In conjunction, the institutional theory also takes into account the wider spectrum of society, meaning that the NGOs, Government, institutions social values and norms are taken into account.

Now that we know the reason behind the perplexity of different theories, thoughts and directions, I will explain two important concepts in detail:

1. Can we institutionalize Corporate Social Responsibility?
2. Can the different stakeholders in society coexist with the goal of achieving sustainability through CSR?

2.3 Institutionalized Corporate Social Responsibility

Therefore, institutional theory can be very helpful in filling in the vacuum. At the same time when CSR was born, several organizations worldwide were campaigning for strategies and actions that would tap onto the environmental issues. In response, the companies had to adapt to the requirements and environmental standards. As time passed by, with the pressures of the omnipresent globalization and new legislation, the companies had to operate in a manner that kept their actions and behaviors consistent with principles demanded by both external and internal factors. This type of operating is crucial for the company's survival (Kunapatarawong, Martinez – Roz, 2016, pp. 1218-1232).

This process is called internalization. It is a set of norms, beliefs, values and principles accepted by society and the community that allows organizations to achieve the support of their activities. By doing this, the companies strive for legitimization of their activities. The process of legitimization is a very important aspect of the institutional theory. It gives big advantages to businesses. It gives them access to different stakeholders in society. This help in the form of economic and financial success of the companies can come from different resources such as investor funds, support from Government agencies, increased sales and customer loyalty access to negotiation with different suppliers and distributors, earning the respect and commitment of employees.

Although this idea sounds utopian, where every subject in society is dedicated to sustainability, it is also very possible. With the industrialization of the countries, the business puts enormous pressure not only on the external eco systems and society, bus also internal pressure on its workers to produce at lower costs. Since production of products at lower costs

comes at a price on the external environment, the companies should first start with legitimization and institutionalism internally. The first process is internal institutionalism in which the companies should develop their own set of rules and norms. Since we speak about broad sustainability and corporate social responsibilities, these set of norms and values should be targeted towards sustainable business models through CSR. Having in mind the agency based theory, CSR is not only philanthropic efforts, where the organization will give funds because they are charitable, but it should mean investing in sustainability internally, but also externally. The companies are not isolated organizations, detached from society, instead they should be working internally to improve their sustainability and externally, to improve the social and ecological constraints that they influence on. When this process of internal institutionalization is established, the companies can strive for legitimization. This is a crucial process which will enable the top management to have better relations with its employees (which are only one part of different stakeholders), suppliers, buyers and clients. The legitimization should be understood in a way where the companies will offer sustainable products, but also their employees will have high salaries, investments in research and development, happy customers and bargaining power with suppliers (Fernandez & Fernandez, 2015, pp. 8-14).

The process of institutionalizing sustainability does not end with the internal institutionalization. The external institutionalization is considered essential with regards to establishing relationships between companies and Government laws and regulations, professional associations (licensing and certification) and other organizations, especially those that are within the same sector (DiMaggio, Powell, 1991, pp. 1-38).

With the external institutionalization in mind, the companies can adapt more efficiently to the environment and can acquire both internal and external legitimization and the benefits coming from it, if they can manage to fulfill three conditions:

Coercive isomorphism: We should take into account the legal and political pressure exercised by the Government and its agencies. They act as a regulatory power enhancer and have the right and the power to change certain regulations and laws regarding the businesses in which the companies operate.

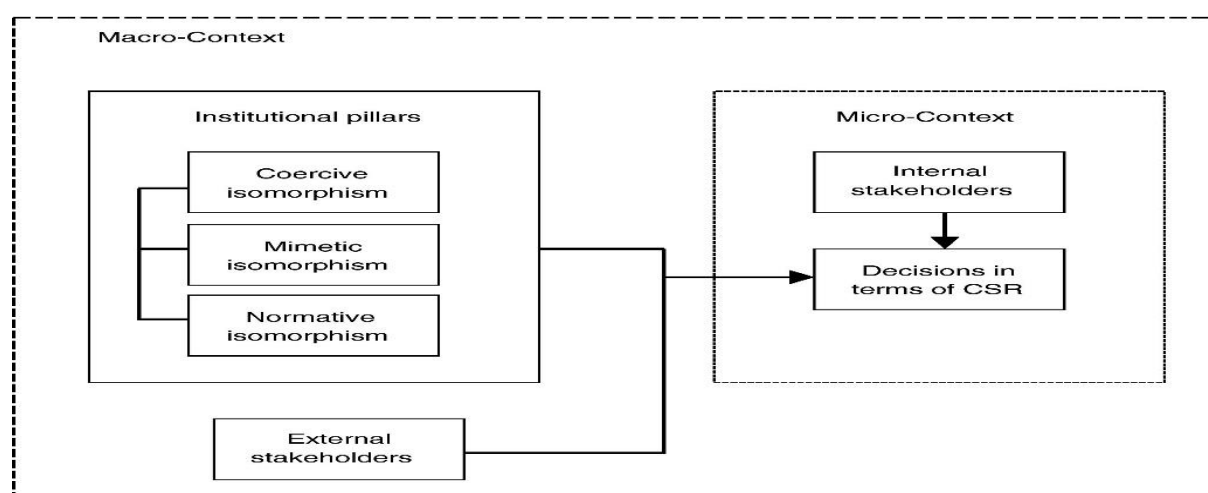
Mimetic isomorphism: Mimic the processes, strategies and practices. By engaging in this isomorphism, it can be argued that the cognitive power that certain organizations (in this case the leaders in the businesses) have, such as a set of norms, values, know – how, explicit knowledge that is codified and specialized through the framework in which the companies will perform these organizational routines to internalize.

Normative isomorphism: Collaboration with professionals and using their experience and knowledge in the fields in which the company would like to turn its focus on. The top management should always take into account that these professionals have experience and trainings and can address the environmental (external and internal) issues that the company wants to address.

It may seem that the isomorphism that can be applied to all the organizations are similar and structured in the same way (figure 3). The empirical evidence shows that the processes of isomorphism can improve their position in the market, and enable their businesses to be perceived as desired by the public, but also by the public institutions and the wide range of communities (Fernandez & Alles, 2001).

The main point of the isomorphism is to explain why companies view the limitations of behavior in their own environments as able to ensure the legitimacy of the groups and institutions that shape it. However, there is a new neo institutionalism trend that emphasizes the fact that the companies are substantially influenced by the cultural factors, legal and political institutions that define the specific behaviors for different regions and cultures. (Schultz and Wehmeier, 2010).

Figure 3: Stakeholder and Institutional theory



Source: DiMaggio and Powell, *Introduction: The new institutionalism in organizational analysis*, 1983, pp. 1-38.

Supporters of the neo institutionalism explain the influence of the above mentioned factors have on the socially responsible programs. There are several institutions that should be taken into consideration:

Formal institutions: Constitutions, laws, policies and formal agreements that have been created and validated on local as well as on nationwide levels.

Informal institutions: We can regard the informal institutions more into the cultural factors that limit or influence corporate social responsibility programs. These types of institutions rule the behavior and mental models and are generated individually through cultural heritage, policies or religious beliefs. Moreover, because we live in a highly globalized world, there

are also supra national institutions that control or influence large geographical areas and cultures. These supra national institutions can be the European Union (EU), the United Nations (UN) and its agencies.

When we talk about the institutional and the stakeholder theory, we also have to mention the point where both theories drift apart. If we take institutions (as I argue throughout this master's thesis) as part of the stakeholders in a society, we also have to mention that they have different goals than the stakeholders in the company. Therefore, the stakeholders can be grouped in different blocks. There are the stakeholders within the company itself that can pressure the company to act in a socially responsible way, but there are also stakeholders within the company that strive for larger profits and are willing to neglect the social constraints in which the company operates. It is up to the top management of the company to balance the demands from different groups in the company. One thing that is missing from the stakeholder theory is the fact that the theory is focusing on the demands on the stakeholders, rather than the constraints that are present in every society.

As such, some of the scholars (Margolis & Walsh), argue that the stakeholder theory to a certain degree, has failed to explain the social, economic and institutional imperatives that often confront companies in contradictory ways. We mentioned above, that there are certain informal and formal institutions that operate out of the company and can clash directly with the demands of different stakeholders in the company itself. It is important to note, that these scholars also argue that the influences that are not within the company can be much more powerful than the stakeholders inside the company. However, throughout the case study of moral capital of BP, we will see that there are stakeholders from within the company, but also outside the company that are willing to work together to achieve sustainability. It is very important to note that the CSR programs of the companies are the ones that often tie different stakeholders together in achieving their goals (Margolis & Walsh, 2003, pp. 268-305).

Due to the need of collaboration between more stakeholders, both internal and external, the neo institutionalism broadens the concept of earlier organizations. This means that if the companies want to be sustainable and socially responsible, we should take into consideration not only the technical advancements in society, but also the importance of the social and cultural environment. In other words, what the old institutionalism lacks, the neo institutionalism advances. Since the stakeholder and institutional theory both neglected the importance of the external factors and influences, there was a need for a new theory that could bring together these theories (Kunapatarawong & Martinez Roz, 2016, pp. 1218-1232).

This theory recognizes the social, economic, political and other factors that constitute an institutional structure of an environment. In this environment, also the rationalized myths exists; a widely held beliefs and impersonal rules specifying procedures to finish a given goal. According to Meyer and Rowan, the firms need to establish legitimacy and, in that manner, to obtain the needed resources in order to operate in the communities. To remind ourselves, one of the most important points of institutionalism is to give the firms legitimacy in society. However, ensuring legitimacy and obtaining resources in a given community

comes at a price. The firms have to operate under internal and external pressures, such as politics, public and cultural organizations that force firms and organizations to adopt a particular structural form and therefore behave in certain ways in order to survive (Meyer & Rowan, 1977, pp. 340-363).

In the institutional theory, we can argue that there are already ways to institutionalize CSR. According to Campbell, one of the best ways to explain this is through the existence of industrial associations. These organizations have both internal and external members (companies, institutions, consumers) that force product quality, workplace safety and the likes of socially responsible behaviors by setting standards by which all of the members will adhere. Taking into account the criticism of scholars, such as Milton Freedman, that this type of organization leads to shrinking the companies' profits and long term plans, we must focus on the fact that all of the members must adhere to the rules. For example, this means that the companies must adhere to the ecological and environmental standards in order to produce their products, which in today's terms means spending money on the latest technology. On the opposite side, this means, that the Government and its institutions must provide a clear legal framework for the companies. In some European countries, this means subsidies and certificates for the socially responsible companies which can place their products as ecological or sustainable. The cultural influences can then be subtracted, because they already influenced the Government institutions to react. Moreover, according to Campbell, the failure to conform can be perceived as irrational and negligent and can even result in sanctions (Campbell, 2007, pp. 946-967).

One recent example can support this claim by Campbell. The "Dieselgate" scandal that was discovered in USA, damaged the image of Volkswagen, not only in USA, but also worldwide. It was discovered that Volkswagen did not adhere to its own standards and falsified its own test results for the carbon and nitrogen emissions from its diesel engines. The reaction from the internal and external stakeholders in society was quite clear. The internal stakeholders in the company, most of them stockholders were furious at the management that allowed this. The company lost 50% of its value just days after the scandal. Moreover, in the USA they were fined with a hefty fine of 18 billion dollars, money that would be spent on the buyers of the Volkswagen models in damage claims. However, several European countries also opened investigations on their own to fact check if the company also falsified its emission standards in the European Union. South Korea and Japan also announced their own investigations regarding the scandal. The consumer trust in Volkswagen dropped significantly and the number of sold vehicles dramatically fell in almost every country where Volkswagen sells their brands, especially the diesel variants (Blackwelder et. al. 2016).

The response in Europe happened much later, but it threatened to have a bigger impact not only for Volkswagen, but also for the other diesel car producers in Europe. After further tests, it was found out, that not only Volkswagen, but also Renault, Citroen, Fiat, Volvo and Chrysler falsified their test results regarding the emissions from their cars. Therefore, a 28 consumer confidence agencies from the 28 member states of the EU would investigate the scandal and the car producers that did not adhere to the standards would be heavily penalized.

