Master Thesis: Business Administration – Innovation & Entrepreneurship

Stakeholder maximization:

An exploratory research about the influence of corporate social performance on the going-concern value

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Abstract

This thesis explores the research field of the long-term effects of corporate social performance (CSP) on the going-concern value of a the world's largest multinational enterprises (MNEs). The thesis concentrates on the views of three distinct categories of actors which include: enterprises, scientists and valuators. Furthermore, a critical analysis of the concept of CSP is conducted. And a research agenda is presented for future research. The findings show that for the largest MNEs CSP shifted from a wealth redistribution mechanism into a tool for mitigating immediate reputational and legal risk. Based on the publicly disclosed data these enterprises have difficulties is valuing the long-term financial implications of CSP and seem not to consider CSP a value affecting factor that is a genuine part of their long-term value creating strategy. Instead CSP seems to be merely considered as a hygiene factor. Scientists on the contrary seem to be the group of actors that is the most positive about the positive affective power of CSP on the long-term value of a firm. Although they also make several remarks concerning the lack of an universalistic effect of CSP. They acknowledge that certain circumstances are needed in order to be able to structurally lower costs and increase revenues and profits. And that one should address solely certain CSP issues in order to generate the maximum amount of value for the focal firm and for society in general. Valuators, wherefore sell-side analysts were used as units of observations, were the most divided group of actors. Some recognized CSP as a value affecting factor in certain circumstances whereas others did resolutely rejected the value affecting potential of it. Furthermore, there is no synthesis extant on the concept of CSP and there is a lack of objective providers of CSP ratings. Which makes the prior used construct for measuring CSP questionable. Finally, the conclusion is reached that presently CSP is not a value affecting factor. However, if the CSP strategies and valuations practices of analysts would alter there could be a positive effect of CSP on the going-concern value.

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List of used abbreviations

CFP

Corporate financial performance:

This concept refers in this thesis to the constructs that are used by scientists to measure the financial implications of corporate social behaviours. Usually relative measures of financial parameters are used as a construct for measuring financial performance. Furthermore, it is worth noting that there is a distinction extant within this concept between market-based measures of CFP (e.g. market/book value ratios, stock returns) and accounting-based measures of CFP (e.g. Return on Assets, Return on Equity).

CSP

Corporate social performance:

The concept of CSP is used in this thesis as a meta-concept. It includes in this thesis not only corporate performance on social issues, but also corporate performance on environmental issues. However, some scientists make a clear distinction between social performance and environmental performance in their research and if this is the case it will be mentioned explicitly in this thesis. Corporate social performance can be seen as a operationalization of the concept of corporate social responsibility (CSR). An example of a CSP measure could be the amount of toxic gasses that are released in the air per product during its production process. Another example could be the amount of accidents due to product failures per million products. A third example could be the percentage of hours whereby child labour is used by a firm's suppliers in their production processes. Thus, CSP can refer to any moment or place within a product or service life cycle and the supply chain of a specific firm.

CSR

Corporate social responsibility:

Corporate social responsibility is a concept whereby corporations' behaviours, products and services are congruent with society's prevailing norms and values. These behaviours, products and services go beyond legal requirements and are voluntary in the sense that they are not coerced by any legal or physical threats. Which implies that they do not have to be executed on purely eleemosynary grounds and could be the result of enlightened self-interest.

ESG factors

Environmental, Social and Governance factors:

These three categories of factors can be seen as the equivalent of CSP within the financial services sector. However, CSP and ESG factors should not be seen as synonyms, as there are significant semantic discrepancies extant between these two concepts. ESG factors explicitly refer solely to environmental, social and corporate governance issues that could have financial implications for firms, and therefore they are not concerned with performance on social and environmental issues that are not directly linked to the value creation potential of a firm in the eyes of the entity that is responsible for the construction of the ESG rating. And a maximum score on a certain issue does not always have to be synonymous with the eradication of a social problem for example, but could imply that a firm is able to cope with the issue in a certain way that is financially the most beneficial.

MVA

Market value added:

This valuation method refers to the difference between the book value of a company and its market value. This is calculated by extracting the book value from the market value of a firm. It is used in CSP research to measure CFP by investigating the effects of CSP on the difference of MVA in a certain year and the subsequent year.

ROA

Return on assets:

This accounting-based measure of financial performance is widely used as a construct to measure CFP in CSP-CFP research. It is the percentage of the profits before interest and taxes of the total assets.

ROE

Return on equity:

Return on equity is financial ratio that is used as a construct for measuring financial performance in CSP-CFP research. It measures the net income returned (after dividends to preferred stocks and before dividends to common stocks) as a percentage of shareholder’s equity (preferred shares are excluded).

ROS

Return on sales:

Return on sales is a financial ratio that is used as a construct for the measurement of financial performance in CSP-CFP research. It is calculated by dividing the profits before interest and taxes by the total amount revenues in a certain period.

1. Introduction

The ‘entrepreneur’. The origin of the word lies in 17th century France, where an ‘entrepreneur’ was the individual who was commissioned to undertake a commercial project by an investor (Wickham, 2006). Furthermore, Wickham (2006) states that there are currently many definitions from the management and economics literature that describe the word entrepreneur. Some might argue that the serial entrepreneur is the only figure that can be called a true entrepreneur. This type of entrepreneur establishes businesses, and sells them hopefully with a profit, and does not manage businesses for the long-term. According to Gartner (1985), true entrepreneurship ends at the ending of the building stage of a venture.

However, in many contemporary industries there are high entry barriers and only a small amount of firms control the whole market. Which makes it hard for individual entrepreneurs to enter a market. In these markets there is lacking a large amount of ventures that arise and disappear completely, and most ventures are only increasing in size through mergers and acquisitions. These oligopolies that consist of large corporations that control the vast majority of the market. And as corporations increase in size the amount of stakeholders that are influenced increases and the scope of the influence increases. This combination of a large amount of power and the influence on a large amount of stakeholders could tempt these large corporations to allocate their resources in such way that maximizes their profits at the expense of these stakeholders. Which could be the result of different causes. Their executives might assume that stockholders’ and non-stockholder’ interests can only be reached at the expense of each other. Or stockholders, investors, analysts, consumers or other stakeholders might have this opinion of the existence of a zero-sum situation, and are persuading corporation’s executives to act in ways that are detrimental to non-stockholder shareholders. Whatever the actual reason for these executives might be for engaging in practices that are deleterious for large amounts of stakeholders, the consequences are very severe for some of them.

One example of the industries where the actions of corporations have deleterious effects for large amounts of stakeholders is the food and beverages industry. In this industry the largest food and beverages corporations and their suppliers are influencing some of their stakeholders in undesirable manners. For example, among consumers of the products of these corporations issues like obesity and diabetes are increasingly prevalent due to the nutritional qualities of the consumed goods. However, these consumers are able to avoid these diseases through the consumption of other goods with different nutritional qualities which are less deleterious for their health. And one could argue that they are free to decide and are responsible for the amount and quality of the nutritional goods they consume.

Nonetheless, the most severe effects of the actions of the corporations in the food and beverages industry are affecting the stakeholders at the beginning of the supply chain. These stakeholders are the farmers that produce the inputs which are used for the production of the end products of these corporations and the communities that live in areas where natural resources are extracted for the production of their products. An example of communities who are disadvantaged that live in the area where resources are extracted is in Indonesia, where a supplier of Unilever’s palm oil illegally cleared land and did drive the local community away from their lands in 2011, and is currently used for the production of palm oil (Oxfam, 2013). Furthermore, none of the ten largest corporations of the food and beverages industry have adequate policies to protect local communities from the aforementioned land grabs (Oxfam, 2013). Another example of Unilever is from their tea sources. At the tea plantations from where Unilever sources its tea there exist problems regarding the payment of the minimum wage, discrimination against women, substantial housing and sanitation and unprotected application of pesticides (Oxfam, 2013). Child labour is another paramount issue in this industry, as 53% of the 215 million child labourers worldwide are involved in agriculture (Oxfam, 2013). And besides the aforementioned land grabs in the supply chain of the food and beverage industry, water grabs are also a significant issue of irresponsible behaviour in the supply chain of this industry. One example of these water grabs comes from Nestlé in Pakistan, where over-exploitation of water leads to falling water tables which is leading to higher pumping costs of water for the communities that live near Nestlé's factory (Oxfam, 2013). This over-exploitation of the water sources means that the local communities do not have sufficient access to clean water, as it became more difficult to extract ground water and people lack financial resources to buy the bottled water that Nestlé produces. Similarly to the land grabbing issues, none of the corporations within the industry do address the issue of ownership and the right of access to water (Oxfam, 2013). These socially irresponsible behaviours might appear desirable for the profit margins of the firms as certain natural and human resources are obtained without any or only minor financial resources. Thus apart from moral considerations other rationales to change these behaviours are apparently not extant.

But there are also signals that the altering of the current modus operandi could be beneficial for the financial performance of firms, which implies a potential business case for corporate social responsibility. Moreover, according to KPMG (2012) several social and environmental megaforces impose serious risks for corporations: physical risk, regulatory risk, reputational risk, competitive risk, social risk and litigation risk. But they argue that if corporations alter their value creation processes they should be able to transform these risks into opportunities for increasing the long-term viability of the corporation. Relatively cheap production methods which produce large amounts of greenhouse gasses contribute climate change, and these changes can have far-reaching effects upon the entities that produce them. Some significant potential scenarios include the contamination of groundwater supplies, lower agricultural yields, infectious diseases, deaths from heatwaves, increasingly severe floods, droughts and storms (KPMG International, 2012). This would imply for example that the cities where the headquarters of these corporations are based could be flooded. Because cities like Tokyo, New York, London and Shanghai could be affected by these floods (KPMG International, 2012). Another example could be for the aforementioned food and beverages industries, which could run into raw material constraints, because of the lowering agricultural yields and the water scarcity. The previously mentioned food and beverages industry's contemporary supply chain practices that contained the cheap attainment of water, land and labour could be endangered. As the global middle-class will grow with 172% in the period of 2010-2032, this will result in developing countries' workers demand for better working conditions and payments (KPMG International, 2012). However, as mentioned earlier these megaforces form only endangerments to corporations that continue their current value creation processes. They could be constructed differently, especially more socially and environmentally responsible and hereby create a business case for corporate social performance. One example of a business case for CSR is energy efficiency and the usage of renewable energy sources (KPMG International, 2012). The rationale behind this example is that due to declining non-renewable energy sources the prices will rise and become volatile and the supply of energy will be restricted, which eventually will result in lower profit margins and lower production capacities. And more efficient usage of energy sources and the usage of alternative energy sources will result in lower and more predictable costs and less hazardous effects for the ecosystem.

When analysing the behaviour of corporations themselves one can see that they are allocating time and resources to the issue of corporate social responsible behaviour. When entering a factory in a third-world county one faces literary a “wall of codes” that assures the visitors of the social responsibility of the enterprise (Chatterji and Levine, 2006). This implies that corporations do take corporate social responsibility seriously. As they must invest time to fill out forms and host visits for compliance auditors, that eventually grant them a certificate that proves their social performance on a certain issue (Chatterji and Levine, 2006). But to pinpoint the actual reason for the allocation of valuable resources for the attainment of these certificates is not as straightforward as one might assume. Firms could have a myriad of reasons to engage in social responsible behaviour. But the most important reason is for firms their reputation. Due to the more extensive media reach and advances in information technology rapid and widespread exposure of alleged corporate abuses in the most remote corners of the world are possible (Smith, 2003). The consequences of the unveiling of these abuses could be rapid and far reaching, as consumers could immediately boycott the products of a firm and equity markets could lose their confidence in the firm. Significant negative stock market reactions could be the caused by only the announcement of a boycott (Davidson et al., 1995).