In this case we can determine the negative effect of not adhering to the rules. The negative effects are not only contained in a form of financial loss, but also as a loss in consumer confidence and the negative image of the industry as a whole, for which in the future, it would have a long lasting negative impact. The institutional impact was very important in this case, as well as the pressure from the internal stakeholders in the company which demanded a change in the manner of conducting the tests in the future. In this way, both the Government adhered to the rules as well as the company in order to protect its image and financial stability. However, we did not look at the society and its role in this case (Mansouri, 2016).

One of the most important pieces in this puzzle was the Environmental Protection Agency (EPA) in the USA that revealed the scandals. Now, if we look at the EPA, we can say that it was established because of the demands of the American society for an agency that would regulate the negative impact of the industries on the environment. In other words, I can argue that the cultural shift from pure profit to environmental protection and conversation lead to the actions undertaken by the Governments. Clean and healthy environment is something that is very important for many Americans and this influences the companies to adhere to these demands because if they do not, they will have to withstand the financial damages and lose customers.

Another example is the ISO14000 standard. It constitutes of a series of international, voluntary, environmental management standards, guides and technical support. Ever since its establishment, there has been a rush of companies that voluntarily comply with these standards. In opposite, if they do not, the companies are aware that they would have a tough time selling their products on the biggest markets in the world (Matten and Moon, 2008, pp. 404-424).

From the arguments above and the example of the Dieselgate scandal, we can conclude that there are external factors that pressure the companies to behave in a socially responsible manner. These forces operate on a macro level and are outside of the realm of the company (Governments, consumer protection agencies, general public, cultural preferences). There are also internal factors that operate on a micro lever, or inside the company. These forces can be the employees, managers, stockholders and the structure of the company.

While there is a general consensus that businesses have awakened and that they are starting to realize that there are internal and external factors that influence them to behave in a socially responsible manner, there are certain scholars that argue that these factors may not influence the company at all (Campbell, 2007 pp. 946-967).

Oliver (1991) for example argues that one way to determine if the company really is striving to be sustainable and socially responsible is through their response when there is a demand for such actions. In certain cases, institutional pressure creates the so called “window dressing” opportunities that are decoupled from the normal activities of the company. In other

cases, the changes can lead to meaningful changes in the way the company operates, and are integrated into the day to day operations (Oliver, 1991, pp. 145-179).

Greening and Gray observed the firms' external factors and concluded that the firms' environmental programs are decoupled from everyday organizational activities. They have also found out that decoupling happens when institutional pressure is in conflict with other goals. Accordingly, the activities undertaken by the firms that revolve around CSR programs are often on a superficial level or window dressing CSR programs with two purposes:

1. Providing companies the appearance of conformity to external pressure.
2. Making it easy for the firms to insulate themselves from those expectations.

Weaver found out that companies easily engage into implementation of the easily decoupled elements of the CSR activities under external pressure. On top of this, many companies have awoken to the demand of sustainability and CSR after being surprised by the public demanding from them to be responsible for what was not previously thought of as part of their business responsibilities. The corporate attention to CSR has not be completely voluntary and what is worse, the firms were unclear and not transparent enough on what they actually would do, prompting cosmetic, but not strategic corporate social responsibility, involving more media and public relation campaigns (Weaver et. al, 1999, pp. 539-552).

In reference to the good management theory developed by Waddock and Graves, some of the managers may opt out to pursue minimum social engagement in order to avoid the bad publicity. The managers recognize the possible benefits that the company may enjoy if they are socially engaged and sustainable, but unfortunately most of them do only opt out for the cosmetic CSR and hence the CSR and sustainability programs may not be real at all (Waddock and Graves, 1997, pp. 303-319).

Therefore there are two possibilities that exist:

1. Internal institutional pressures are not in association with firm – benefiting CSR.
2. External institutional pressures are in association with firm benefiting CSR.

From the two possibilities we can observe that in actuality internal pressures are much weaker. The final decisions are made by the top management and according to the empirical research by Waddock and Graves, managers are aware of the benefits of being a socially responsible and sustainable company, but they opt out for the cosmetic type of CSR (Waddock and Graves, 1997, pp. 303-319).

In reality, there are no penalties or dangers for allocating resources for CSR activities. In fact, these activities create competitive advantage for the company, especially if the activities are focused on developing a better relationship with the stakeholders. This provokes many firms to undertake the triple bottom line philosophy that is conditioned on three parts:

1. Economic Profitability.
2. Environmental Sustainability.
3. Social Performance.

However, this triple bottom line philosophy requires integrative action from the top management and owners and stakeholders within the company itself (Hart & Milstein, 2003 pp. 56-69).

Furthermore, some executives of successful companies might choose and initiate CSR activities because of the sense of reciprocity or guilt. This is an interesting concept that can help to emphasize more on the internal factors or integrated core company level CSR. According to Weaver, certain reports and empirical evidence indicate that “personal commitment is an essential part to what drives organizations to involve in what can be termed proactive CSR”. This type of CSR is driven by the relationships among different stakeholders in order to gain legitimacy with a long term purpose so as to achieve cohesion within societies. In this manner, the top management can lead the way of change and lead the company to be socially proactive and sustainable (Weaver et. al, 1999, pp. 539 - 552).

2.4 Coexistence of different stakeholders

The problem that often arises in this context is the collaboration between the different stakeholders. It is not enough for the stakeholders to have the same goals alone. It is much more complicated than that.

From what we can observe, it might happen that a Government institution and an internal stakeholder in a given company have the same goal: to achieve sustainability. We have seen that there are managers who are willing to work on CSR initiatives for the benefit of the company. However, it is also often that the goals directly clash with the policy of the company, institution or the NGOs. For example, even though there are stakeholders in the company like a workers’ rights group who would work together with an institution from the Government that also works on this, the company policies may stop them from collaborating. If the company’s goals are strictly focused on profit maximization, increase in sales or international presence, these problems come often as a backup plan. This happens in real life circumstances and the companies, as well as the other stakeholders, can be criticized for their lack of cooperation (Gray & P. Sites, 2013).

In order to overcome these obstacles, the stakeholders that have the same goals should work independently, in addition to the company’s policy in the form of multisector collaborative partnerships, proposed by Barbara Gray and Jenny P. Sites.

These types of partnerships are defined as initiatives where “public interest entities, private sector companies and civil or non-governmental organizations enter into an alliance to achieve a common practical purpose, pool core competences and share risks, responsibilities,

resources, costs and benefits”. The partnerships are cross – sectoral to the extent that they involve at least two, possibly four stakeholders: Government, Businesses, NGOs and organizations from the civil sector. It is very important to note that the partnerships are flexible and can involve only two sectors, which can influence the others to join (Gray and P. Sites, 2013).

According to Gray and Sites, it is also very important to distinguish between partnerships and collaboration. The reason behind this is that collaboration as a term has become very ambiguous. It can mean different things for different stakeholders. Partnership is a much more rigorous term that defines collaboration. It means that the stakeholders choose to collaborate through partnership, rather than just collaborate on the issue. Partnership means that the stakeholder will work on offering a solution to the problem, not just discuss it.

In terms of the CSR it is very interesting to note that these types of partnerships already exist in managerial context, such as joint alliances or public – private enterprises. For example, when the Government and business join forces it is called private – public partnership. When NGO and business group together, it is called business – NGO partnership. When NGO partners with a civil society group it is called Sustainable Local Enterprise Network (SLNE) (figure 6). When businesses like to engage with civil society groups, or vice versa, it is often difficult, especially for the businesses, due to the lack of organizational routine, ongoing or possibly contractual exchanges. Therefore, NGOs have a big important role, since they serve as liaisons between the two groups.

From figure 6, we can see what types of partnerships can coexist and work together. In the next chapter, the links between the different groups and their partnerships are explained more in depth.

Figure 4: Types of partnerships



Source: Gray & P. Sites, *Sustainability through Partnership: Capitalizing on Collaboration* 2013, p. 18.

From figure 6, we can see what types of partnerships can coexist and work together. In the next chapter, the links between the different groups and their partnerships are explained more in depth.

2.4.1 Multi sector partnership

This type of partnership happens when three or more sectors participate in a partnership. This is the most powerful partnership, because it includes most members and the sphere of influence is much stronger. For example, when a Government decides to link up with an NGO and a civil society group it is called collaborative governance. It is a very important concept, especially if we talk about in terms of CSR and Sustainability (Gray and P. Sites, 2013).

One of the most recent examples is the Dakota Access Pipeline project that drew international attention. This project was conducted by the US Army Corps of Engineers about the possibility to extract oil from the Dakota oil reserves located in the Western part of the country in the Bakken Oil Fields. The project had limited analysis on the environmental impact. The pipeline would go through sacred and ancient Native American ground, water reservoirs, natural parks and several different river systems of the Mississippi and Missouri rivers as well as Lake Oahe. The Army Corps concluded that the pipeline will have a very limited impact on the environment, but it did not follow the guidelines for the analysis developed by the Environmental Protection Agency.

Speaking on economic terms, the pipeline is very profitable. It would carry 570,000 barrels of oil a day, cashing in more than 129 million dollars in annual tax revenues. Moreover, it would create more than 12,000 jobs in the area and it would reduce the dependence of the USA on foreign oil (W. Parfomak, 2017). However, big problems followed for the project, despite its economic attractiveness. Several civil society groups that supported the Standing Rock Sioux tribe blocked the project by protesting near Lake Oahe where the ancient burial grounds are located. Several NGOs such as Greenpeace and World Wildlife Fund acted as liaisons between the civil society groups and the Government, but they also insisted that the project does not cover the overall environmental impact and that it did not follow the Government and EPA standards. What followed, where a series of violent protests against the project which resulted in more than 420 people injured and more than 300 arrested (US Fish and Wildlife Service, December 2015).

The protests drew a lot of international attention, but it was also socially present because of the social media. Tweets, Facebook groups and petitions united different stakeholders in society and in reality it did not matter if the people actually lived nearby the oil fields, or were 2,000 kilometers away. In March and April 2016, the EPA, Department of Interior and Advisory Council on Historical Preservation, formally asked the Army Corps to stop the project, backed up by the president of the USA, Barrack Obama. However, in February 2017,

the newly elected president, Donald Trump, changed the decision and gave access to the US Army Corps to proceed with the project, although its fate is still unknown (T. Carter, 2017).

From the example above, we can see what collaborative governance means in real life terms. The Government, its agencies, NGOs and civil groups decided to link together in order to manage the project together. Although this decision was later reversed, the fact remains that there was a strong will for partnership with different stakeholders, with different policies, but with the same goal.

In some cases, a partnership can evolve from two sectors to branch out to more groups within the same sector. For example, Honey Care Kenya began as an alliance between different Kenyan NGOs and farmers, whose aim was to train farmers to become beekeepers. The business expanded and included more and more NGOs and farmers and the alliance started to act in several other African countries (Gray & P. Sites, 2013).

But this type of collaborative governance is not only because of the good will of the stakeholders, there is also a strong economic logic behind this. Since the start of the financial crisis, the Governments have been pressured to do more with less, meaning less employees but higher workload. Additionally, the problems in the modern society are becoming far more complex than they used to be, as we can see with the example of the Dakota Pipeline. The economic logic behind projects is not enough anymore. The companies have to be careful about the environmental standards and the cultural aspects, something that is not easy to balance. The collaborative governance gives all of the stakeholders in society legitimization in front of the general public.

The key idea is that the non-governmental stakeholders from different sectors can participate in the work of the Government by consensus.

2.4.2 Business – Nongovernmental Organizations collaborations

There is a strong business case for this type of partnership, especially when it comes to topics like CSR and sustainability. In a global survey of 766 CEOs in 100 countries, more than 78% of them believe that companies should engage with industry collaborators and multi stakeholder partnerships to address the development goals (Gray & P. Sites, 2013).

The simplest form is through philanthropy or sponsorship (figure 7). Usually, the company offers financial help to different NGOs which could result in joint marketing. This is a common method where both the company and the NGO benefit mutually from the joint marketing.

Environmental impact assessment occurs when the company considers other stakeholders' input on its plans or when it wants to facilitate new one. The input can vary, depending whether the company wants one time input or if it wants substantial input.