But the extent to which corporations take social responsibility into consideration in their value creation processes still differs. The amount of social responsible behaviour a firm produces could be assessed alongside a continuum with on one side the pretending of engaging in social responsible behaviours and on the other side the maximization of social output. The aforementioned ‘wall of codes’ could be an example of a firm at the beginning of the continuum, as the goal of the firm could be solely to obtain a socially responsible reputation for outsiders, and thereby prevent immediate threats of boycotts and negative publicity. The other extreme case could be for example a pharmaceutical company that provides free medicines to third-word countries in order to eradicate a certain disease. Smith and Alexander (2013) show that 98% of the *Fortune* 500 companies’ websites do contain corporate social responsible content, which could imply that almost all large corporation are attempting to minimize the potential risk of reputational damage. To reach conclusions about the extent to which corporations on the other side of the continuum are extant is far more difficult, as not every firm is convinced of the moral obligation or the business case for social responsible behaviour. Considering the aforementioned anomalies of the food and beverages industry.

Similar to corporation’s lack of uniform attitudes towards corporate social responsibility, are scientists’ views of coping with this issue which also differ from each other. Some scientists argue that it is best for corporate executives not to engage in practices were they attempt to manage the firm’s stakeholders. Boatright (2006) agrees with Jensen’s (2001) single objective for a corporation, which is the maximization of shareholder value. His rationale behind this proposition is that with a workable decision guide the benefits for the firm are maximized. And this maximization of firm value is compared with a pie, which he argues becomes larger than when corporate executives have to pursue multiple objectives to satisfy the needs of the different stakeholders of the firm. As the pie gets larger he argues the share that each stakeholder gets also will become larger. A more effective mean to satisfy the interests of non-stockholder shareholders is by contractual agreements and legal rules, thus not with stakeholder management (Boatright, 2006). In the aforementioned case an instrumental viewpoint was taken in order to assess the most effective way of serving the interests of shareholders and non-shareholder stakeholders, and Boatright (2006) did not have any normative objections to corporations’ satisfying the needs of non-shareholder stakeholders. He solely posed that there was a lack of proof that management decision making was more effective than other means.

Friedman (1970) however was against firms that engaged in social responsible actions on normative grounds. He had multiple reasons for not engaging in social responsible practices: First, he posed that businesses do not have social responsibilities, and only individuals have social responsibilities. Secondly, he gave the argument that a corporate executive is an employee of the shareholders of the company and that he or she must act in accordance of the satisfaction of their needs, which is making as much as possible profits and not resolving social issues. Insofar the corporate executive’s actions reduce shareholder’s returns he argues, the executive is spending their money. Third, taken the use of social responsibility seriously would extent the scope of the political mechanism, which is detrimental for the functioning of the free market. And the principal of an executive acting as a legislator is unjust as he or she is not elected through a democratic political process. Friedman (1970) concludes with what should be the social responsibility of a firm, and that it has to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game, which is engaging in open and free competition without deception and fraud.

This normative plea has to a certain degree lost sight of reality. In a perfect functioning world there would be a quite compelling case for firms not to engage in social responsible behaviours due to the aforementioned arguments. Unfortunately, each of the entities that were discussed have their flaws. Assuming for example that governments are able or even willing to diminish social issues is quite naïve. As there is no single country in the world without any corruption in their public sector, and more than two thirds of all the countries have a score below fifty out of the maximal hundred in terms of a corruption free public sector (Transparency International, 2014). And these governments are able to subvert the free market that would be valued by corporations. According to Smith (2003) Friedman’s most powerful argument against CSR was always that it was not in the shareholder’s interest and that many managers still find this an appealing idea. That managers find this idea still appealing could be seen for example with the aforementioned anomalies in the food and beverages industry.

However, there are signals originating from different entities that engaging in social responsible behaviours could be beneficial for shareholders long-term returns and the amount of risk associated with these returns (e.g. Porter and Kramer, 2002; Porter and Kramer, 2011; ThomsenReuters, 2010; KPMG, 2012; KPMG, 2013; Ambec and Lanoie, 2008; El Ghoul et al., 2011; Gunningham, 2004). These scientist and private organizations have provided a thorough theoretical contribution to this field of study. The empirical contribution to the this field of study however has a strong focus on short-term effects. Meta-analyses of Orlitzky et al. (2003), Allouche and Laroche (2005) and Margolis et al. (2007) contain studies which try to capture the short-term effects of corporate social performance. The long-term effects of CSP however could have a different scope and direction, and are more relevant for the value of a firm. As the going-concern value of a firm is not solely based on the financial performance of the subsequent year, but the financial performance of the following decades. Therefore, the research goal and research question are as follows:

2. Research design

2.1 Research goal

The aforementioned leads to the following research goal of this study:

Finding out whether there is a relationship between CSP and firm value on the long- term.

2.2 Research question

This leads to the following central research question:

Does CSP have a positive influence on the going-concern value?

2.2.1 Sub-questions:

- *1. Which measures are used by private firms and disclosed about CSP?*
- *2. Which measures are used by other entities for measuring CSP?*
- *3. Which measures are used by valuators to assess the going-concern values of firms?*
- *4. What are the expectations of scientists on the relationship between CSP and the long-term value of a firm?*
- *5. How do valuators cope with CSP in their assessment of the going-concern value?*
- *6. What are the discrepancies in the views of the scientific environment and the private valuators and their causes?*
- *7. What implications do the aforementioned findings have for scientists, governments, firms and other institutions?*
- *8. Which future directions are needed to progress this field of study?*

2.3 Methodology

The first sub-question of this thesis will be answered with the help of secondary sources. As there were sources extant that were able to provide the answers to the first sub-question. Furthermore, due to the extensive nature of the investigation of the websites and annual reports of all the large-cap corporations in the world the answering of this sub-question with the help of primary data sources would be outside the scope of this thesis. The data sources are first of all a large scale survey that was conducted by KPMG International and a scientific paper of Smith and Alexander (2013). Which were the most comprehensive and most recent data sources that were able to cope with the answering of the first sub-question. One could question the objectivity of the first data source, as it is also a provider of CSP reporting consultancy services and suffers from a conflict of interests as the assessed firms are in some cases also the clients of the used data source. However, one could partially refute these data source issues as solely numerical facts will be extracted and for the preservation of the reputation as a reliable assurance provider it is in the interest of the data source to provide valid numerical facts. Lastly, one could argue that prior scientific research has used the aforementioned data source's reports for their research (e.g. Nielsen and Norgaard, 2009).

The second sub-question will also be answered with the help of secondary sources, namely by studying the reports of the CSP rating institutions that contain information about the methodology that is used for the assessment of CSP ratings.

The third and fifth sub-question will be answered by electronic surveys that contain open-ended questions. Sell-side analysts are chosen in this thesis as units of observation, the rationale behind this choice is based on the assumption that sell-side analysts have the most competences and abilities to influence the perceptions of the going-concern value in the eyes of relevant buyers and investors. Sell-side analysts were approached though e-mail. The sampling method is a combination of purposive sampling and snowball sampling. Because snowball sampling results in samples with low representativeness it is used primarily for exploratory purposes (Babbie, 2007), which is the case in this thesis. This issue is partially overcome by making use of purposive sampling, which is used to secure the widest variety of respondents and to rule out the possibility of national culture or company culture that influences sell-side analyst's practices. Selected sell-side analysts were asked to select another sell-side analyst that was willing to participate in the electronic survey. The prerequisites for the selection of a new potential participant were threefold, the participant had to be employed in a different country, the participant had to be an employee of a different financial institution, and the financial institution by which the participant is employed must not have a specialized CSR background. A focus group is also considered because of efficiency considerations, but the hazards for the validity would outweigh the efficiency and logistic advantages. As Babbie (2007) stated, with the usage of a focus group there is a chance of groupthink, which implies that people in a group conform to the opinion and decisions of the most outspoken members of the group. On top of that there is the danger that the valuators do not want to share information with their competitors. To overcome the last mentioned issue the sell-side analysts were given the assurance that no information on their identity or the identity of their employers would be explicitly mentioned in the thesis, and that they would be assigned a random number which would be referred to in the thesis.

Sub-question four will be answered by a literature review of research that concentrated on the long-term effects of CSP on CFP. This research stream has a rather theoretical character and concentrates on the development of CSR strategies that are able to reap the benefits of CSP in terms of economic value for the focal firm and value for society in general, and the discovery of circumstances that hinder and foster the effectiveness of CSP.

Sub-question six which concentrates on the discrepancies of the scientific and professional environment will be answered based on the outcomes of the electronic surveys of the sell-side analysts in sub-question three and five and the literature review of sub-question four.

Sub-question seven and eight, which will answer respectively the implications of the findings for several entities and useful future directions for this field of research, will be answered based on the findings of the first six sub-questions and the general literature review on the concept of CSP and prior empirical research on CSP's effects on CFP.

2.4 Academic and practical relevance

The academic relevance of this study is mainly the revealing of the long-term effects of CSP. Contrary to former studies which mainly concentrated on the effects of CSP on the short-term. Although it will not be the actual long-term effects but the expected long-term effects by different parties, as these are the most relevant for the current value of a firm. Moreover, one is able to assume that the future effects will be more severe due to the emergence of social and environmental megaforces that were not extant at the time of earlier research. Furthermore, a thorough review and comparison is made between CSR measures of different parties. As CSR measures are of paramount interest due to their effects on the research results of empirical studies (Bouten and Roberts, 2013). A comparison between the academic view and the view of analysts responsible for the assessment of the going-concern value will be presented. And relevant future directions will be given based on the findings of the research in this unexplored field.

The practical relevance is mainly for serial entrepreneurs that want to maximize their profit when they sell their new ventures and incumbent corporations that want to maximize the value of their corporation. This study will show them whether and under which circumstances CSP can increase their going-concern value. It can also contribute to the insights of valuators about CSP for their assessment of firm value. As prior CSP literature was mainly concerned with implications for shareholders and investors, which based their decisions on more short-term effects of CSP. On the other hand, for investors and shareholders that invest their financial resources for long-term growth this research also could be relevant.

2.5 Thesis structure

This thesis will hereafter start with the review of literature about the development of the concept of CSR and the existing definitions of CSR will be presented. Then, a review about existing empirical research on the link between CSP and short-term financial performance will be presented, whereupon the meta-analyses with the largest samples sizes will be presented. After the literature review, there will be presented a theoretical framework that will explain the main theories that could contribute to this field of study. Then, the empirical results of this thesis will be presented and the eight sub-questions will be answered based on the outcomes of the empirical results. Finally, the conclusions and delimitations of this study will be presented.

2.6 Literature review

This chapter will as mentioned earlier in the chapter of the thesis structure first give an overview of the definitional evolution CSP during the second half of the 20th century. Furthermore, a closer look will be taken into the elements that are prevailing in contemporary definitions of CSP and a categorization of the most important existing CSP theories will be presented. Which will eventually end in a discussion about a potential valid definition of the concept of CSP. A sub-chapter about prior empirical research on the relationship between CSP and CFP will then be presented which contains studies that had a short-term approach towards the variable of CFP. The sub-chapter will commence with studies that used an universalistic approach towards the investigation of the relationship and then discuss studies which used a more fine-grained approach towards the investigation of the relationship of CSP and CFP.

The forming of the current theory, research and practice on CSR mostly occurred in the second half of the 20^{th} century, although it is possible to find evidence for earlier examples of the business community's concern for society that dated from earlier centuries (Carroll, 1999). Some of these examples were the factory towns during the aftermath of the industrial revolution in Britain, were factory owners provided housing and other amenities for their workers and their families whereas workers of other towns lived in piteously circumstances (Smith, 2003).

Carroll (1999) argues that Howard Bowen should be called "the father of corporate social responsibility". Bowen (1953) however did not speak of corporate social responsibility at the time, but solely social responsibility and the social responsibility of businessmen. Carroll (1999) stated that this could be perhaps because of the age of the modern corporation's prominence and dominance in the business sector had not yet occurred or been noted. Bowen's (1953) initial definition of the social responsibility of businessmen was as follows: *"It refers to the obligations of businessmen to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society".*

The 1960's merely concentrated on the definition of CSR (Carroll, 1999). An example of a definitional attempt is Davis' (1960) definition of social responsibility: Businessmen's decisions and actions taken for reasons at least partially beyond the firm's direct economic and technical interest. Furthermore, he stated that some social responsible business decisions could be justified as there could be a good chance of long-run economic gain to the firm. This view however did not become commonly accepted until the late 1970's and 1980's (Carroll, 1999). According to Garriga and Mele (2004), Davis (1960) was also the first to introduce the element of business' social power in the debate of CSR, and formulated two principles that express how to manage social power: the social power equation and the iron law of responsibility. The former principle states that social responsibilities of businessmen arise from the amount of social power they have and the latter states that firms will lose their social power if they do not use it in a way that is considered responsible by society (Davis, 1960). Another definition of social responsibility came from Frederick (1960): The economy's means of production should be employed in such a way that production and distribution should enhance total socio-economic welfare. A third contributor during this decade was McGuire (1963), which definition of social responsibility stated: The idea of social responsibilities supposes that the corporation not only has economic and legal obligations but also certain responsibilities to society which extend beyond these obligations. Carroll (1999) stresses the fact that this definition is more precise than previous ones as McGuire (1963) mentioned the extension beyond economic and legal obligations. A fourth definition of social responsibility came from Davis and Blomstrom (1966): Businessmen apply social responsibility when they consider the needs and interests of others who may be affected by the business actions. In doing so, they look beyond their firm's narrow economic and technical interests. The last significant contribution during the 1960's was Walton's (1967) elaboration on his own fundamental definition of social responsibility, where he stressed that CSR includes a degree of voluntarism and the acceptance that costs are involved for which it may not be possible to gauge any direct measurable economic returns.

Johnson (1971) contributed in the subsequent decade to the definition of CSR with four different versions. His first definition was: A socially responsible firm is one whose managerial staff balances a multiplicity of interests. Instead of striving only for larger profits for its stockholders, a responsible enterprise also takes into account employees, suppliers, dealers, local communities and the nation. The second definition stated: Social responsibility states that business carry out social programmes to add profits to their organization. The third definition was: The prime motivation of the business firm is utility maximization, the enterprise seeks multiple goals rather than only profit maximization. His last definition which he called the lexicographic view of social responsibility stated: The goals of the enterprise are ranked in order of importance and targets are assessed for each goal. And organizations want to perform at least as good as similar business enterprises in similar circumstances. Furthermore, a major debate about CSR took place in 1972 between the economics professors Henry G. Manne and Henry C. Wallich (Carroll, 1999). The former stressed the fact that every working definition of CSR should contain three elements: To qualify as socially responsible action a business expenditure or action must be one for which the marginal returns for the corporation are less than from an alternative expenditure, must be purely voluntary and must be an actual corporate expenditure (Manne and Wallich, 1972). The latter favoured however the responsibilities to stockholder interests (Carroll,1999). Davis (1973) came in the 1970's with a second definition of CSR: It is the firm's obligation to evaluate in its decision-making process the effects of its decisions on the external social system in a manner that will accomplish social benefits along with the traditional economic gains the firm seeks, it means that social responsibility begins where the law ends, a firm is not being socially responsible if it merely complies with minimum requirements of the law. Backman (1975) also contributed to the definitional evolution of CSR (Carroll, 1999). According to Backman (1975) social responsibility usually refers to the objectives or motives that should be given weight by business in addition to those dealing with economic performance. Sethi (1975) made a distinction between social obligations and social responsibility. The former concept referred to corporate behaviour in response to market forces and legal constraints, and the latter referred to bringing corporate behaviour up to a level where it is congruent with the prevailing social norms, values and expectations of social performance. In the respect of the threshold of what can be consider socially responsible Sethi (1975) set the highest demands, as he considers a corporation socially responsible as it performs congruent with society's demands. Whereas other definitions defined a firm socially responsible when it engaged in certain actions that were beneficial for society or when they produced more social output than they are required by the law.

In the 1980's Carroll (1983) defined CSR as four-part definition: CSR involves the conduct of a business so that it is economically profitable, law abiding, ethical and socially supportive. And Drucker (1984) contributed to the field of CSR by its idea that business ought to convert its social responsibilities into business opportunities, which could be considered as new (Carroll, 1999).

Eventually during the last decade of the 20th century very few unique contributions to the definition of CSR were made and more than anything the concept served as a base point for other related concepts and themes like corporate social performance, stakeholder theory, business ethics theory and corporate citizenship, which were the major themes that took centre-stage in the 1990's (Carroll, 1999).

Dahlsrud (2008) distinguished five dimensions that are used in contemporary CSR definitions: An environmental dimension, a social dimension, an economic dimension, a stakeholder dimension and a voluntariness dimension. Furthermore he stated that 97% of the definitions did contain at least three of the aforementioned five dimensions.

And Garriga and Mele (2004) hypothesized that almost all CSR theories can be classified into four different groups. The first group of CSR theories they called 'instrumental theories'. These theories see CSR as a mean to reach their end goal of wealth creation, CSR is only accepted when it is consistent with wealth creation. Their second group of theories was named 'political theories'. These theories emphasize the social power of corporations and that this social power leads corporations to accept social duties or to participate in social cooperation. The third group of CSR theories they distinguished was called 'integrative theories'. These theories looked at how business integrated social demands into their operations as these theories argue that business' existence, continuation and growth depends on society. The fourth group of existing theories they called 'ethical theories'. These theories pose that firms are ought to accept social responsibilities as an ethical obligation above any other consideration.

The abovementioned list of examples of definitions for CSR is only a fraction of the myriad of definitions and related concepts of CSR, but also shows that the elements where the definitions are composed of are predominantly congruent (Dahlsrud, 2008) and that the basic assumptions and approaches of the definitions and theories can be categorized in a small amount of groups (Garriga and Mele, 2004).

Banerjee (2008) critically analysed contemporary discourses of CSR and argued that are defined by narrow business interest, serve to curtail interests of external stakeholders and are ideological movements that are intended to legitimize and consolidate the power of large corporations. This could be perceived as an extremely negative view of CSR, on the other hand it could be a quite compelling view in terms of its incorporation of practical considerations. Which was lacking in earlier definitions and discourses of CSR. Manne's (Manne and Wallich, 1972) definition of a socially responsible action for example, which insisted that an expenditure must be less profitable than other expenditures and must be purely voluntary, did not take the corporation's attitudes and values into consideration. As a corporation highly unlikely would be compelled to allocate large amounts of its scarce resources to less profitable ends on a purely voluntary basis.

Moreover, the incorporation of an economic rationale behind CSR or as part of it should not be seen as a negative trend for society's interests, as many forget or do not recognize that the economic viability of corporations can also be beneficial for society (Carroll, 1999). Vice versa, actions that are beneficial for society are also beneficial for a corporation's existence, continuity and growth as is posed by integrative CSR theories (Garriga and Mele, 2004). The voluntary dimension in the CSR is however problematic to conduct in practice, because a purely voluntary decision is impossible to distinguish from a decision made in response to social norms (Carroll, 1999). Therefore, it would be rational to only take the environmental, social, stakeholder and economic dimension into consideration in the construction of a CSR theory or definition. Furthermore, an instrumental approach towards CSR would be most beneficial for the fulfilment of the interests of both corporations and its external stakeholders and the extent to which it would be compelling for private corporations to engage in corporate responsible behaviour. The definition of Sethi (1975) of CSR could be useful as a fundament for a comprehensive theory. This implies that the corporate behaviour is attempted to be brought to a level which is congruent with prevailing social norms, values and expectations of performance on economic, social, environmental and stakeholder dimensions, and that the whole configuration of business actions is constructed in such a way that the long-term value of the firm is maximized.

2.6.1 Link between CSP and short-term financial performance

The empirical evidence for the financial effects of CSP is mainly consisted of research concentrating on the cross-sectional correlation that exists between the two variables and research that investigated the short-term effects of the CSP of a firm in a certain year. A review will hereby be presented of research that concentrated on the short-term effects of CSP that will concentrate on the results and the research methods that were used.

The first example is of Bragdon and Marlin (1972) which asked themselves whether corporate executives had to choose between profits and pollution reduction. This research concentrated on only one industry, which was the paper and pulp industry, and also concentrated on only one aspect of CSR, which was the amount water and air pollution that was generated by a certain company in the paper and pulp industry. The empirical results showed that there existed a significant positive correlation between pollution control and the growth of the earnings per share and the return on equity between 1965 and 1970. This implied that the at the time extant conception that pollution reduction would in any case lead to lower profits could be refuted. The causes for the higher profitability of less polluting firms were also discussed. Bragdon and Marlin (1972) argued that there were six main causes within the paper and pulp industry that caused the higher profits of less polluting firms: Lower costs of raw material inputs per unit due to recycling of materials. Lower labour costs due to improved employee morale, health, turnover and health insurance costs. Lower taxes and legal costs due to less governmental fines and lawsuits from local communities. Lower costs for equipment and maintenance, due to the incorporation of pollution control equipment during the construction of the plant which is much cheaper than installing it afterwards is response to new governmental regulations, and the usage of less polluting materials that have a corrosive effect on equipment could reduce maintenance costs. Lower financing costs, due to investors perception of lowered risk due to the usage of pollution control. And higher revenues from selling by-products that were formerly were regarded as waste. In terms of the used methodology and the scope of the units of analysis this research could be a good example for subsequent research. Because, the construct validity could be considered high as the environmental performance of the firms was measured by their actual water and air pollution and not the amount they disclosed. Furthermore, one specific industry was analysed which could be beneficial for pinpointing the causes of the differences in profitability between the analysed firms and the chance that one could capture the effects of CSP empirically.

An example of a research that is illustrative for subsequent research is from Abbott and Monsen (1979). Whereby not the actual performance of corporation's CSR is measured but what they publicly disclose, without any verification of the disclosed data. Contrary to the aforementioned research in this case the Fortune 500 companies were analysed and not corporations that operated in the same industry. Eventually there was not found any correlation between the amount of CSR disclosure and the returns to investors. What could be seen as a similarity is the fact that these two researches reached the same conclusions, as they both concluded that CSP does not appear to be detrimental to stockholders. Contrary to the aforementioned research, most early research on environmental performance and financial performance on the short-term did find empirical evidence for a positive relationship between the two variables.