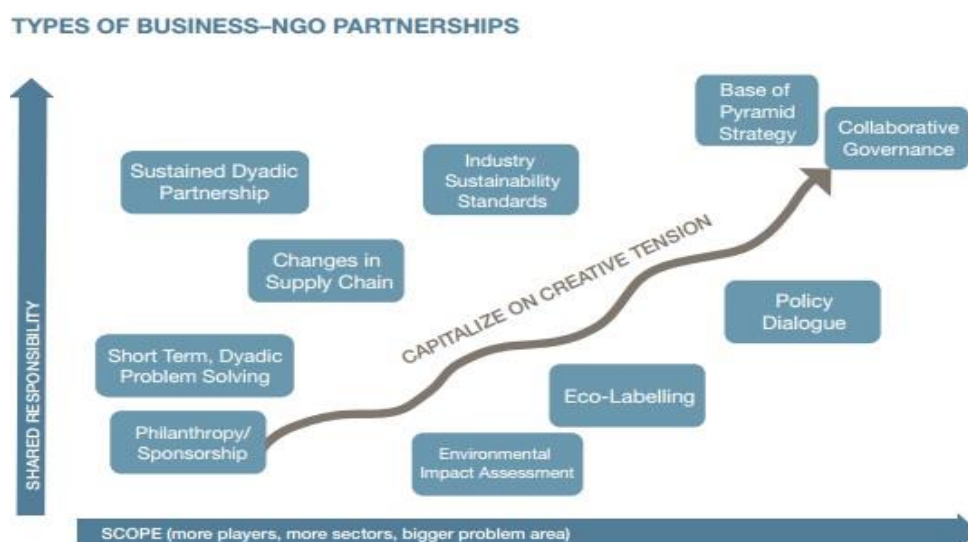
Usually, short term problem solving and dyadic partnership are closely connected (figure 7). At first, the company and the NGO can agree on short term problem solving on a single project, but afterwards it has proven that this collaboration expands into dyadic partnership. For example, DuPont and Environmental Defense Fund started to work on Nano product development on short term basis. However, their partnership developed even more and the collaboration evolved into dyadic partnership on a long term basis (Gray and P. Sites, 2013).

Change in the supply chain management happens after the dyadic partnership, usually after the company realizes that these changes need to be integrated from the beginning of the production. For example, Loblaw teamed up with World Wildlife Fund to develop sustainable seafood line. It was evident that changes in the supply chain were needed to develop this kind of line.

Eco – labeling is also one of the ways to collaborate, where certain products of the company that fulfill all of the ecological standards can get this kind of label, to differentiate their product from the rest.

Policy dialogues involve different stakeholders discussing policy issues, legislation and regulation problems or needed reforms in this respect. For example, Canada’s Royal Commission serves as a medium between companies and NGOs regarding this type of issue. In the case of Canada, the dialogue evolves into industry sustainability standards such as Canadian Precast/Prestressed Concrete Institute’s (CPCI’s) new Sustainable Plant Program, which sets standards for the companies regarding their new plants (Gray and P. Sites).

Figure 5: Types of business – NGO partnerships



Source: Gray & P. Sites, *Sustainability through Partnership: Capitalizing on Collaboration*, 2013, p.23.

The base of the pyramid standards are partnerships between business and social groups from low income families from around the globe. They explore sustainable business models that are embedded locally and can generate value on a local level. One of the best examples is the micro – credit model in the impoverished areas of Asia and Africa, where both local and global businesses offer credits to low income families to develop their own businesses with lower lending rates.

2.4.3 Sustainability Continuum

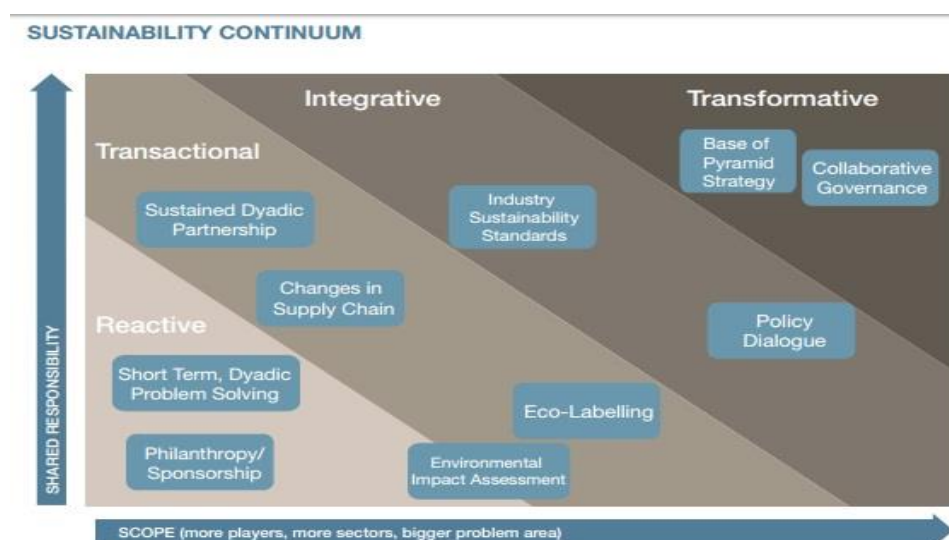
Many researchers proposed different typologies to capture different levels of commitment by the businesses. There are different types of continuums; some of them contain three or five groups. This continuum, developed in 2012 by Austin and Seitanidi, represents a synthesis of the four part models ranging from reactive to transactional and from integrative to transformational (Austin & Seitanidi, 2012, pp. 726-758).

The four models (figure 8) represent the degree to which the business is engaged with the other stakeholders. It is important to note that even though there is a difference in the degree of engagement, the four models do represent that the businesses are much more engaged than before in initiatives and programs with other stakeholders in society.

Reactive: This action often reflects threat induced, compliance or charity based responses. With this response, sustainability activities involve providing welfare to society by responding to the Government regulations or by providing charitable giving.

Transactional: This is the second level in the Sustainability tier, where the primary motives are improving profitability or market share.

Figure 6: Sustainability Continuum



Source: Gray & P. Sites, *Sustainability through Partnership: Capitalizing on Collaboration*, 2013, p. 25.

Integrative: Businesses move beyond profits, market shares or simply giving welfare and charity. Here, businesses tend to balance those considerations with social and ecological concerns.

Partnerships: The final part, where the company actively interacts with the other key stakeholders. More importantly, business and key stakeholders have equal voice and agree and enact the sustainability objectives that are equally responsive to all partners' needs (Austin and Seitanidi, 2012, pp. 726-758).

In the end, to answer the question, it is absolutely possible for different stakeholders to achieve sustainability. However, the company has to develop its own CSR policy in order to connect with the other stakeholders within the company and outside the company. Also, the Government, its institutions, the NGOs and the civil society groups and movements have a big influence in how the collaboration or the partnership will work. The neo institutional theory definitely plays in hand when we talk about sustainability. After all, the partnerships and collaborations, as we can see from the sustainability continuum are built on consensus and compromise. The more the stakeholders are willing to compromise, the better the results (Gray and P. Sites, 2013).

2.5 Other CSR Theories

In addition to the stakeholder and institutional theory, there are different theories that explain the process of creating CSR policies. The other three theories that would be examined are the legitimacy theory, positive accounting theory and signaling theory. These three would be explained with respect to the manner they affect the creating of CSR policies in general, but also regarding the way in which they affect the CSR policies through the prism of the stakeholder and the institutional theory.

1. Legitimacy Theory

The main focus of the legitimacy theory is to examine the CSR policies through the environmental and the social disclosures. Unlike moral capital and shared value, where the results may be intangible, the legitimacy theory is concrete because it provides concrete strategies that the organizations may adopt. In this way, they can legitimize their existence (Guthrie, Cuganesan, Ward & Amatil, 2006)

Legitimacy theory postulates that the organizations will constantly seek to ensure that they operate under the values and norms in society. If the companies choose to adopt the legitimacy theory through their CSR policies, they would voluntarily report on their activities if the management perceives these policies as expectation by societies in which they operate. Furthermore, the legitimacy theory is based on the notion that there is a "social contract" between the organization and society (Deegan, 2002).

So the CSR policies should be directed towards the social contract since the social contract is the base of the legitimacy theory.

The social contract is a representation of society's expectations from the organization. If these expectations are not met, the society will regard this as a breach of trust. This can have huge implications on the company. If the expectations are not met, the company would cease its operations in the society where it operates. Few examples on how the breach of contract can influence the company: the consumers may reduce the demand for the company's products; the suppliers may end the supply of human and financial capital, other organizations may influence the government for increase in tax, new regulations or fines that would prohibit and condemn the breach of the social contract (Deegan, 2002).

However, the social contract, just like CSR is difficult to define because the contract can be explicit or implicit, and it does not mean that it would be on a permanent basis. Referring back to the development of CSR as a concept, it is obvious that the concept changes due to the ever changing needs of the societies. The same is valid for the social contract. The needs of society can change and vary over time. Because of the variation, the conditions under which the social contract was conceived can change. Therefore, the management of the company must be observant and responsive to the changes in the society (Deegan, 2002).

The explicit and implicit interpretation of the social contract may help in understanding this concept. When we discuss explicit social contract, it means that the company and the stakeholder groups from the society have a legally binding agreement. On the other hand, the implicit contract does not include the legal binding aspect and it is based on collaboration between the company and the stakeholder groups from the society. But, we should always keep in mind that due to the lack of precision in the social contract, the perception of the managers and the individuals from the society may be in direct opposite of each other (Guthrie, Cuganesan, Ward & Amatil, 2006).

Because of the different perceptions, the legitimacy gap is proposed to fill in the vacuum. This is the difference between how the stakeholders in the society believe that the company acts and how it should act. When the legitimacy gap does occur, it is a serious threat to the company's existence in the society (Linblom, 1994).

Taking into consideration the stakeholder theory, the legitimacy theory is very beneficial. It takes into consideration the different stakeholders in the society. Or, we can simplify this and say that the legitimacy theory proposes two stakeholders: the company and the society, even though we can break the company and the society in smaller groups of stakeholders. The CSR policies under the legitimacy theory should be centered on the fulfillment of the social contract. If we take moral capital and shared value as policies, I can argue that moral capital does not lead directly to fulfillment of the social contract, since it protects the value of the company. Moral capital is mostly targeted towards creating CSR actions as a result of the "conflict" between the stakeholders within the company. Of course, the external stakeholders

influence on the creation of the policies, but it is still an internal decision. However, if we look at the other side of the coin, this protection of the value of the company takes into account the different societal needs although it is not involved directly to the societal needs. Shared value on the other hand, is much more precise due to the collaboration between the company and different stakeholders in society in an effort to create joint benefit.

The institutional theory is based on the fact the external stakeholders can create an institutional response to the CSR policies, meaning that they can directly influence the CSR policies. In the legitimacy theory, in the legitimacy gap, where the explicit social contract is mentioned, the institutional theory is quite relevant since it requires from the companies to abide by the existing laws and procedures through formal or informal ways.

2. Positive Accounting Theory

Under the premises of positive accounting theory (PAT), the companies choose how they develop their accounting reports and methods and the implications of that to the company's policies, or in this case the CSR policies (Setyorini & Ishak, 2012, pp. 152 – 164).

PAT is important when we consider CSR policies. This theory tries to capture the entire real world activities of the company, meaning that the CSR policies would be publically disclosed and their effect on the company would be visible (Setyorini & Ishak, 2012, pp. 152 – 164).

PAT is based on the assumption that the company is set on contracts between individuals and the company as an entity. The contracts are necessary to persuade the individuals to agree to cooperate (Setyorini & Ishak, 2012, pp. 152 – 164).

However, there are contractual costs to this. For example, the costs for negotiating, controlling, monitoring and evaluating the process. This increase in costs that the company has to bear does not sound appealing to the shareholders for example and to the overall financial stability of the company. Therefore, the company would try to minimize these costs through which it will affect the policies (Setyorini & Ishak, 2012, pp. 152 – 164).