Hart and Ahuja (1996) also found a positive relationship between emission reduction and ROS, ROA and ROE in the subsequent years, but also that the effect was greater for the environmentally worst performing firms. The cause for this finding could be the fact that there was still much "low hanging fruit" to be captured by corporations at the time and that this effect could diminish once the industry average environmental performance would be drastically lower (Hart and Ahuja, 1996). Furthermore, Hart and Ahuja (1996) argued that their hunch was that a virtuous cycle exists between pollution prevention and financial performance. As they did not investigate the reversed causality between the two variables. Like the research of Abbott and Monsen (1979) the research of Hart and Ahuja (1996) did an analysis of multiple industries, but contrary the former research they did find empirical evidence. This could be caused by the construct validity of the proxy that was used to measure the independent variable, as publicly self-disclosed information of the analysed corporations' annual reports was used by Abbott and Monsen (1979) without verification, which furthermore only measured the number of different social activities the firms claimed to be involved in and not how and to which extent.

The aforementioned presumptions of Hart and Ahuja (1996) of the existence of reversed causality between CSP and financial performance appeared to be legitimate, as Waddock and Graves (1997) did find empirical evidence for a relationship between the two variables and that the effect of financial performance on CSP is even greater than vice versa using a one year time lag. The research of Waddock and Graves (1997) was also among the first that used KLD data (which is currently owned by MSCI Inc.) for their measurement of CSP, which would develop into the standard in CSP measurement is subsequent scientific research.

Preston and O'Bannon (1997) did reach similar conclusion like the aforementioned research. They constructed and empirically tested six different hypotheses: First, high CSP leads to high CFP. Second, high CSP leads to low CFP. Third, high CFP leads to high CSP. Fourth, high CFP leads to low CSP. Fifth, there is positive synergy between CFP and CSP. Sixth, there is negative synergy between CFP and CSP. There was no empirical evidence found for the support of the second, fourth and sixth hypothesis and all other three hypotheses were accepted. The strongest empirical support was for the third hypothesis, which implied that high CFP would lead to high CSP contemporaneously and after one year.

The aforementioned researches have all in common that they were conducted in a North-American context, as the firms from the Fortune 500 or the S&P 500 were used for as units of observation. Balabanis et al. (1998) however did conduct their research in a British context and found that economic performance is linked to CSR performance and CSR disclosure, but the relationships were weak and lacked overall consistency. A potential cause for this is the used measure for the construct of CSR performance of the firms, which was the CSR rating from the New Consumer Group and was formerly used by Adams et al. (1991). On the other hand, a possibly plausible cause could be a discrepancy between the British and US corporate culture values which could entail a different view on CSR. The former culture could interpret CSR similar to Manne's view (Manne and Wallich, 1972) which implies that the marginal returns due to CSR must be lower than the marginal returns from alternative actions and expenditures. Whereas the latter culture could interpret CSR similar to Johnson's (1971) second view of CSR which stressed that businesses carry out social programmes to add profits to their organization.

Dowell et al. (2000) questioned whether environmental performance had a detrimental influence on firm value. They eventually found that firms that had the most stringent environmental standards had significantly higher market values than firms with the lowest environmental standards. The market values of the firms were measured by Tobin's *q* and the firms from the S&P 500 were used as units of observation. These results show evidence for the fact that in the last decades of the twentieth century large US based corporations were able to simultaneously pursue high performance on the environmental dimension of CSR and financial performance.

Hillman and Keim (2001) were not convinced by the empirical evidence of the relationship between CSP and financial performance, and therefore they attempted to discover in which circumstances CSP can be beneficial for shareholder value and in which circumstances it is detrimental to shareholder value. The units of observation were similar to the vast majority of former empirical research US based corporations from the S&P 500. Hillman and Keim (2001) made within the concept of CSP a distinction between CSR activities that are related to the relationship between the corporation and its primary stakeholders and CSR activities that are not related to this relationship. CSR strategies containing the former activities are referred to as stakeholder management and CSR strategies containing the latter activities are referred to as social issues management. Shareholder value creation was used as the dependant variable and measured by the market value-added, and the independent variables of stakeholder management and social issues participation were measured by items of the KLD index. The results of the research showed a positive significant relationship between stakeholder management and contemporaneous MVA and a MVA increase in the subsequent year of measurement of the variable of stakeholder management. The opposite significant relationships were found for social issues participation and MVA. As both dimensions, which have opposing effects on financial performance, are incorporated in the construct of CSP a possibly partial explanation of the ambiguous empirical results of prior research (Hillman and Keim, 2001). This research exemplifies the stream of research that attempted to get a more fine-grained insight into the relationship between CSP and financial performance, and in this specific case the researchers had a contingency approach for the explanation of the relationship. Contrary to the more universalistic approach that was used in prior empirical research.

Another research where the universalistic approach towards the relationship between CSP and financial performance is abandoned is the research of Luo and Bhattacharya (2006). One could even state that this research was the first to embrace a configurational approach towards the relationship between CSP and financial performance. The research setting was in line with prior empirical research US based as firms from the Fortune 500 were used as units of observation. The dependant variable of CFP was measured by two different constructs, namely Tobin’s Q and stock return. The independent variable of CSP was measured by the CSP rating from the Fortune America’s Most Admired Corporations survey, which was based on the opinions of financial analysts, senior executives and investors. One could propose an argument against the usage of perceptions of analysts, investors and executives as measure of CSP as is does not measure the actual CSP. But on the other hand, one could refute the aforementioned argument because analysts’ and investors’ actions that influence the market value of a firm are based on their perceptions of CSP and not actual CSP. Based on the empirical results of their research Luo and Bhattacharya (2006) stated that CSP affects market value partially through the mediator of customer satisfaction, a combination of CSP and high product quality amplifies the positive effects of CSP on firm value, and for firms with a low innovativeness capability CSP can lower the customer satisfaction and ultimately the firm value.

Lev et al. (2010), similar to Luo and Bhattacharya (2006), did not use an universalistic approach towards the explanations of the relationship between CSP and financial performance. They attempted to discover under which circumstances and through which mechanisms CSP could be beneficial for financial performance. The eventual results of their research were in line with the prior research of Luo and Bhattacharya (2006) on the role of customer satisfaction in the relationship between CSP and financial performance. There were also discrepancies between the two aforementioned researches in the usage of independent and dependant variables, as Lev et al. (2010) did only investigate the relationship between charitable contributions of corporations and revenues growth. The authors found that charitable giving was most effective in enhancing revenue growth in the consumer sectors.

Barnett and Salomon (2012) continued the contingent approach of the relationship between CSP and CFP. The authors used like many previous researchers the KLD ratings as measure for CSP and the dependant variable of financial performance was measured by ROA and net income. Barnett and Salomon (2012) eventually found an asymmetrical U-shaped relationship between CSP and CFP, having a higher CSP is first detrimental to ROA and net income but after a certain CSP score the ROA and net income of a firm increases and becomes higher than the ROA and net income of the firms with the lowest CSP, which can be seen graphically on here below in figure 1 and 2.

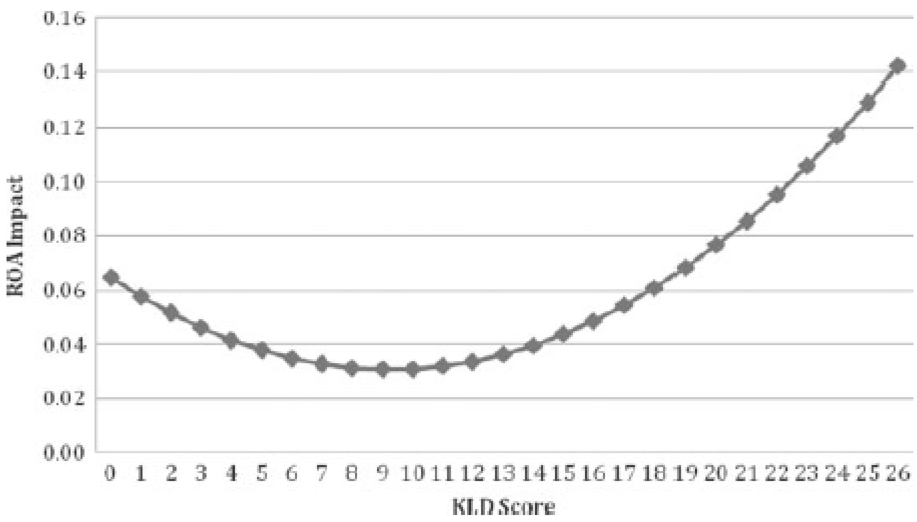


Figure 1: Relationship between KLD score and ROA (Barnett and Salomon, 2012)

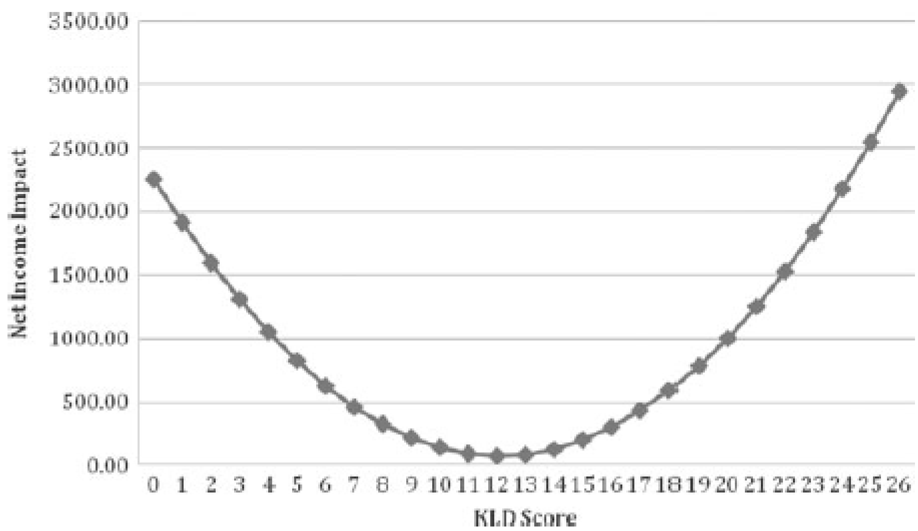


Figure 2: Relationship between KLD score and net income (Barnett and Salomon, 2012)

Aguilera-Caracuel and Ortiz-de-Mandojana (2013) also attempted to discover the contingencies of the CSP and CFP relationship, but focused their scope to the environmental dimension of CSP. Certain findings of them are useful to highlight, for example the development of the ROA of green innovative firms and non-green innovative firms. Where the ROA of green innovative firms at all times remains higher than the ROA of non-green innovative firms but the absolute and relative effects of the alterations are also greater, as can be seen in figure 3. Furthermore, Aguilera-Caracuel and Ortiz-de-Mandojana (2013) show the effect of environmental regulations on the relationship between green innovation intensity in in innovative firms and financial performance, see figure 4 for a graphical representation. If there are stringent regulations extant the financial performance of firms is at all times higher than in the situation without stringent environmental regulations. But the effect of stringent environmental regulations also affects the relationship between the green innovation intensity and financial performance. It appears that difference in financial performance is much smaller between firms with low levels of green innovation and firms with high levels of green innovation if the level of the stringency of environmental regulations high. This would imply that governments attempts to improve the environmental performance of their firms could cause the opposite effect. As the financial incentive for corporations to develop green innovations decreases.

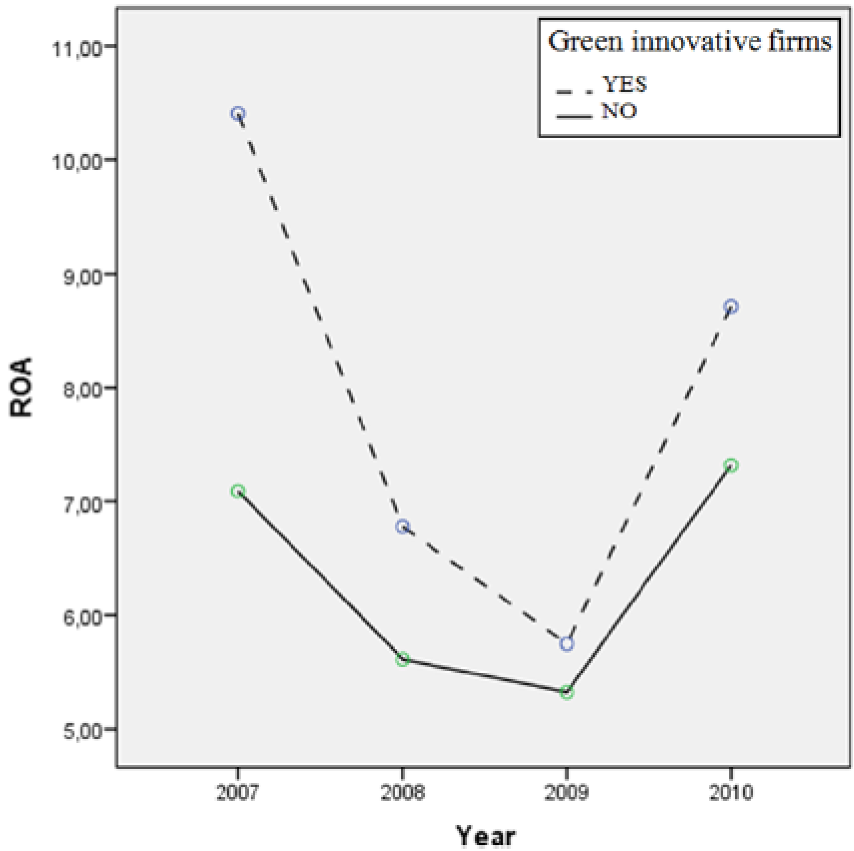


Figure 3: Financial performance change over time for green innovative firms and non–green innovative firms (Aguilera-Caracuel and Ortiz-de-Mandojana, 2013)

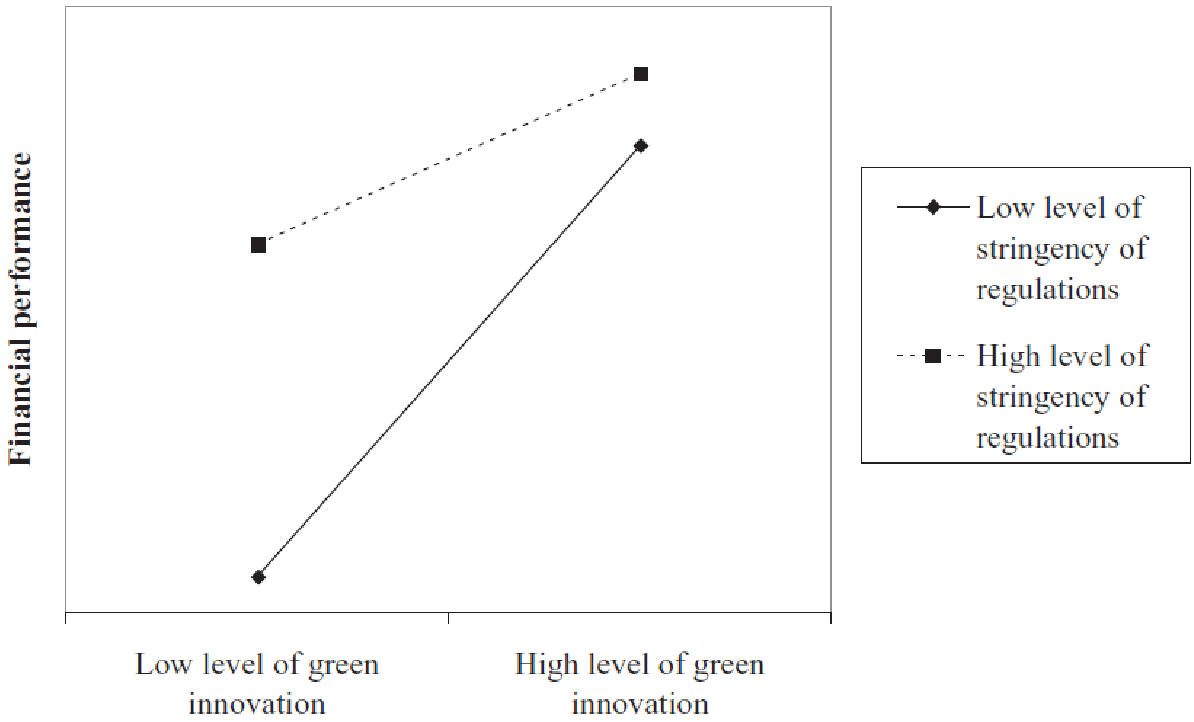


Figure 4: The moderating effect of the stringency of environmental regulations on the relationship between green innovation intensity in innovative firms and financial performance (Aguilera-Caracuel and Ortiz-de-Mandojana, 2013)

Curran and Moran (2007) were among the first that investigated the link between CSP and financial performance with the usage of a stock market index that only contained firms with high CSP. What was precisely investigated were the effects of the inclusion or deletion from the FTSE4Good index on the share price of a firm in the subsequent days. They did not find any significant empirical evidence for positive or negative effects of the inclusion or deletion from the index on the share price of a firm. Curran and Moran (2007) themselves did criticize their own measure of CSP, which was the FTSE4Good UK index, because it was not seen as a useful proxy for measuring CSP. As the deletion from the index or the inclusion in the index was not solely made based on alterations of the CSP of the firms, but also due to the changes in the market capitalizations of the firms. However, Curran and Moran (2007) stated that despite the lack of an immediate reward in the form of rising share prices due to the inclusion in an index like the FTSE4Good index, it is important for firms to be included for the long-term effects because they gain reputational benefit.

Becchetti et al. (2012) conducted a similar research like Curran and Moran (2007), but did overcome the issues with the construct measuring the independent variable. The former authors did use the inclusions and exclusion from the Domini 400 Social Index for the measurement of CSP and eliminated events from the investigated sample that were caused by mergers, acquisitions and changes of names. Events where alterations of CSP were causing inclusion or exclusion from the index were only used in the investigated sample. Furthermore, Becchetti et al. (2012) did found significant empirical evidence for the deleterious effects of exiting a social index. As the exiting of the Domini 400 Social Index is detrimental for the abnormal returns of a firm.

As mentioned earlier, a large majority of the empirical research on the link between CSP and financial performance is conducted in a US based or UK based context, one of the exceptions on this rule is the research of Rajput et al. (2012), which was conducted in a non-western context. Rajput et al. (2012) investigated the link between CSP and financial performance among the 500 largest Indian corporations. The existence of a causal relationship in both directions was investigated. Financial performance was measured by profits and by sales, which resulted in four hypotheses: No significant relationship between CSR and profits the subsequent year, no significant relationship between profits and CSR in the subsequent year, no significant relationship between CSR and sales revenue in the subsequent year and no significant relationship between sales revenue and CSR in the subsequent year. All four hypotheses were rejected because there was found in all four cases a significant relationship. Rajput et al. (2012) found hereby empirical evidence for a bidirectional positive and significant relationship between CSR and profits in the subsequent year and a bidirectional positive and significant relationship between CSR and revenues in the subsequent year within an Indian context.

Around the start of the 21st century a stream of research emerged that conducted meta-analyses of existing empirical quantitative research on the relationship between CSP and CFP. One example of this stream of research is Orlitzky et al. (2003), which conducted a meta-analysis of a sample of 52 studies. The results of the study showed that CSP and CFP are positively correlated across a wide variety of industry and study contexts, and the existence of a bidirectional relationship. Furthermore, Orlitkzky et al. (2003) found that under certain circumstances the effects between the relationship between CSP and CFP are stronger. Their results show that with the omitting of the environmental dimension of CSP the correlation with CFP is stronger, accounting measures of CFP correlate stronger with CSP than market-based measures of CFP, and CSP reputation indices are more highly correlated with CFP than other indicators of CSP.

Allouche and Laroche (2005) also conducted a meta-analysis on the relationship between CSP and CFP and did find similar results as Orlitzky et al. (2003) in terms of the positive relationship between CSP and CFP, and high correlations between CSP reputation indices and accounting measures of CFP. But there exist also discrepancies between the two researches, as Allouche and Laroche (2005) found that accounting based measures of CSP correlate less with CFP than market-based measures of CSP. Moreover, they found that studies that consider CFP as determinant of CSP find a greater positive relationship which is in line with the prior research of Preston and O'Bannon (1997).

Margolis et al. (2007) were among the most recent and last to conduct a meta-analysis of the relationship between CSP and CFP and concluded that it would be more beneficial to explore other areas of these concepts and stop with research that attempts to find an universalistic explanation of the relationship between CSP and CFP, which is in line with the prior meta-analytical research of Allouche and Laroche (2005). An elaboration on this topic will follow in a later section of this thesis. Their findings were in line the two aforementioned meta-analyses in terms of the overall nature of the relationship between CSP and CFP, which they found to be positive, but the average absolute effect of the relationship among all studies was small with r=.132. Moreover, they found that 58% of the investigated studies' effects are a non-significant relationship, 27% a positive relationship and only 2% a negative relationship between CSP and CFP. Furthermore, their meta-analysis showed that the different dimensions of CSP bear different relationships to CFP. Compared to the overall effect size, Margolis et al. (2007) found that the association is stronger for charitable contributions, revealed misdeeds, self-reported CSP, and observer perceptions. And that it is weaker for corporate policy, transparency, third-party audits and screened mutual funds.

2.7 Theoretical framework

The theoretical framework concentrates on theories and models that incorporate dimensions of CSP into the value-creation processes of firms and thereby sustain or improve the future value-creation potential and ultimately financial performance. All the theories approach the aforementioned processes from a different perspective in a rather complementary way, and a de facto contradiction of the theories is not extant. These theories will be mainly used for answering the fourth sub-question which is about the scientists' expectations of CSP on long-term CFP. One model, the balanced scorecard of Kaplan and Norton (1996) will be used as one of the means that could contribute to future directions within this field of study, which will be answered by the eighth and last sub-question of this thesis.

The first theory is that will be used is the enlightened stakeholder theory of Jensen (2001), which he also called enlightened value maximization. His theory mainly concentrates on the objective of firms and coping with external stakeholder's interests which are conflicting. Enlightened stakeholder theory prescribes one single corporate objective which is long-term value maximization, but also recognizes that firms that does not use stakeholder theory will ultimately fail. But as it is impossible to satisfy opposing needs and interest of stakeholders firms have to make trade-offs between stakeholder's interest. And these requisite trade-offs are made with the help of the criterion of long-term firm value. Jensen (2001) however did acknowledge that his theory is only tells how to assess success in achieving a certain vision and strategy, which is by measuring the long-term value of a firm, and does not prescribe how to create a successful vision or strategy.

Husted and Salazar (2006) however did propose three different strategies to cope with CSR and argued what the consequences would be for the costs and benefits that would arise from the three distinct CSR strategies, and eventually what the profits would be due to engaging in CSR activities. First they propose the case of altruism, where a firm's goal is to reach at least a social output that is desired by society and its goal is not the maximization of profits due to social output.