PAT does not offer any specific method of reporting that should be used as a positive theory. Instead there are three hypotheses in which the organization would support or oppose certain accounting methods. With regards to CSR policies, these hypotheses are the following:

1. **Bonus Plan Hypothesis:** This hypothesis states that a manager within a firm that has bonus plans is more likely to include accounting methods that increase current period reported income. Taking CSR into consideration, a manager can include CSR activities that can increase the stock value of the company with the intention to increase its own income (Watts & Zimmerman, 1990).
2. **Debt/Equity Hypothesis:** In accounting, debt/equity hypothesis states that the higher the debt/equity ratio, the more likely the managers will use accounting

methods that increases income. The larger the ratio, the motive is bigger for the managers to select accounting methods that shift reported earnings from a future period to the present period. This negatively affects the CSR policies due to the fact that the creation of CSR policies requires substantial funds. Under this hypothesis, the managers have less leverage and motivation to spend on CSR policies (Belkoui & Karpik, 1989).

3. Political Cost Hypothesis: Under this hypothesis, the companies are more likely to use accounting methods that reduce their profits. Size, capital and market share are proxies for political influence. Under this assumption, the managers have incentives to report their CSR activities. As CSR activities require funds, the company can report this as reason for lower profit. But at the same time, CSR activities increase the influence of the company on society. Moreover, if the companies are under scrutiny from the public, the managers have one incentive plus to report the CSR activities (Setyorini & Ishak, 2012, pp. 152 – 164).

The PAT can be a very interesting notion to the stakeholder and institutional theory as well as to moral capital and shared value as policies. If we take the managers as stakeholders under PAT they have huge influence on the CSR policies. As a matter of fact, they can decide if they want to report them or not. Under all three hypotheses they can maneuver the CSR policies.

In regards to the institutional theory, the third hypothesis is the most interesting. The external stakeholders, such as the Government, can have big influence on the way the companies would report their CSR activities. In Indonesia for example, it is mandatory to report every CSR activity under the current laws, which in fact can have a big influence on the other two hypotheses.

The moral capital in this case is very interesting. Since it protects the value of the companies, the managers should be willing to report the CSR activities, especially under the first hypothesis. If the CSR policies are well thought out the manager can report the activity and protect the stock value of the company and in fact can achieve a bigger bonus. Under hypothesis 2, if the CSR policy is properly reported, the manager can face negative consequences (as mentioned before) if they take funds from the company.

In regards to shared value, I can argue that this CSR policy will influence negatively on the first two hypotheses. Since shared value requires collaboration with external stakeholders (such as NGOs), it usually means financial support, which would reflect negatively, if reported. Under the assumption of the third hypothesis, shared value can have a positive influence due to the fact that the company collaborates with the external stakeholders, which in some cases can be the Government and albeit the companies can extend their political influence.

3. Signaling Theory

The signaling theory addresses the information asymmetry between two entities in which the sources of asymmetric information are mainly concerned about the quality and the intent of that information. Quality is concerned with the manner in which one party shows its unobservable attributes in exchange for a premium from the other party. Intent is concerned with the manner in which potential moral hazards that result from the behavior of the exchange parties should be reduced (Su et.al, 2014, pp. 479 - 491).

One entity can use observable tactics to demonstrate its unobservable characteristics. In this case these unobservable characteristics can be CSR policies.

In Chapter 1.4, while discussing the development of CSR, I have mentioned the fire protection standards that the company can use as CSR policy. Taking this example into account, it serves as a signal to the external stakeholders that the company is working towards better safety for its workers and protecting the company's property. Therefore, the unobservable element becomes much more concrete with this type of CSR policy.

Another example can be the ISO14001 certificate for environmental management. In this way, the company sends signal that the unobservable characteristics such as the commitment to overcome opportunism to its suppliers. When the companies obtain private management certification, the asymmetry of information decreases because this type of certification offers credible information to buyers and lowers the potential opportunism from suppliers (Su et.al, 2014, pp. 479 - 491).

The CSR activities are considered to be a quality signal. This is due to two reasons: First, it takes more costs and effort to adopt CSR practices for low capability firms than for high-capability firms. Second, the premium for firms to engage in CSR is only sufficient to compensate the costs for high-capability firms. Hence, using CSR policies signals that the company is stable and well off (Spence, 1979).

For the stakeholder theory, this is a very important notion. If the company sends positive and quality signals, it means that the stakeholders (both internal and external) can be reassured that the company is in a good place. Moreover, the conflict between the internal stakeholders will be lowered, giving space for new CSR policies, or focusing the attention on something productive.

For the institutional theory, this is also very relevant, since it means that if the company sends quality signals through CSR, the regulations imposed by the Governments can be relaxed and the pressure from the NGOs or the other civic groups can be decreased.

From the point of moral capital, signaling theory can be relevant for the internal and external stakeholders. Moral capital can signal to the internal stakeholders that the company is stable

and prepared, while for the external stakeholders it can mean a stable stock price (for example).

From the point of shared value, signaling theory is also very important. Since shared value is based on collaboration, it means that the company sends signals that its CSR policies are beneficial for the society.

3 SUSTAINABLE ECONOMICS AND SUSTAINABLE DEVELOPMENT

In the previous two chapters CSR was researched through the stakeholder and institutional theory, together with two CSR policies: moral capital and shared value. However, these policies should lead to achieving sustainable economic prospects and sustainable development.

In the previous chapters, we have seen that CSR influences two aspects: internally, in the company, and externally, the environment. Sustainable economics and sustainable development are two concepts that were present in the social sciences long before the CSR started to develop. Therefore, we can look at CSR as a product of sustainable economics and sustainable development. However, due to the topic of the thesis, we can also look at CSR as a catalyst towards achieving sustainable economics and development, meaning that CSR policies can lead up to them.

Sustainable economics (SE) and sustainable development (SD) have both started to become relevant since the start of the 18th century. We often tend to think that sustainability became an important notion with the start of the industrial revolution or with the technological revolution advancements from the start of the 20th century (Sample, 2004).

The first mention of these two concepts came from forestry. In the past, it was only allowed to cut down a certain number of trees so as to guarantee a long lasting production of timber. Therefore, sustainable economics was defined as: the ability of the companies to adapt in order to produce indefinitely (Sample, 2004).

Although in the past century these two concepts became closer, it should be noted that sustainable development was first and that sustainable economics derived from it. In the last 100 years, sustainable development as a concept became more focused on sustainable economics, which is quite interesting since the practices used from sustainable development became part of the economic theory (Doane & MacGillivray, 2001).

There is a reason why there was a shift towards sustainable economics. In the late 20th century it became evident that the production cannot be held at sustainable levels. First it was the oil crisis of 1973 which rang the alarm bells that the production of fossil fuels cannot be held at the production levels and that the resources can be depleted, which could lead to the collapse of the economy. Several catastrophic oils spill in the 1980's also led to destruction of the marine environment. Moreover, it was discovered that the ozone layer had become

thinner and could have a catastrophic impact on the plants, humans and animals. Most recently, catastrophic events such as the Chernobyl and Fukushima nuclear accidents have put pressure on the way we produce electricity (Scutary, 2013, pp. 35 – 40).

Even though in this master's thesis I will examine the sustainable economics part of sustainable development, it is very interesting to note that just like CSR, sustainable development contains more than 60 definitions, with a wide array that targets environment, economics and the society. However, one definition that is widely accepted is the definition from the 1987's Brundtland Report (or Our Common Future) and it states that "sustainable development is development that meets the needs of the present without compromising the ability of future generations to meet their own needs" (Scutary, 2013, pp. 35 – 40).

It is clear that SD and SE have significant influence on the companies. As legal entities, the companies have major responsibility in curbing their impact on the external environment. In the next chapter, I will examine how SD and SE influenced the economic growth and in the final chapter, I will examine how CSR can be a catalyst for achieving economic sustainability.

3.1 Sustained Decrease Alternative

Even before "Our Common Future", social scientists were aware of the dangers of unlimited growth. To be more exact, they were aware that unlimited growth of GDP and industrial production was impossible. One of the first published works in this field was "The Limits of Growth" by Meadows in 1972 (Meadows & Meadows, 1972).

The work was based on the premise that the activities of mankind have dire impact on the environment. The consequences could be huge: over – consumption which leads to depletion of natural resources, pollution and social inequality. The argument was that those negative effects would have disastrous effects on the economy and society and vice versa – that such growth was limited by the natural resources. So, the economic growth was limited to the natural resources and their over exploitation also leads to limitation (Meadows & Meadows, 1972). In this research, Meadows uses five variables:

1. Population
2. Industrial Production
3. Resources
4. Agricultural Production
5. Environmental Production

All of the variables at this point of time were growing, meaning that all of them had impact on each other and on the external environment. Most interesting was the notion that all of the variables grew exponentially, while the ability of the technology to increase resources grew linearly. The ability of mankind to produce and consume is limited and has an expiration

date, due to the fact that the technology that allows for increase of resources is limited. Three scenarios have been proposed in this report:

1. No changes in the way we consume and produce: It will become apparent by the year 2072 that the uncontrollable consumption and production will lead to sudden decline in population and industrial production (Meadows & Meadows, 1972).
2. Growth trends can be altered to find a way for a sustainable growth (Meadows & Meadows, 1972).
3. The sooner the people, Governments and companies start to implement sustainable policies the better (Meadows & Meadows, 1972).

Taking the scenarios into account, several works and reports were published, that call for the so called zero growth. One of the biggest cases for zero growth is that the most of the consumption and production comes from the developed world. The same variables for the developed world show that the population is declining, resource depletion is decreasing and environmental friendly production is increasing. However, the developing world is catching up with the Western economy which means that the growth of the five variables versus the growth of the technology to produce resources will only rise (Pohoata, 2003).

So one of the ways in which the world could develop sustainably is through the zero growth theory. This reflects directly to the companies because they will have to change the way they produce and thus directly influence their growth.

This is one of the strategies, however, and it has proven to be one of the most controversial. The critics often point out that this model neglects the modern economic theory and that is not entirely realistic. Moreover, unlike the developed world the developing world does not have the funds to finance this type of growth. Wide array of social issues could arise: unemployment, poverty, social unrest and all the consequences thereof. Critics such as Henry C. Wallich point out to the fact that technology needs economic growth, but they also points out that this economic growth should be at a certain pace which would not lead to depletion of resources (Wallicn, 1972).

Several groups of scientists have pointed out that zero growth cannot lead to equality between the developed and developing world and that the developing world needs to sustain economic growth in order to keep pace with the Western economies. Only economic growth that will sustain technological advancements can lead to equality between these two groups of countries.

1. However, zero growth is only one of the strategies of sustainable development. For example, American scientist Nicolas Georgescu – Roegen calls for the so called “Minimal bio – economic program” (Georgescu – Roegen, 1976, pp. 3 – 36). It includes:

2. War cessation: This would allow the release of productive forces that will help the poor countries to develop.
3. Using current non - renewable resources with great responsibility and avoiding unnecessary energy use.
4. Curbing population growth.
5. Changing the way we produce food.
6. Manufacturing goods that have high durability (Georgescu – Roegen, 1976, pp. 3 – 36).

Another possible solution in maintaining sustainable economic growth is also through eliminating the need of economic decline or the zero growth theory. This can be done with sustainable decrease that will not lead to negative economic growth. Sustainable decrease is a new vision of sustainable economics that consists of series of objectives to the current exhausting economic growth (Scutary, 2013, pp. 35 – 40). These objectives are contained into the so called program of six R's:

1. Review
2. Restructuring
3. Redeployment
4. Reduction
5. Reuse
6. Recycling

While reading these strategies towards economic sustainability, we should always keep in mind that first and foremost they exist for the developed countries. Most of the scientists agree that the developed countries and the companies from this part of the world should use them in order to achieve sustainable economics (Scutary, 2013, pp. 35 – 40).

Also, we should keep in mind the stakeholder and the institutional theories. In the case of the stakeholder theory, we can also see here, when it comes to SD and SE, there are many different opinions and different definitions. On one hand, we have social scientists that believe that producing goods at this level is unsustainable and propose different strategies for shifting production. On the other hand, various businessman and laissez faire economists believe that these strategies cannot be employed in real life and that they can cause serious problems in society. Moreover, we have different opinions within groups in the companies that oppose each other and are often in conflict when it comes to SE (Scutary, 2013, pp. 35 – 40).