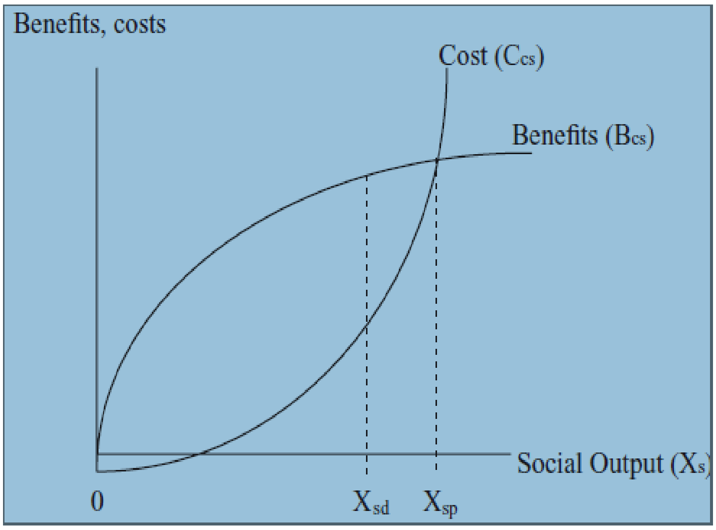


Figure 5: The graphical representation of the altruistic case (Husted and Salazar, 2006)

Figure 5 shows graphically that an altruistic firm will attempt to reach at least the social output at point Xsd, which is the social output that is minimally desired by society. The two lines represent cost and benefit curves that are measured against a certain point of social output. An altruistic firm will always go beyond the point where social profits are maximized, which is where the difference between the social cost and benefit curve is the greatest. This point is somewhere left of point Xsd in figure 5.

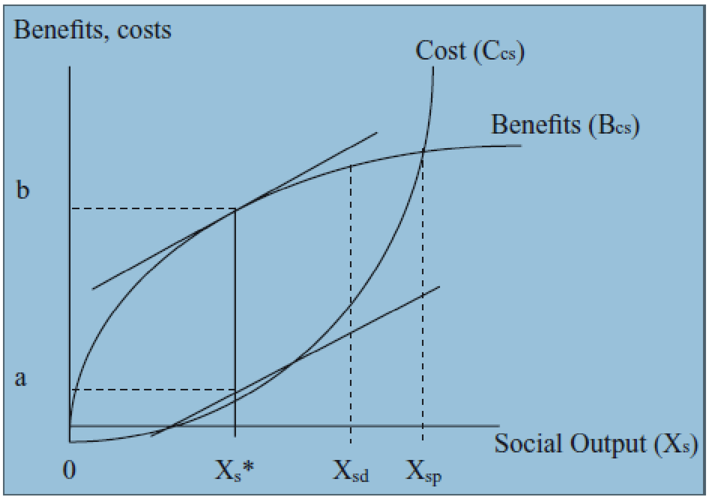


Figure 6: The graphical representation of the coerced egoist case (Husted and Salazar, 2006)

The second case is the coerced egoist, where a firm attempts to maximize its returns on social investments, which can be seen graphically in figure 6.As one can see in figure 6 the cost and benefit curves of the coerced egoist case are identical to the ones in the altruistic case. What differs from the latter case however is the point where a firm stops with producing additional social output, which is in this case point Xs. Because at this point the profits that arise from social investments are maximized. In practice firm's social investments are just sufficient to prevent to be penalized by governmental actions.

The third and last case of CSR coping strategies is the strategic case. With the strategic case the firm incorporates corporate social responsibility into its strategy. The strategic case shows that benefit curve is higher and the cost curve is lower at the same social output point compared to the other two cases, which can be seen graphically in figure 7. Furthermore, the point where the social profit is maximized is at a point that has a greater social output than the coerced egoist case. And the social profit is greater. Therefore, it is financially and socially more beneficial to follow the strategic case instead of the coerced egoist case. But pure socially it is better to follow the altruist case, although the authors predict that on a aggregated level the strategic case will lead to a greater social output. Because in the strategic case incentives will be aligned so that the firm will be motivated to improve its social performance and increase its social output. And evidence shows that managers really do respond positively to these incentives.

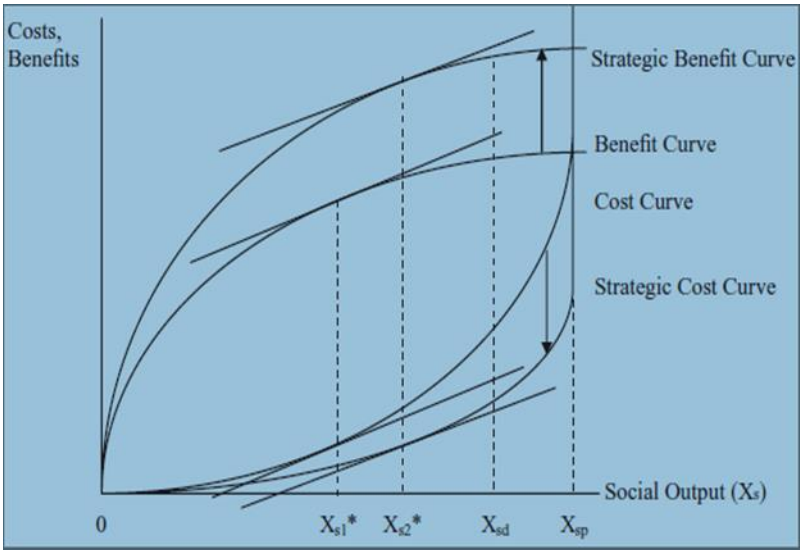


Figure 7: The graphical representation of the strategic case and the comparison with the altruistic case and the coerced egoist case (Husted and Salazar, 2006)

What the two aforementioned theoretical contributions in the field of CSP and long-term CFP have in common is that they do not provide any practical instruments that can be used by managers to simultaneously pursue CSP and CFP or to use CSP for improving long-term CFP. Therefore the contributions of Porter and Kramer (2002; 2006; 2011) are very useful for this field of study.

Porter and Kramer (2002) first concentrated on the link between corporate philanthropy and the competitive context of a firm. The authors rationale for investigating this link was the fact that most of the corporate philanthropic contributions did not generate value for society nor for the firm itself, as most the charitable contributions tended to be diffuse and unfocused. Therefore they proposed that firms should analyse the elements of its competitive context and identify the areas of overlap between social and economic value that will most enhance its own and its cluster's competitiveness. The framework of the four elements of the competitive context can be seen in appendix 11. The four elements of the competitive context that should be improved in order to create value for society and the competitiveness of a firm are the context for strategy and rivalry, demand conditions, factor conditions, and related and supporting industries. The context for strategy and rivalry refers to the attractiveness for a firm to do business on a certain location. One should think hereby of the existence of laws preventing monopolies and cartels, the existence of incentives for investments, the height of the entry barriers for new entrants, the protection of intellectual property, and the amount of corruption among entities in the public sector. Demand conditions refer to size of a local market, the appropriateness of product standards, and the sophistication of local customers. Factor conditions refer to the availability of inputs that are vital for the value creation process of a firm. Examples are human resources, scientific and technological infrastructure, and natural resources. And related and supporting industries refer to presence of local firms in related fields.

Porter and Kramer (2006) elaborated on the issue of shared value creation for society and business by providing new tools for the identification and prioritization of social issues and the creation of a strategy for corporate involvement in society. They presented two frameworks for the identification of social issues that are fruitful to address in terms of social and business value. The first framework addresses the inside-out linkages that a firm has, which are the social and environmental impacts that arise from a firm’s activities. Appendix 10 shows the value chain with examples of the inside-out linkages. The second framework addresses the outside-in linkages of a firm, which can be seen as the influence of the competitive context on a firm. This latter framework is identical to the framework used in by Porter and Kramer (2002), and remains the pivotal source of social issues that can be addressed in order to create shared value. After the identification of the social issues from the two aforementioned frameworks one has to prioritize the social issues, which is done by Porter and Kramer (2006) by categorizing the social issues into three distinct categories, which can be seen in figure 8:

Figure 8: Categories of social issues based on their influence on competitiveness and society (Porter and Kramer, 2006)

Generic social issues are the least significant for a firm, as they do not affect the competitiveness of a firm nor are these issues affected by a firm’s value chain. Whereas value chain social impacts are social issues that are affected by a firm’s activities. However, the most important social issues to address are the ones that affect the underlying drivers of the competitiveness a firm. Furthermore, Porter and Kramer (2006) introduce two strategies for involvement in society, which can be seen in figure 9:

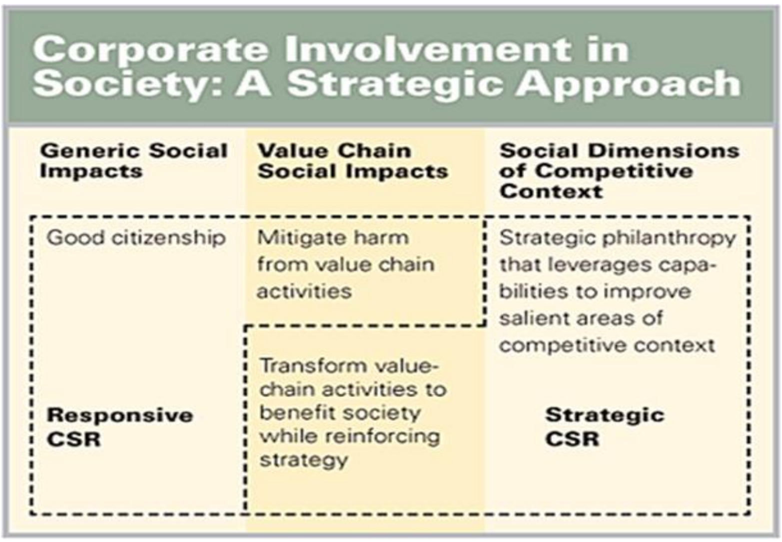


Figure 9: Elements of responsive CSR and strategic CSR (Porter and Kramer, 2006)

The first one is called responsive CSR and comprises good citizenship and the mitigation of harm from value chain activities. They stress that although these two activities are needed to be executed to avoid negative consequences, they will result at best in a temporary competitive advantage. The second one is called strategic CSR and addresses social issues that arise from the value chain activities of a firm and social issues from the competitive context that affect the long-term competitiveness of a firm. But contrary to the activities of responsive CSR, a firm attempts with strategic CSR to reinforce its strategy and improve its long-term competitiveness by addressing social issues that arise from the value chain and social issues that affect the underlying drivers of a firm's competiveness, which should result in more value for society and the firm itself.

Porter and Kramer (2011) advanced their concept of shared value again, and presented a definition: Policies and operating practices that enhance the competitiveness of a firm while simultaneously advancing the economic and social conditions in the communities in which it operates. Moreover, they stress the fact that value is defined as benefits relative to costs. Porter and Kramer (2011) show three distinct methods that can create shared value. First, by reconceiving products and markets. Second, by redefining productivity in the value chain. And third, by enabling local cluster development. The most interesting proposition of Porter and Kramer (2011) however is the decoupling of the concept of shared value from CSR, and stating that shared value creation should supersede CSR. They are basically making a distinction between common contemporary CSR practices, that in their view solely are beneficial for short-term reputational gains but do not provide any benefits for the long-term competitiveness and profitability, and their own CSR tool that does not want to maximize the social benefits but economic and societal benefits relative to their costs.

The last model that will be used is the balance scorecard of Kaplan and Norton (1996). Its development emerged from the lack of measures of the drivers of future performance. The authors stated that the balanced scorecard complements financial measures of past performance with measures of the drivers of future performance. The balanced scorecard contains four perspectives: the financial perspective, the customer perspective, the internal business process perspective, and the learning and growth perspective. The measures from the four perspectives are linked to each other through cause and effect relationships. These linkages are unique for each firm and based on their strategy. The linked measures ultimate goal is future financial performance.