The institutional theory is beneficial here as well, due to the fact that SD and SE are not based only within the company. The Governments regulate how the companies can produce. There are also different schools of thought that support or object the notion of SD and SE. Different social groups and NGOs also have significant impact on this topic.

In the next chapter, we will look at the connection between CSR and SD and SE and see how CSR can be a catalyst of achieving sustainable economics and sustainable development.

3.2 The case for CSR in Sustainable economics

SD and SE are often considered to be interchangeable terms. We can explain SD through sustainable economics; we can also say that SE's main focus is the SD or that SE comes from SD. This often happens in literature due to the fact that these terms have more than 60 definitions (Scutary, 2013, pp. 35 – 40).

However, in literature CSR is more and more present as a tool to achieve SE. Not to be misled, but we should always keep in mind that when we discuss CSR, SE and SD, their definitions and understanding can overlap.

From the previous chapter, SD and SE are present in literature to curb the unsustainable economic growth, through the so called zero growth or sustainable decrease. But the point of CSR as a strategy or policy is not to decrease or to fix the growth to zero. CSR is here either to preserve the value of the company or to promote certain sustainability policy in order for the company to achieve sustainable economic growth. This notion can be in conflict with the SD and SE philosophy. Moreover, the primary goal of the company is to make profit which is also in contrast with the goals of SE and SD (Ebner & Baumgartner, 2004).

Referring back to the Stakeholder Theory, the CSR strategies that derive from there protect the value of the company from negative influences through two prominent strategies: Moral Capital and Shared Value. Here, we have also seen how different stakeholders in the company influence these strategies. Going back to the Institutional Theory, I have discussed the ways in which relevant institutions (external stakeholders) in society press the companies to behave in a socially responsible manner and how this clash could lead to collaborative programs. In a way, moral capital and shared value lead to economic sustainability through preservation of the value of the company.

When we talk about CSR strategies that lead to SE, the picture is much less clear, unfortunately. It happens quite often for the top management to misunderstand the concept of sustainability (economic, social and environmental) with SE or SD. Furthermore, it often happens that SD and SE are used as a single term. It is also very important to note that like moral capital and shared value, these strategies are intangible.

Taking this into account, there are several CSR strategies that the companies can use in order to achieve economic sustainability:

Focus on profitability through CSR: Unlike zero growth or sustainable decrease, companies can use CSR to increase their profitability. Of course, their strategies should be centered on increase of profits, but it should be noted that CSR policies require allocation of resources. From the perspective of stakeholder theory, this may cause conflict between different groups in the company. From the point of institutional theory, external stakeholders, such as the Government or NGOs will push for CSR policies in the company. With all this pressure how can the CSR policies bring economic sustainability? At the beginning, CSR policies will take resources from the company, but the results may be intangible. For example, the company can invest in local educational development to get unlimited human capital. Microsoft invests 89 million dollars annually to its YouthSpark program which helps underprivileged children to get access to education. Even though the results are not clearly visible on the balance sheet of Microsoft, the company has access to an almost unlimited pool of future human capital, given the fact that the program reaches to almost 230 million children worldwide. The program teaches children useful skills and later in the future, they can use this knowledge to invent products for Microsoft which in turn can have big monetary value for the company. Although there is a social element to this example, Microsoft is a tech giant which bases its profit making machine on knowledge (www.greenbiz.com).

Core value of the company: The top management can use the core competences of the company and employ them into CSR policies in order to achieve sustainable economic growth. For example, Cisco developed virtualization application that allows traditional face to face meetings to be done through this application without the need for physical presence. This helps the company to cut its carbon footprint and to cut costs for traveling. Or IBM's Smart Planet program which uses technology to help customers to cut down their waste and energy use. Smart Planet is also used by IBM which helps the company to become more efficient and cut its costs (www.greenbiz.com).

Understanding the customers: According to a research conducted by the research company Nielsen, approximately 55% of the global population would pay more for a product if that product is produced in a socially responsible or it is sustainable. So, producing sustainable products is a big business. The management in the companies should focus its CSR policies on customers' needs. One example comes from the chemical industries. The production of polyethylene uses oil and gas. However, the eco – friendly version of polyethylene uses sugar but the costs for producing it in an eco – friendly way is usually 10 to 20 percent higher. Given the fact that customers are willing to pay more for eco – friendly products if polyethylene is produced on a large scale, it can bring higher profits to the company and lower environmental footprint (www.greenbiz.com).

However, employing CSR policies to achieve sustainable economic growth is not as simple as it may sound. First of all, the decision making management must take into consideration the different groups in the company. The higher levels of management often worry about

higher profits to meet its obligations to the investors or the stockholders. Second, other groups outside the companies can put pressure on the decision making management without considering the financial constraints. Third, the effects on the economic sustainability are not tangible and often not measured (www.greenbiz.com).

While we have discussed the first two limitations in the previous chapters, I would like to pay more attention to the third limitation. A case study was conducted in Romania regarding the effectiveness of CSR policies on achieving sustainable economic growth. The CSR policies in Romania became popular since the 1990's but exploded at the beginning of the new millennia. In 2013, the number of CSR activities increased by 108 percent in comparison to 2012. Most of the CSR activities in Romania are based on education, health and social issues. Although this growth is amazing, researchers cannot be sure whether the CSR initiatives helped towards achieving economic sustainability. One of the problems is that the companies do not take CSR policies into their accounting practices, which is also true for most of the companies on a worldwide level. Therefore, it is very difficult to obtain relevant data which is a problem, since nobody can say for sure that CSR policies (besides their value preserving aspect) bring sustainable economic growth to the company (Popa, 2015, pp. 1279 – 1285).

4 ANALYSIS OF SUSTAINABILITY: THE CASE OF BRITISH PETROLEUM

British Petroleum is one of the world's seven major oil and gas production companies. The company is truly global: it operates in more than 70 countries in the world and has more than 75,000 employees. It produces complex energy products derived from fossil fuels (This is BP Report, 2006).

BP has a long history in this industry sector. The company was founded in 1908 as the Anglo – Persian Oil Company. Since then, BP has changed several names and has started to expand into every part of the world from the Middle East to Alaska. The company was privatized by the British Government in several stages lasting from 1979 until 1987 (This is BP Report, 2006).

The company has the 6th largest proven reserves of oil. The total accumulation of their reserves is 17,810 million barrels. They produce 3.3 million barrels of oil on a daily basis. The company also produces 14.3 million tons of petrochemicals and 1.7 million barrels of throughputs on daily basis. Moreover, the company has access to 71,000 square kilometers of new exploration space. BP also has around 18,000 petrol stations around the world (This is BP Report, 2006).

As one of the biggest fossil fuel production companies in the world, BP takes special pride in their sustainability programs. Their focus on sustainability is based on environment, safety and society. The philosophy of the company is to shift away from fossil fuel production into clean energy production. Through this shift, the company claims that they are decreasing their environmental footprint. The safety aspect of their sustainability program is though

protection of their workers, especially the ones that work technical jobs like the engineers on the oil platforms. The society part is based on BP's motive to employ workers from different backgrounds (BP Sustainability Report, 2016).

Even though BP develops its sustainability agenda, the company has also been wrapped in scandals for their unsustainable and sometimes unethical behavior. The company has been directly involved in several major environmental and safety scandals like the 2005 Texas City Refinery explosion, the largest oil spill in Great Britain, the Torrey Canyon wreck, the 2006 Prudhoe Oil Spill, the largest oil spill in Alaska (Final report on the Investigation on the Macondo Well Blowout, 2011).

However, the biggest scandal of BP's bad practices is the Deepwater Horizon Oil Spill. This event had huge consequences on the external environment, on their sustainability program, Government regulations and their financial and economic stability (Final report on the Investigation on the Macondo Well Blowout, 2011).

In the case of BP's sustainability, I will look through their Sustainability Report, apply the stakeholder and institutional theory (as well as the legitimacy, positive accounting and signaling theory) to see whether BP actually employed moral capital and shared value as CSR strategies to preserve the value of the company. Moreover, we will also consider the strategies through the perspective of SD and SE, to conclude if the company has achieved economic sustainability.

4.1 The Sustainability report of BP

In general, this report concentrates around different key performance indicators, investments in the upstream and downstream businesses of British Petroleum. The investment in the businesses describes the new strategy of BP which is going forward with investing in the downstream businesses.

The upward business model of BP revolves around production and exploration of fossil fuels. Oil and liquid gas are the major sources of income and around 75 % of it comes from these two sources. This strategy has been successful, until the big drop in oil prices and the overproduction of oil and oil products. However, these two types of income are generally harmful for the external stakeholders, since the production of oil and gas requires a lot of energy, transportation and environmental hazards, for which I will be discussing later on in the thesis. Therefore, the company has started to invest more into their downstream businesses, which include the actual refining of the raw fossil fuels and alternative energy. It is safe to say that the company still holds its primary sector in energy production but, the picture is not as simple (BP's Sustainability Report, 2016).

Since the company has started to invest in downstream, it means that it is using its funds in research and development in oil and gas products that are safe and less damaging to the

external environment. The new products are made far more efficiently with new technologies, using less fossil fuel. Since the emissions from the production are most concerning we should look how BP is performing.

Table 1. BP's environment score

Environment					
Year	2012	2013	2014	2015	2016
Oil spills to land and water (number)	102	102	74	63	55
Volume of oil unrecovered (million liters)	0.3	0.3	0.3	0.2	0.1
Direct carbon dioxide (CO ₂) (million tons)(Mtel)	57.7	56.4	47.0	45.5	45.0
Direct Methane (Mtel)	0.20	0.17	0.16	0.15	0.16
Direct Greenhouse gas (GHG)(MteCO ₂ equivalent(CO ₂ e))	61.8	59.8	50.3	48.6	48.9
Indirect carbon dioxide (CO ₂)(Mte)	9.0	8.4	6.7	6.8	6.9
Customer Emissions (MteCO ₂)	539	517	422	406	402
Flaring (Upstream) (thousand tons (kte) of hydrocarbons	1.835	1.548	2.028	2.188	1.863
Environmental Expenditure (in million dollars)	8.521	7.320	4.288	4.024	8.017
Environment and safety fines (in million dollars)	77.4	22.4	2.5	1	0.6

Source: BP Sustainability Report. Retrieved on April 29th, 2016 from <https://www.bp.com/content/dam/bp/en/corporate/pdf/sustainability-report/group-reports/bp-sustainability-report-2016.pdf>.

From the sustainability report, we can observe that the company is heading towards environmental sustainability. The start year in this report is 2012, while the last year is 2016. The oil spills to land and water have decreased and have been halved since 2011 in a surface area from 102 square kilometers to 55 square kilometers. This is a truly great fact, since BP is a global firm, present in all continents, meaning that their investment in safety and safety technology has paid off. However, it should be noted that while the oil spills in general are under control, further oil spills are quite possible and the magnitude from one oil spill to another can be very different. The volume of unrecovered oil, or oil that has been spilled in the oceans or on ground, has dropped from 300 million liters to 100 million liters, which means that BP has increased its efficiency in oil collecting threefold (BP's Sustainability Report, 2016).

A very important aspect of the global climate change and the polluting of the environment is the level of the carbon dioxide that the industries emit. In this area, BP is showing great results and has lowered their carbon dioxide levels from 57.7 million tons in 2011 to 45 million tons in 2015. This is a big drop, considering the fact that BP is one of the biggest industrial companies in the world. The company shows good results in their carbon footprint because it is lowering in every area (BP's Sustainability Report, 2016).

It is very interesting to observe the link between the environmental fines and the environmental expenditure. From this report, we can see that these two areas are interconnected. In 2011, the company had spent 8.5 billion dollars in environmental expenditure. Coincidentally or not, that same year the fines were the highest and the company paid 77.4 million dollars in damages. In the next three years, the expenditure on environment had decreased as the amount needed for paying in environmental fines had decreased. The only exception was 2015, when BP increased its budget on environmental issues from 4 billion in 2014 to 8 billion in 2015, while the fines were at its lowest point at 600 thousand dollars. According to these KPIs, the company is achieving its goals: to cut the emissions, to proceed with eliminating the oil spills and to increase its environment budget. So far, the investment in the downstream business has paid off. The disinvestment in the upstream business has provided more funds for the environment and technology (BP's Sustainability Report, 2016).

Regarding the safety, the company has solid indicators:

Table 2. BP's process safety score.

Safety					
Year	2012	2013	2014	2015	2016
Fatalities - employees	1	1	4	0	0
Fatalities - contractors	1	3	2	3	1
Day away from work cases - workforce	168	152	130	145	108
Day away from work frequency (DAFWCF)	0.090	0.076	0.070	0.081	0.061
Recordable injuries – workforce	677	710	578	547	428
Recordable injury frequency (RIF) - workforce	0.36	0.35	0.31	0.31	0.24
Hours worked – employees (million hours)	165	182	170	173	168
Hours worked – contractors (million hours)	209	220	203	184	185
Losses of primary containment (number)	361	292	261	286	235
Tier 1 process safety events (number)	74	43	20	28	20
Tier 2 process safety event (number)	241	154	110	95	83
Oil spills (one barrel)	228	204	185	256	146
Volume of oil spills (million barrels)	0.6	0.8	0.7	0.4	0.4

Source: BP Sustainability Report. Retrieved on April 29th, 2016 from <https://www.bp.com/content/dam/bp/en/corporate/pdf/sustainability-report/group-reports/bp-sustainability-report-2016.pdf>

The number of fatalities that are employees of the company has been eliminated. The fatalities from contractors' workers are variable, but quite low.

As a productivity issue, the company has managed to cut down the days away from work from 168 days in 2011 to 108 days in 2015. This is a productivity gain for BP, since the employees use less days away from work, concentrating on their jobs. More importantly, they have managed to cut down 60 days, an impressive feat. Interesting to notice, is the fact that the hours worked from contractors' employees have fallen sharply in 2014 and 2015, while maintaining the same ratio of BP employees, meaning that the company was focusing more on its employees, rather than the contractors' workers. Since BP states that the safety and wellbeing of its workers is its primary target, the safety drills in tier 1 and 2 has decreased substantially. Although, this is not mentioned in the Sustainability Report, the decrease in safety drills can be linked to the "process safety" mentioned before. This "process safety" procedure was prepared on the basis of education and training, which are highly effective, according to BP, which could lead to the conclusion that the actual number of drills could be cut down, due to its efficient nature (BP's Sustainability Report, 2016).

In the "society part" of its sustainability report, BP has shown the following results:

Table 3. BP's social indicators.

People					
Year	2012	2013	2014	2015	2016
Number of employees - group	84.100	86.400	83.900	84.500	79.800
Number of employees – group leadership	516	546	530	501	431
Women in group leadership (%)	15	17	18	18	19
Women at management level (%)	25	25	27	27	28
People from UK and US racial minorities in group leadership (%)	6	6	6	8	7
People from beyond the UK and US in group leadership (%)	19	20	22	22	23
Employee turnover (%)	14	13	15	12	16
OpenTalk cases	796	1.295	1.121	1.114	1.158
Dismissals to non – compliance and unethical behavior	529	424	113	157	132
Benefits to employees (including wages, salaries, share – based payments, benefits and pensions (in million dollars)	12.501	13.448	13.654	13.936	12.929

Source: BP Sustainability Report. Retrieved on April 29th, 2016 from <https://www.bp.com/content/dam/bp/en/corporate/pdf/sustainability-report/group-reports/bp-sustainability-report-2016.pdf>.

The company has decreased the number of its employees from 2011 to 2015 by 5,300 workers. This leads to a smaller management, for which the number of group leadership has

decreased by 85 group leaders. It is interesting to note that the number of women in leadership has increased from 15 % in 2011 to 19 % in 2015. There is also an increase of women in the management level, from 25 % in 2011 to 28 % in 2015.

As a multinational company, BP has increased the number of group leaders from different racial minorities from the United States and United Kingdom, but this increase is negligible (from 6% to 7%). The situation is better for the other racial minorities that come from countries other than USA and UK. The percentage is higher and the increase is higher as well (from 19% to 23%). In the end, benefits to employees are stagnating and they did not change substantially. However, if we take into account that there is a trend of decreasing workforce, the actual per capita benefits of its employees have gone up. If in 2011, the company had 84,100 employees and 12.5 billion dollars in benefits, we can see that the average per capita benefits was 148,644 dollars. In 2015, this changed to 162,005 dollars, because of the lower number of employees and higher budget for benefits. What we do not know, is the issue with proper allocation of the budget. In general, this increase per capita is quite good, but BP does not provide information if the benefits go to every employee, respectfully (BP's Sustainability Report, 2016).

After reviewing BP's reports, we can see that the company invests large funds towards what they consider sustainability. At the beginning of the master's thesis, in chapter 1.4, when I discussed the progression of CSR policies towards sustainability, we saw that there are three types. In this report, only the environmental and societal sustainability are combined. Nowhere in the report can we see the economic implications.

However, in the table below we can see how the sustainability policy affected the economic performance of BP.

Table 4. BP's economic performance.

Economic Performance					
Fiscal Year	2012	2013	2014	2015	2016
Sales/Revenues (in Billion Dollars)	242.55	214.73	145.89	135.6	186.52
Sales Growth (%)	N/A	-11.47	-32.06	- 7.03	37.52
Cost of Goods sold (COGS) (In Billion Dollars)	217.59	197.54	142.99	131	173.46
COGS growth (%)	N/A	-9.21	-27.62	-8.39	32.41
Depreciation & Amortization costs (In Billion Dollars)	8.64	9.34	10.14	10.92	12.1
Depreciation (In Billion Dollars)	8.47	9.16	9.95	10.66	N/A
Amortization of Intangibles (In Billion Dollars)	170.82	184.63	193.47	260.13	N/A
Gross Income	24.96	17.19	2.9	4.63	13.06

Source: MarketWatch. Retrieved on March 2nd, 2018 from:
<https://www.marketwatch.com/investing/stock/bp/financials>

Most notable on this table is the four year decline of the sales and revenue. From 2012 to 2015, BP lost 106.9 billion dollars which represents 32.06% decline in their revenues. Moreover, the cost for depreciation and amortization had increased constantly since 2012, especially in amortization.

However, BP has been successful in maintaining a steady decline of their costs of goods. There was a steady decline from 2012 to 2016 with 86.9 billion dollars saved.

If we look at the gross income, we can see that the company has still not reached the levels from 2012. Especially tough was the year 2014 when the company's income shrank to just 2.9 billion dollars, down from 24.96 in 2012. There were improvements in 2016, but the gross income was still almost two times less than 2012.

So, did BP's strategies in sustainability pay off? In the next chapters, we will look at the CSR strategies of the company through the stakeholder perspective, SE and SD. Moreover, we will also examine the institutional theory in this case and how it reflects on the company and whether the company has achieved sustainable economic growth.

4.2 Application of the Stakeholder Theory in BP's case

In Chapter two, I have examined the stakeholder theory and the implications of the theory towards CSR policies that should bring economic sustainability.

More closely, I will examine the two strategies from the stakeholder theory: moral capital and shared value. When these two strategies will be examined, we will look through both external and internal stakeholders.

The basis of the stakeholder theory is that there are different stakeholders within the company that influence CSR policies. These different groups can cause friction and conflict inside the company and decision making management in the company has the obligation to negotiate between these groups in order to find a suitable decision.

In the case of BP, due to the sheer size of the company, we can group the stakeholders in two internal and external groups (Mejri & DeWolf, 2013, pp. 67 – 90):

1. Internal Stakeholders:
 - Suppliers
 - Employees
 - Shareholders
2. External Stakeholders:

- Customers
- Competitors
- Local Communities
- Government, NGOs

This is a simplified version of the stakeholders in and out of BP. Between the suppliers there are many with different supplier power. The same principle goes for the employee groups and the shareholders. In some countries, workers' groups are unionized, while in others they are not. Regarding the shareholders, they are divided between private citizens, companies and wealth funds. The biggest 5 shareholders are wealth funds which in principle are mostly interested in higher shares and bigger profits (Investopedia.com).

For the external stakeholders, the picture is more or less the same. The customers are different and given the fact that BP owns more than 18,000 petrol stations, they are scattered around the world. The competitors are the other 5 super major oil and gas companies (Chevron, ExxonMobile, Total, Eni and Royal Dutch Shell) (Dutta, 2013). Moreover, as the company is truly global, it is based in many local communities with different societal needs and movements. Therefore, in addition to the consumers and competitors, the company also deals with Governments, different national agencies and NGOs (BP Sustainability Report, 2016).

With the stakeholders in mind, we will look through moral capital and shared value.

4.2.1 BP's Moral Capital as CSR strategy

Even though moral capital is not an official CSR strategy that has been used by BP, I will examine it due to the fact that the company is enormous and it has well developed risk management. The inspiration to why I have opted out for moral capital in BP's case is because of the sustainability reports which have environmental and safety protection aspects to it. However, I also will examine whether this CSR policy has protected the value of the company and whether it has contributed to sustainable economic growth.

I will examine the Deepwater Horizon Oil platform accident, a huge blow to the sustainability reputation of BP. I will discuss if the company had built up enough moral capital to protect the different stakeholders, both internal and external, and if the investment in sustainability has paid off.

When I discussed moral capital in Chapter 2.1, it stated that the most basic function of moral capital was to preserve the value of the company and through this process bring sustainable economic growth.

The Deepwater Horizon accident happened on April 20th, 2010 in the waters of the Gulf of Mexico after an uncontrollable explosion in one of the deep water oil rigs (Final report on the Investigation on the Macondo Well Blowout, 2011).

The oil rig was placed in the deep waters of the Gulf, at around 5,000 feet below the ocean surface. This kind of technology started to become profitable due to the higher oil price since the early 2000's and the advancement in the drilling technology. However, this type of drilling can be far more hazardous than the shallow drilling, but the payoff is also far higher; the shallow drilling can produce at most few thousand barrels of oil per day, while the deep drilling can produce up to ten thousand barrels of oil per day. Even if the cost of building the deep water oil rigs is higher and more complex, the economic profitability is higher (Final report on the Investigation on the Macondo Well Blowout, 2011).

The process of operating the oil rig was complex and difficult and the operating itself had come with a wide range of difficulties, especially in the maintenance department. Before the explosion occurred on April 10th, 2010, BP conducted a safety audit on the oil rig and identified more than 390 repairs that needed immediate action with more than 3,500 hours of labor required in order for the repairs to be done. One of the biggest issues on the oil rig was the software malfunction of the three main computers that controlled the technical work of the oil rig. The three main computers that controlled the wells that drilled oil had older operating systems, from mid-1990's Windows NT, which would frequently freeze. For example, if Chair A went down the drill, it would have to go to Chair B in order to control the well. It was not uncommon for the three chairs to freeze all at once and to completely halt the drilling operations (Final report on the Investigation on the Macondo Well Blowout, 2011).

However, out of all issues, the technical, especially the cementing of the well was the most problematic one and the one that caused the blowout in the first place. Cementing the walls in the well is one of the trickiest aspects of the safety of the well. The MMS, the same Government agency that gave license to BP for oil extraction, in 2007 found out that 18 out of 39 blowouts over a 14 years period in the Gulf of Mexico were due to the inadequate wall cementing. This aspect is very important since it enables the so called "bottoms up" procedure. This procedure allows the workers to see if the mud is absorbing the leaking gas. If it is, the mud has to be separated from the gas in order to be re-submerged into the well, so as the gas would not cause explosions or destabilize the well. The "bottoms up" procedure lasts somewhere between six and twelve hours, depending on the size of the well, but BP had done this procedure in less than 30 minutes. Also, BP did not conduct the so called "cement bond log" test to verify the integrity of the cement after it was dumped in the well. Workers had been hired to test the integrity of the cement the day before the explosion of the oil rig; however, they had been dismissed the same day (Final report on the Investigation on the Macondo Well Blowout, 2011).