Perspective	**Generic measures**
Financial	Return on investment and economic value added
Customer	Satisfaction, retention, acquisition, profitability and market share
Internal	Quality, response time, cost, new product introductions
Learning and growth	Employee satisfaction and information system ability

Figure 10: The four perspective of the balanced scorecard and examples of generic measures of the perspectives (Kaplan and Norton, 1996)

3. Empirical results and answering of sub-questions

3.1 Which measures are used by private firms and disclosed about CSP?

By knowing whether firms measure and disclose information about CSP one gains insights in two different areas. First of all, one gets insights in whether corporations assume that engaging in socially and environmentally responsible acts leads to improved firm value. This believe could be in perceived CSP that leads to a higher value or in actual performance.

This brings us to the second point, and that is the real rationale behind engaging in CSP. This could be only economic considerations or making improvements for society in general. The former case is then expected to be achieved by having a high perceived CSP and the latter by having real performance on the point of CSP. Although this could be vice versa.

Coming back to the first point, which is whether or not firms are convinced that CSP leads to improved firm value, it is also important to know the influence of a firm's disclosures of CSP on reputation. Because firms' rationale behind disclosure could be the result of their believes that CSP could have positive effects for their value creation process. But it could also be seen as a useful tool for managing firm reputation, whilst neglecting social and environmental issues. Moreover, the influence of measures of other entities like NGOs and rating agencies has to be considered too in order to see which entities are determining what good CSP is in the eyes of the relevant stakeholders. Measures of other entities and their influence on reputation will be discussed at the next sub-question and after answering sub-question two, one can reach conclusions on the point of the effects of the different data sources of CSP on reputation.

The answering of this first sub-question will be as follows. First, the disclosing of CSP information on websites and in annual reports is discussed. This will be done with the help of secondary sources: the article of Smith and Alexander (2013) which describes the use of CSR related headings that are used among Fortune 500 companies, and the KPMG Survey of Corporate Responsibility Reporting 2013. Which will take a more closer look at the websites and annual reports on CSR disclosures of firms.

Secondly, the effect of disclosure on perceived CSP will be discussed. This will be done with the help of secondary sources: the article of Cho et al. (2013) describes which disclosure method is the most effective for trust in the CSP of a firm, the article of Cho et al. (2012) describes the relationship between environmental disclosure and its effects on perceived reputation and inclusion in the DJSI, and the relationship between actual performance and perceived reputation and inclusion in the DJSI.

3.1.1 CSR usage of Fortune 500 on companies' websites

According to Smith and Alexander (2013) 98% of all the Fortune 500 companies use CSR related headings on their websites. Thus, nearly all companies do inform the public through their websites about CSR related issues, which implies that they value the public's perceptions on their CSR strategies. The disclosure of CSR information by a large majority of the world's largest firms is not a phenomenal of the last years. In 1998 already 82% of the firms from the Fortune 500 made reference to a CSR issue on their website (Esrock and

Leichty, 1998). Looking closer at the terms that are used in the headings, community (83%) and environment (80%) are the most frequently used terms, the former term explicitly relates to people and the latter term relates explicitly to the planet (Smith and Alexander, 2013). The most frequently used terms in the headings of the Fortune 500 companies' websites are very broad and general terms. Most firms disclose information on how they cope with people and the planet on their websites. But most of them fail to disclose information about more explicit subjects.

The only two specific terms that used by a majority of the firms are diversity and health & wellness.

These results show almost all large corporations do cope with CSR, but questions arise about the quality and the extent of the coping with CSR on a strategic level.

The following section of this thesis will therefore discuss to which extent CSR reporting is done with the sole purpose of improving the reputation and image of firms among critics, or if it is to show shareholders and other stakeholders how it is a genuine part in the value creation process in the present and in the future and how it positively affects the planet and people.

3.1.2 CSR reporting of G250 and N100 companies

The previous section discussed the CSR disclosure on websites, whereas this section will discuss the CSR disclosure in reports. These reports can be categorized in three distinct categories. Firstly, CSR reports that are integrated in a firm's annual report, which is referred as integrated reporting or IR. Secondly, there are CSR reports that are part of the annual report but as a distinct chapter and not are not disseminated throughout the whole annual report. Thirdly, there are stand-alone reports that are published independent from annual reports.

The discussion of contemporary CSR reporting will be done with data retrieved from the KPMG survey of corporate responsibility reporting 2013, which is the most recent and most exhaustive source of CSR disclosure behaviour by the world's largest corporations. One could propose an argument about the biasedness of the provider, as KPMG International also provides consultancy services on corporate responsibility reporting and assurance. And therefore they could construct the survey in a way that would induce readers to start making use of these services, which is beneficial for the provider. However, this argument can be refuted as not the opinions of the provider of the source will be used to answer this sub-question, but merely the numerical facts that are given. Furthermore, it is very important for the provider to disclose facts that are valid for their reputation as a reliable assurance provider. And lastly, earlier scientific research also used this data source for their research and can therefore be seen a reliable data source. See for example: Nielsen and Nørgaard (2009).

In the sub-title the terms G250 and N100 are mentioned. The former term refers to the 250 largest corporations from the Fortune Global 500, and the latter term refers to the 100 largest corporations in 41 different countries. For a complete overview of all the countries that were investigated see appendix 1.

As mentioned earlier, almost all large corporations use CSR-related headings on their websites. But, as one analyses the N100 firm's annual reports the percentage of firms that incorporates CSR information is significantly lower with 51%, although this number has increased dramatically in recent years from only 8% in 2008 (KPMG International, 2013). Which is contrary to the usage of CSR information on websites which was also in recent years very common among large corporations. This discrepancy in CSR reporting on websites and in annual reports in recent years is paramount as it can implicitly show the corporation's perceptions on disclosing CSR information. The disclosing of CSR information in annual reports was lagging behind the disclosing of CSR information on websites, which could imply that firms perceived CSR only as a means of reputation and image building among consumers and other stakeholders. But meantime, this perception could have shifted, and firms are trying to show important stakeholders like investors and valuators in which way CSR affects their value creation process in their annual reports. As they try to link CSR activities to the drivers of their value creation process, and they are showing in which way their strategy copes with risks and opportunities that are induced by social and environmental forces. At face value one could therefore conclude that there is a current tendency of firms to perceive CSR as a means to affect their competitiveness positively. However, it is risky to conclude this based on face value. Therefore a closer look is taken at the quality of the CSR reporting of large corporations, namely the G250, to pinpoint to which extent they score on the quality of the disclosed information on different aspects. After this one can make a more confident judgement whether firms are using CSR at the heart of their value creation process or that the current disclosing behaviour is an extended form of window-dressing. This will be done by assessing publicly available CSR information on seven different criteria that are retrieved from the KPMG Survey of Corporate Responsibility Reporting 2013 (KPMG International, 2013):

1. Strategy, risk and opportunity	The quality of the assessment of CR risks and opportunities that face a firm and the actions the firm is taking in response.
2. Materiality	The identification of the CR issues that have the greatest potential impact on the firm and its stakeholders. Furthermore it includes the process for assessing the materiality: the involvement of stakeholders and the usage of the materiality process to inform the reporting and management of CR risks and opportunities.
3. Targets and indicators	Usage of targets and key performance indicators. And reporting about the progress and performance of the set targets and objectives.
4. Suppliers and the value chain	Reporting about the company's supply chain social and environmental impacts and the downstream impacts of the products and services. And reporting on how the company is managing these impacts.
5. Stakeholder engagement	The identification of stakeholders, the process of engaging with stakeholders, actions that are taken in response to stakeholders' feedback
6. Governance of CR	Reporting on how CR is governed in a company, who is responsible for CR performance and how CR performance is linked to remuneration.
7. Transparency and balance	Balance of the report on challenges & setbacks and achievements.

3.1.2.1 Strategy, risk and opportunities

To assess firm's quality of CSR reporting on this first point three different phases can be distinguished:

The first phase is the identification of environmental and social megaforces that affect the business and finding out how these megaforces affect the business. The second phase contains the understanding and quantification of the risks and opportunities that arise due to the identified megaforces that affect the business. And the last phase is having a clear strategy to minimize the aforementioned risks and exploit the opportunities, and includes a clear explanation of the actions the firm is taking. A discussion about megaforces will be presented in a later section in this thesis.

Taking a closer look at the CSR reports of the G250 one can see that these corporation in 87% of the cases identify some megaforces, but looking at the individual scores of the identified megaforces there is a very inconsistent view among firms and almost none of the firms are able to identify a large amount of the existing megaforces that affect the business.

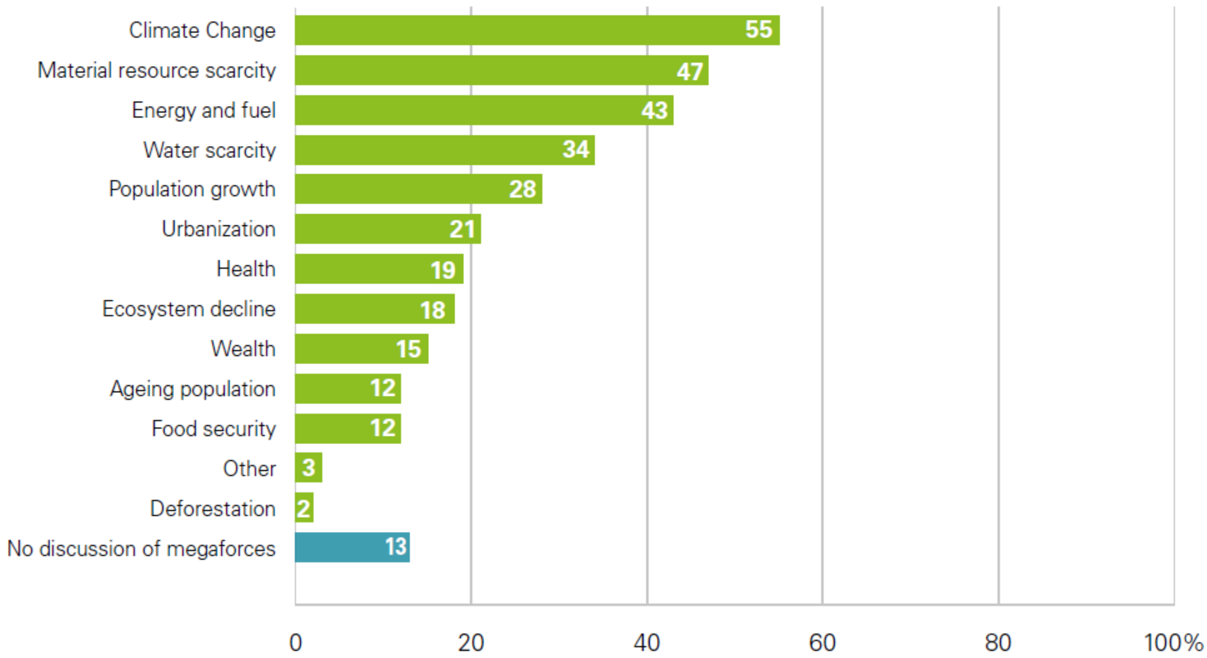


Figure 1: Identified megaforces among G250 (KPMG International, 2013)

The same story applies more or less to the identification of risks that are caused by the megaforces that affect the business. In 81% of the firms identify at least some sort of risk, but the perceptions' on this point are inconsistent across firms. And there is no specific risk that is acknowledged by a large majority of the firms.