Before the construction of the oil rig, several stakeholders agreed to this type of construction and technical equipment. From a legal point of view, the US Mineral Management Service has granted a license to BP to drill in the region. The US MMS is the legal branch that gives away permits to foreign companies to drill on US land and in exchange the US MMS will receive royalties from BP. Transocean is a Swiss – American company that performed the operations of the oil rig and had some decision making in the maintenance and operations.

Moreover, the company charged BP over 500,000 dollars per day to lease the oil rig. Haliburton was the company that provided the equipment for the construction of the oil rig. In addition, BP had two other financial partners in the project: Texas based Anadarko Petroleum Corporation that had 25% stake and the Japanese based Mitsui which had 10% stake in the project. But BP had 65% stake in the project and therefore was the biggest contributor, thus exposed the most on the risks surrounding the project (Ingersoll et. al 2012).

If we take into account tables 1 and 2, we will see the results of BP's position in environmental protection and safety records. However, the point of moral capital is to protect the value of the company. If we look at the previous years, we will see a different picture.

Table 5. BP's Environmental Score (2008 - 2012)

Environment					
Year	2008	2009	2010	2011	2012
Oil spills to land and water (number)	170	122	142	102	102
Volume of oil unrecovered (million liters)	0.9	0.2	0.8	0.3	0.3
Direct carbon dioxide (CO ₂) (million tons)(Mtel)	57.0	60.4	60.2	57.7	56.4
Direct Methane (Mtel)	0.21	0.22	0.22	0.20	0.17
Direct Greenhouse gas (GHG)(MteCO ₂ equivalent(CO ₂ e))	61.4	65.0	64.9	61.8	59.8
Indirect carbon dioxide (CO ₂)(Mte)	9.2	9.6	10	9.0	8.4
Customer Emissions (MteCO ₂)	530	554	573	539	517
Flaring (Upstream) (thousand tons (kte) of hydrocarbons	1.718	1.548	1.671	1.835	1.548
Environmental Expenditure (in million dollars)	2.520	2.483	18.400	8.520	7.219

Source: BP Sustainability Report. Retrieved on March 10th, 2018 from <https://www.bp.com/content/dam/bp/pdf/investors/bp-annual-report-and-form-20f-2010.pdf>

Table 6. BP's Process Safety Score (2008 - 2012)

Safety					
Year	2008	2009	2010	2011	2012
Fatalities - employees	2	0	0	1	1
Fatalities - contractors	3	18	14	1	3
Day away from work cases - workforce	175	134	408	168	108
Day away from work frequency (DAFWCF)	0.092	0.069	0.193	0.090	0.076
Recordable injuries – workforce	951	665	1.284	677	710
Recordable injury frequency (RIF) - workforce	0.43	0.34	0.61	0.36	0.35
Hours worked – employees (million hours)	195	174	168	165	182
Hours worked – contractors (million hours)	245	216	255	209	222
Losses of primary containment (number)	658	537	418	361	292
Tier 1 process safety events (number)	-	-	74	74	34
Tier 2 process safety event (number)	335	234	261	228	204

Continued

Oil spills (one barrel)	3.4	1.2	1.7	0.6	0.8
Volume of oil spills (million barrels)	1.1	66.6	52.5	77.4	22.4

Source: BP Sustainability Report. Retrieved on March 10th, 2018 from
<https://www.bp.com/content/dam/bp/pdf/investors/bp-annual-report-and-form-20f-2010.pdf>

There are two important things to look in comparison between the tables from 2012 – 2016 and the tables from 2008 – 2012.

The first thing to notice is that the environmental expenditure was quite low prior to the Deepwater Horizon accident. That year the expenditure on environment rose from 2.483 billion dollars to 18.400 billion dollars. In the next 6 years (from 2010 to 2016), we can observe that the expenditure on the environmental protection.

The second thing to notice is the number of fatalities. Even though the company does not publically disclose their expenditure on process safety, it is one of the pillars of their sustainability program. The number of casualties is quite high for the contractors' employees, especially in the years 2009 and 2010.

So what can we conclude from the pillars of sustainability in regards to moral capital as CSR policy?

If the premise of moral capital is to protect the value of the company through CSR policy, in the case of BP, the results may be inconclusive. Even though their CSR policies have the intention to protect the environment and the safety of the workers, they did not have the effect on preserving the value of the company, especially in times of crisis, such as the Deepwater Horizon accident (Houdet & Germaneau, 2011).

Moreover, the funds for process safety and environmental protection were not sufficient to deter the negative effects of the accident, even though the magnitude of that event was and still is huge. Another problem is that the stakeholders of BP were not satisfied in how the company carried out its operations. Even before Deepwater Horizon, reports of bad practices of the workers were noted. Several NGOs also claimed that BP was not involved enough in the environmental protection, especially if we take into account the major ecological disasters that the company caused. The other stakeholders of the Deepwater Horizon also experienced significant financial losses (Ingersoll et. al 2012).

However, on the positive side, BP has increased its budget for environmental protection and the number of injured workers within the company has fallen.

4.2.2 Determinates of success of moral capital in BP's case

1. Public information:

British Petroleum is one of the leading companies in the world with their CSR initiatives. The information provided by British Petroleum is public and visible on their webpage. For instance, all of the social initiatives undertaken by BP are structured in reports on yearly basis.

As we can see, sustainability is a big part of the image of British Petroleum and it is one of the staples of their business model. However, it should be noted that their Corporate Social Responsibility strategy is not generic and general. On the contrary, it is structured with four distinctive parts that we will look in depth:

1.1 Climate change: It is the first part of their CSR strategy. British Petroleum is providing useful information regarding climate change and its effects. The company recognizes that “the existing trend of increasing greenhouse gas emissions worldwide is not consistent with limiting the global average temperature to rise to 2 Celsius degrees or lower”. The company acknowledges that climate change is a big issue and as one of the biggest industrial companies in the world is dealing with this issue. The company provides detailed information about the energy outlook for the coming years (2015 – 2035). The report includes the trends of the energy usage and the kind of fossil fuels that will be used the most. Moreover, the report includes possible solutions for substitutes for fossil fuels, meaning investments in green energy infrastructure. British Petroleum is providing possible solutions to cut the harmful emissions (BP Sustainability Report, 2016).

They are calling out for taxation of the companies that are damaging the environment the most with their industries. The company calls for a worldwide equal taxation on carbon dioxide and monoxide, regardless of the source. This way, the companies will pay their fair share to the Governments. The Governments will also be obliged to be transparent and comprehensive with their investments in green energy.

The company has been particularly active since the 2015 Paris Conference on Climate change, where BP with other seven oil and gas companies publicly asked the Governments to establish a clear and institutional framework for the price on carbon. The company is prepared to pay a higher price on carbon in the future (40 \$ per ton) and fully supports this kind of actions (BP Sustainability Report, 2016).

1.2. Safety: The Company provides all of the information and details about the safety of its workers. This is an important backbone of the CSR strategy, since the company relies heavily on the workers for its drills and factories. Since this type of job is very demanding, BP provides a virtual reality simulator for the workers, where they can practice in different environments. The company also provides information in detail about their “process safety” strategy, a combination on workers training and smart engineering to minimize the damaging effects on the environment. The company also has a “metric system” that is a part of a measuring mechanism to evaluate the welfare of the workers. The company has established its own golden rule that guarantees the safety of its workers through tough operational management.

1.3. Environment: The Company strives to preserve the environment through four sectors: Quality of Water, Air Quality, Energy Use and Working in Sensitive Areas(BP Sustainability Report, 2016).

- Quality of Water: The Company uses fresh water in their operations and it uses special drills to filter the waste water. It is very important to emphasize that BP is collaborating with IPIECA Global Water Tool and World Resources Institute Aqueduct Global Water Atlas to monitor the water quality and to point out to possible problems.

- Air Quality: The Company provides detailed report about the emission from their core business activities. Their refinery and transport sectors are the most problematic, since they pollute the most. The company has started to use low sulfur diesel, which is ecofriendly and BP has managed to cut their sulfur footprint and comply with international standards. The company has started disinvestment in their drilling and refinery operations and their nitrogen oxidant footprint has shown the trend of flat line and slight reduction.

- Energy Use: BP uses the most energy in their refinery and drilling operations. Therefore, the company has started disinvestment in these businesses and investing in other green activities and businesses. The carbon monoxide footprint has been decreasing since 2015, due to the disinvestment and investment ratio.

- Biodiversity: Since BP is one of the leading multinational companies in the world, it operates in different environments in different corners of the world. Therefore, the company has business activities in or near protected areas for which BP evaluates their welfare annually (BP's Sustainability Report, 2016).

1.4. Society: Since it is multinational, BP is present in different societies with different cultures. The company works with the communities where it is present, on different projects. The company works under the UN convention on Human Rights, meaning that it fully supports the value of the human rights. BP works across functions and business in order to satisfy the UN Guiding Principles, which protect the human rights.

2. Generating public interest for Corporate Social Responsibility

In order for this determinate to be successful, the company must create interest from different stakeholders and substantial investments in CSR activities.

The company works closely with different stakeholders. From their above mentioned strategy, we can see that BP is actively included with different organizations working on different activities. These organizations include the United Nations, IPIECA Global Water Tool and World Resources Institute Aqueduct Global Water Atlas. These organizations monitor the progress of BP in compliance with their international standards. BP has

successfully implemented their requirements and their suggestions (BP's Sustainability Report, 2016).

It is also very important to add that the collaboration with the stakeholders extends to the internal stakeholders as well. Implementing such programs as “process safety” directly affects the well-being of the workers, making sure that there are safe while doing their job. Here, it is very interesting to see the connection between internal and external stakeholders. Since BP has implemented the UN Voluntary Principles on Security and Human Rights, the company has taken a step forward into the so called “multi stakeholders efforts”. These efforts between external and internal stakeholders have made sure that there are effective means of securing the human rights at operational and general level. British Petroleum is guarantying the human rights of its workers and its subcontractors as well as the rights of the people wherever the company is present. If the worst case scenario happens and the rights of its workers are threatened, or if there is a noticeable discrepancy from theory to practice, the company will implement the most stringent standards as is stipulated in the UN Guiding Principles on Business and Human Rights (United Nations, “Guiding principles on Business and Human Rights”, 2016).

It is safe to say that the company interacts with different stakeholders. Up to this point, the company satisfies the first two determinates, it generates enough interest from different stakeholders, both internal and external, and the information regarding the sustainability is public. However, is this enough to say that the company is investing in CSR activities that can generate added value for the society and the company as well?

In order to answer this question, we should look into the Sustainability Reports from BP against the value of the company, in order to see if the company has substantial enough investments. After this assessment, we will look closely at the Deepwater Oil Platform accident, to see where BP is on the “Bad Actors– Bad Actions and Good Actors – Good Actions” scale and if the company had real moral capital.

4.2.3 Shared Value as CSR strategy in BP's case

In Chapter 2.2 I have examined shared value as a CSR strategy from the perspective of the stakeholder theory.

As mentioned in the previous chapter, BP has many stakeholders. The premise of the shared value is to achieve prosperity (or in this case sustainable economic growth) together with these stakeholders.

1. Reconceiving Products and Markets

There is a very interesting case how BP has used this strategy in Trinidad and Tobago. The company has been present in the country for more than 40 years. During this period of time,

BP has imported parts for its oil rigs there from Louisiana which is 2000 miles away (Hills et.al, 2012).

BP saw a business opportunity to reduce its costs and its environmental footprint by manufacturing its parts in Trinidad and Tobago and by doing that it has encouraged the growth of the economy. The production of the oil rigs is through joint venture with two other stakeholders (Hills et.al, 2012).

The immediate costs for BP were higher than the production of the oil rig in Louisiana. It was 10 million dollars more expensive to produce them in Trinidad and Tobago but with the next oil rigs these costs were driven down to the same amount if imported from Louisiana (Hills et.al, 2012).

2. Redefining productivity in the Value Chain

In the Sustainability Report from 2016, BP uses the downstream business model, meaning that they are disinvesting from the fossil fuel production.

The production of petrochemicals from fossil fuels is becoming more and more expensive. Furthermore, it severely pollutes the environment and it causes health hazards. Because of these negative effects, the company has pledged to shift its business model into sustainable production (BP Sustainability Report, 2016).

Since the production of energy has become popular, the company redefined its value chain through four production objectives:

1. Biofuel
2. Biopower
3. Wind
4. Solar

However, it should be noted that most of the profits of BP still derive from fossil fuel production. In the report unfortunately, there are no data that provide the actual percentage of profit, sales or revenue that is derived through the four production objectives (BP Sustainability Report, 2016).

3. Enabling Local Cluster Development

BP contributes to local development on four ways: local workforce development, investments in the community and local suppliers. The company employs local people and is focused on that type of policy in every country it is present. For example in Angola, the company employs 80% of its workers from local communities. When it comes to community investments, BP strives to fulfill the societal needs. In Oman, with the Kazzhan project, BP

will provide 40% of the local gas needs in the local communities. Moreover, parts of its profits will go directly into the local education system. Regarding the local suppliers, the company is involved in educating the local suppliers to improve their business skills. For example, in Azerbaijan, the company has spent 68 million dollars on these types of educational programs (BP in Azerbaijan Report, 2006).

With the exception of reconceiving products and markets where we can see direct economic benefit, in the other two cases, the picture is less clear. However, redefining productivity in the value chain takes time, especially for a company the size of BP. And the cluster development has also shown results in Azerbaijan. The country has become a new “profit center” for BP, although we cannot clearly pinpoint if the investments in their local suppliers have contributed to this.

4.3 Application of the Institutional Theory in BP’s Case

Another aspect of how we view CSR strategies is through the perspective of the institutional theory. Here, we look more closely at the external stakeholders.

The external stakeholders have big impact on how the company will employ its CSR policies. In the case of BP, this theory can be complicated to follow. Because BP is present in many countries around the globe, it is subjected to different Government regulations regarding CSR policies. Furthermore, the company is also closely watched by different international NGOs with different goals and objectives.

One of the ways the external stakeholders can influence the CSR policies institutionally is through the process of internalization. The goal of this process is for the companies to achieve legitimization.

The mechanism that this process uses is called isomorphism(s), explained in Chapter 3.1 (DiMaggio, Powell, 1991, pp. 1-38).

If we take BP as an example in the aftermath of the Deepwater Horizon accident, we can see how the isomorphism was used:

Coercive: After the accident, new laws were adopted to better protect the environment and the companies that are still into the extraction business have to follow them in order to avoid hefty fines and further deterioration in their image.

Mimetic: The Company had to revamp its image. Therefore, it started to use the same strategies as other market leaders, such as Statoil, and started to develop its sustainability program that involves everything from protecting the environment, curbing their environmental footprint and protecting workers and human rights.

Normative: BP started to collaborate with professionals with regards to their process safety program, professionals from the NGO sector that focus on the environmental protection and national governments with regards on working to improve worker rights.

With using the isomorphism, BP did improve their market position and their worldwide image. Even though the catastrophe had a wide range of implications, the company managed to become much more sustainable via using the isomorphism.

There are also two types of institutions that can influence CSR policies: formal and informal.

In the case of BP, the formal institutions have managed to influence their CSR policy. For example, in Azerbaijan, BP has agreed to a revenue sharing program with the Government of Azerbaijan due to the new laws which called for stricter tax collection. In the case of informal or supra national institutions, BP adheres to the UN's Principles on Business and Human Rights (BP in Azerbaijan Report, 2006).

However, the influence is also different from country to country and depends on the strength of the institutions. BP extracts oil in countries coming from the developing world which do not adhere always to the rules.

4.3.1 Coexistence of different stakeholders in BP's case

One of the interesting notions of the institutional theory is the possibility for the coexistence of different stakeholders.

1. Multi sector partnerships in BP's case

This type of partnership is based on at least three different sectors. Usually it is based on partnerships between a Government, an NGO and a company. In BP's case, a multi sector partnership happened during the crisis of Deepwater Horizon accident.

BP's partnership was based with the Government of the USA and with different NGOs (like World Wildlife Fund and Natural Resources Defense Council) that work on environmental protection. This multi sector partnership put efforts to clean up the oil spill caused by the Deepwater Horizon accident (BP Sustainability Report, 2016). Their efforts are threefold:

1. Preservation
2. Conservation
3. Exploitation

Through this partnership, BP provides funds for the preservation and conservation of the flora and fauna. On the other hand, the Government and the NGOs work together with BP to find a more sustainable way of exploitation of fossil fuels.

2. Business – NGO Collaboration in BP’s case

BP has also been active in its collaboration with the NGOs. One example also comes from Azerbaijan. The company has partnered up with Open Society Institute – Assistance Foundation for monitoring the process of the construction of the Baku – Tbilisi – Ceyhan pipeline. The pipeline is 1,768 kilometers long and it goes through a sensitive environment (BP in Azerbaijan Report, 2016).

Because in the past, projects like this were constructed in a non-transparent way, the aim of this collaboration was to increase the awareness of the population for the project and to educate them on the possible consequences, as well as also on the possible benefits.

3. Sustainability Continuum

From the options available in the sustainability continuum, the companies through their collaborations and partnerships can be placed in four sections: reactive, transactional, integrative and partnership.

From the case of BP, we can put the company in the reactive section. I based this on the fact that BP always seems to collaborate with different stakeholders when it has to comply with certain regulations, or after an incident. However, it should also be noted that BP’s partnerships and collaborations are growing and that they include groups with a wide array: from many Governments and different NGOs, working together on different topics.

To summarize, we can see that different institutional stakeholder influence BP’s CSR policies. The examples from Azerbaijan and the Deepwater Horizon show us that BP has made progress and that it has started to employ different CSR initiatives.

4.4 Application of the Other Theories

In the previous chapter, I have also discussed the legitimacy, positive accounting and the signaling theory. In BP’s case of sustainability they are also relevant.

First, if we take into account that the company is prone to disaster due to the nature of the business that it is in, the legitimacy theory is quite beneficial here. Through its CSR policies aimed at protecting the environment, BP can legitimize its existence in the societies where it operates. Even though the type of industry in which the company operates is very harmful to the environment, BP still legitimizes its existence, mostly through disinvestment in the fossil fuel industry and investments in clean energy (BP Sustainability Report, 2016).

Second, if we take the PAT, we can observe that BP is using positive accounting methods. The company takes into account its environmental expenditure (table 1) but the picture is less clear on the expenditure on process safety however (BP Sustainability Report, 2016).

Third, if we take into account the signaling theory, BP has also done a good job. Since the Deepwater Horizon accident, the company has been especially successful in quality signaling. The examples of collaboration between BP, the Government of USA and several others NGOs in the effort to clean up the Mexican Gulf after the accident, sends strong signals to the society that the company is serious in protecting the environment. Moreover, the substantial increase in environmental spending also sends positive signals. The big decrease in accidents also sends observable signals that the CSR policies undertaken by BP show positive effects (Final report on the Investigation on the Macondo Well Blowout, 2011).

4.5 BP's Sustainable Economic Growth

So to answer to final question: Did the moral capital, shared value and pressure from the stakeholders do anything to the sustainable growth of BP?

From the premise of SE, the company should adapt in order to increase its ability to produce indefinitely. And CSR policies such as moral capital and shared value should be the catalyst of that adaptation.

From the moral capital perspective, the CSR should be aimed at preserving value. In BP's case the moral capital effects are seen through CSR policies aimed at environmental and safety protection. If we look at the aspect that BP's efforts cut down the expenditure on the environmental protection after a substantial growth, we can conclude that it paid off. Moreover, the company's efforts to process safety definitely helped in the prevention of accidents among its workers, which means lower costs for insurance or hospital bills. We should keep in mind that the benefits of moral capital are not always explicit. However, the increase of the revenues from sales can be an indication that CSR policies have an effect on the economic sustainability of the company (table 4).

In the case of shared value, we have seen three examples where BP had benefits after investing funds in CSR activities. In the case of Trinidad and Tobago, the benefit was explicit, while in the case of Azerbaijan, the benefit is more implicit.

With respect to the institutional theory, we have seen that the regulations and the "check and balance" by the external stakeholders can push companies like BP to pursue CSR activities.

In Chapter 4.2, when I examined the case for CSR in SE and SD, there were three types of CSR activities in which the company should focus. From all of them, I can argue that BP has chosen the second one: Understanding the customers. Even in a concrete CSR policy like moral capital and shared value, BP was mainly driven by the customers. In the example of moral capital, BP did use it mostly because of the negative perception that the company mistreated its workers and that it was not active enough in preserving the environment. An

angry customer is bad for the business. The same can be said for the shared value. BP has been active in pursuing CSR policies that on one hand cut down their costs but also I can argue that working with a wide array of NGOs definitely helps for improving the customers' perception of BP.

4.6 Conclusion of the analysis

Unfortunately, it is quite difficult to determine the exact economic benefit from CSR policies. As sustainability, SD, SE and CSR are broad concepts it is also very difficult for a company like BP to employ CSR policies that can bring economic sustainability.

Because of the literature that has too many definitions on these subjects, the companies can misuse the terms and not completely apprehend that CSR can bring economic sustainability. In theory this is quite possible, but in practice not many of the companies are using it.

Since BP is such a large company, it can provide funds to finance different CSR activities. But, the policies have various degrees of success. If we take into account that BP has had CSR policies for several years and given the fact that during their implementation it still faced negative outcomes (such as the Texas City Refinery explosion), the CSR policies effectiveness may be debatable.

In the case of moral capital, the results were not clear. It did protect the value of the company, but it is not fully comprehensible if that has brought sustainable economic growth to the company.

In the case of shared value, the picture is different, since we have tangible results that have contributed to sustainable economic growth.

CSR aside, achieving SE is a complicated procedure. In the case of BP, it is only a part of the whole picture. However, the company should pursue much a more active CSR policy, since CSR is the most concrete way in achieving this.

CONCLUSION

CSR is a very complex concept that started to develop in the past 60 years. As we can observe from this master's thesis, there is no single definition for CSR; instead there are a variety of definitions and conclusions.

The picture becomes even more complicated when we take into account that CSR should serve as a catalyst to achieve sustainable economics. Moreover, the concept can be influenced from different theories on different levels.

These theoretical influences have direct consequences (or in the case of this master's thesis, BP) on the sustainable economic growth of the company. The problem is that every theory has a different end goal that wants to achieve and not always these goals go hand in hand with achieving economic sustainability.

We have seen the examples of the stakeholder theory that influences the CSR policies in way that the conflicts between different stakeholders (both internal and external) can be avoided. The two policies that come out of the stakeholder theory, moral capital and shared value can be used as a way to achieve sustainable economics to a certain extent, but their effect does not mean that it will be concrete.

From the perspective of institutional theory, the external stakeholders regulate and demand sustainable CSR policies from the company, but they are not always in line with achieving sustainable economic growth. And from the other three theories, we have also seen that CSR policies can still be seen as a PR or just expenditure.

But the good thing is that CSR is becoming an increasingly popular policy and it is becoming relevant as a mechanism to achieve sustainable economic growth. Moreover, different policies can bring different results and in my opinion, CSR, even though it has been present as a concept in the economic theory for 60 years, it is still in an experimental phase.

In the case of BP, this is somewhat true, especially if we concentrate on their environmental protection. The huge amounts of investments in this part have helped the company to increase its sales revenue and profits. Mainly because the company has disinvested from the over saturated fossil fuel production into clean energy. By doing this, the company has entered into a new market and can attract new customers.

Deep and thorough research is needed in order to establish proper links between CSR and achieving sustainable economic growth. However, due to the ever growing popularity of CSR it is my personal belief that this will be possible in the near future.

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APPENDIX

Appendix: List of Abbreviations

BP	British Petroleum
CSR	Corporate Social Responsibility
EU	European Union
EC	European Commission
GDP	Gross Domestic Product
GMO	Genetically Modified Organism
NHS	National Health Service
NGO	Non-Governmental Organization
PAT	Positive Accounting Theory
SD	Sustainable Development
SE	Sustainable Economics
SLNE	Sustainable Local Enterprise Network
UN	United Nations
US MMS	United States Mineral Management Service
USGS	United States Geological Service