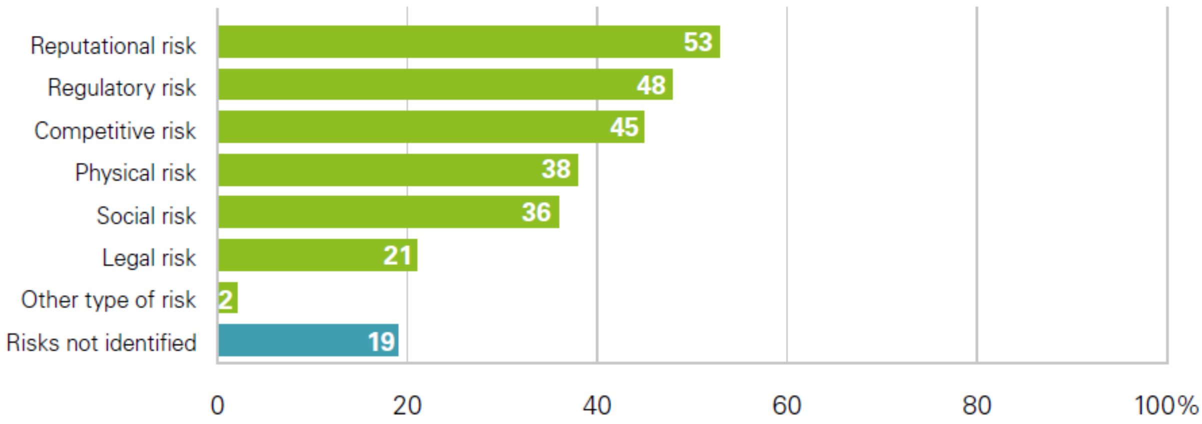


Figure 2: Identified risks as a result of megaforces among G250 (KPMG International, 2013)

When analysing the identification of opportunities among the G250 one can discover a similar pattern. From all the firms 87% identifies opportunities as a result from megaforces. But, the firms all have different views about the possible opportunities as there are no very high scores for the individual opportunities. However, an exception on the rule is the opportunity of innovation and learning, nearly three quarters (72%) of the firms state that due to megaforces they see an opportunity to innovate and learn.

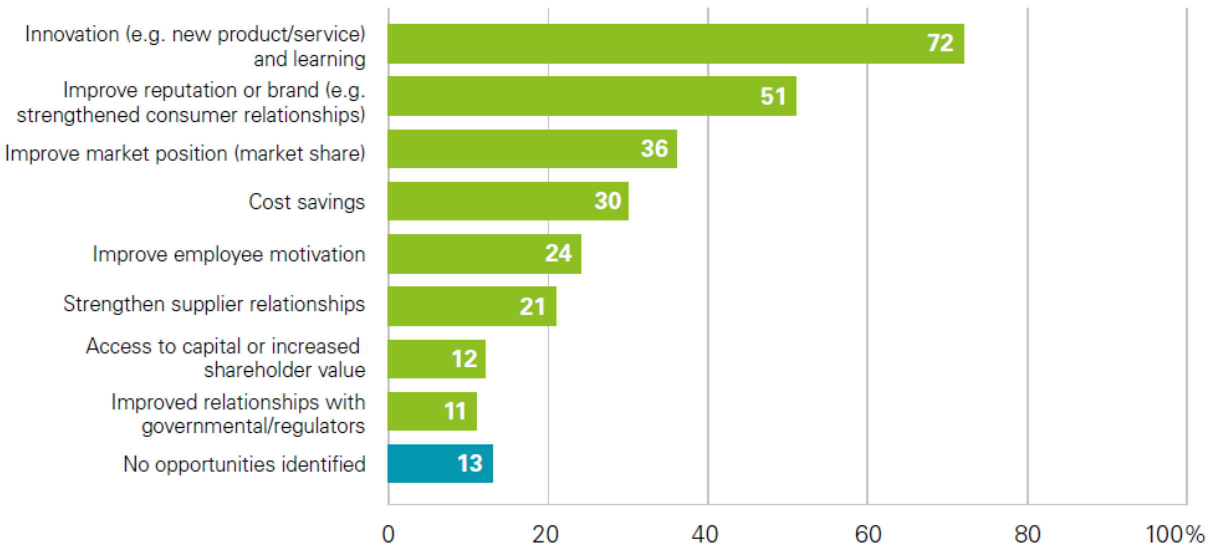


Figure 3: Identified opportunities as a result of megaforces among G250 (KPMG International, 2013)

Coming to the last phase which is having a CR strategy and explain what actions the firm is taking, in 83% of the cases firms state to have an CR strategy. And looking at the percentages of the two earlier phases which were 87% for the identification of megaforces, 81% for the identification of risks and 87% for the identification of opportunities, one should expect relatively high score for this criterion, however the average score is quite low with 62%, see figure 4. What is causing this relatively low score? The answer is partly given in the previous part, as a large majority of the firms do have high scores on identifying something, but probably not everything. Not all relevant megaforces, risks and opportunities are identified.

Furthermore, identifying is an important first step of the process but is not sufficient in order to maximize the value creation process. Quantifying risks and opportunities is a very important part and based on those quantifications concrete actions have to be taken. And only 5% of the firms quantify the value of the risks and opportunities they face, although 38% do recognize that these risks and opportunities have financial implications. And probably the quality of the disclosed CR strategies and actions can be improved, but one should not to be too stringent on this issue. As it is very plausible for profit firms not to disclose too much information which could be valuable for direct competitors.

Quality criteria	Average score (out of a possible 100)
Targets & indicators	68
Materiality	66
Strategy, risk & opportunity	62
Transparency & balance	58
Governance	53
Stakeholder engagement	53
Suppliers & the value chain	46

Figure 4: Average quality of CR reports of G250 by criterion (KPMG International, 2013)

All in all, it is clear that firms are starting to recognize that CSR issues can have financial implications. But it seems plausible that firms are not aware yet of the complete picture, and that firms are having difficulties in quantifying the effects of the risks and opportunities caused by environmental and social megaforces. Reaching conclusions on the point of a CR strategy is more risky as one does not know the true knowledge of the firms, and it is very plausible that firms do not want to disclose information that would endanger their competitive position. Another possible explanation for the lack of CR strategy is the convergence of the CR strategy and the general strategy into an universal strategy that incorporates also CR issues. However, looking at the two previous phases, megaforces and risks & opportunities, where firms do not fully identify all the existing issues and the value of the risks and possibilities one should adopt the idea of a lack of an adequate strategy to cope with the effects of social and environmental megaforces.

2.1.2.2 Materiality

This quality criterion is probably the most important one for the long-term viability of a firm, because the materiality process' goal is to identify the most important CR issues that are firm specific. Lack of knowledge of these issues can have deleterious effects on the long-term competitiveness of the firm. Two important aspects of the materiality process are the engagement of external stakeholders in the identification process of the CR issues that are material to a firm and assessing on an ongoing basis. The rationale behind these two important aspects is that firms do identify all the important issues with the help of external stakeholders and that firms can respond to material issues when they are still in an embryonic state.

From all the firms of the G250 79% identify material issues. Some resemblance can be seen with the identification of megaforces as the identification of some material issues is extant by a large majority of the firms. But at face value it is hard to reach conclusions on the validity of the material issues that are identified and a closer look at the process must be taken.

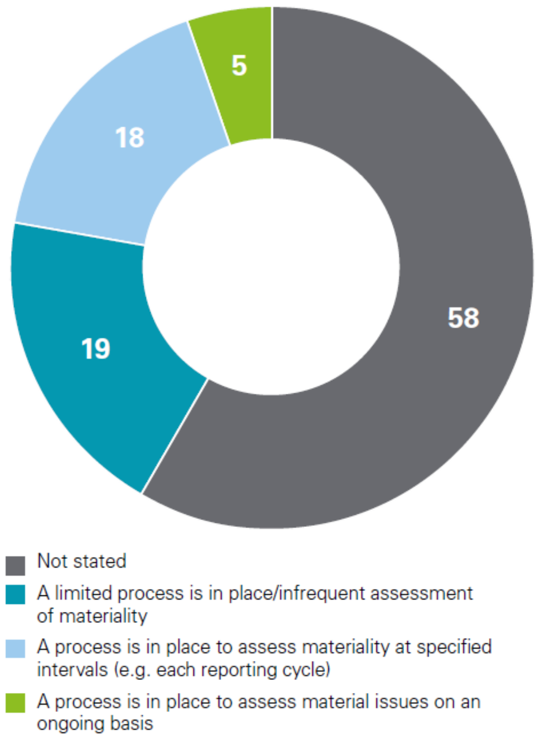


Figure 5: Frequency of assessment of material issues (KPMG International, 2013) 2013)

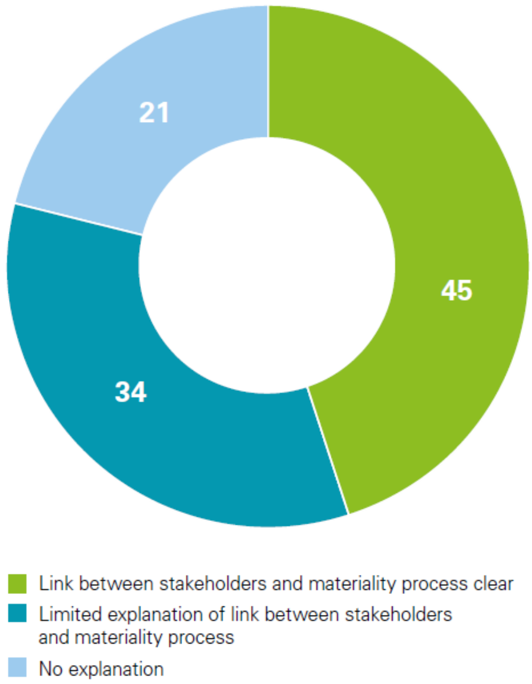


Figure 6: Involvement of stakeholders in materiality process (KPMG International, 2013)

Taking a closer look at the materiality process one sees that only 5% of the firms have a process that assesses the material issues on an ongoing basis. And a large minority, 45% of the firms, have a clear stakeholder involvement process. The overall score of this quality criterion is 66% (see figure 4), which must be valued with caution. As the end goal is to have a clear view of the material CR issues in an embryonic state, one cannot know to which extent this is the case with this data. On the other hand, one can make some assumptions about the quality of the identified issues based on the frequency of the assessment process and the involvement of stakeholders. First of all the very low amount of firms that assess materiality on an ongoing basis leads to the assumption that the G250 is not discovering material issues in an embryonic state, but rather in a more developed stage where it could be difficult to mitigate the risk at hand. Another precarious issue is the involvement of stakeholders in the whole process. As more than half of the companies do not clearly explain the role of stakeholders in the materiality process, one should fear the fact that stakeholders are not given a voice in this process. Because firms would be eager to disclose how they empower stakeholders in this process in order to improve their image if this was the case. Therefore one can reach the assumption that firms are still lacking a complete and quick diagnosis of their material CR issues.

3.1.2.3 Targets and indicators

After having identified the material issues and the megaforces that affect the business one have to set targets that are developed to diminish the deleterious effects of these risks and to exploit the opportunities as much as possible. Scrutinizing the usage of targets and indicators will reveal to which extent firms are taking these risks and opportunities serious. This will be done by looking to which extent the set targets are linked to material CR issues, and to which extent firms are reporting on the performance of the achieving of the set targets. Looking at figure 4, one can notice that from all quality criteria targets and indicators have the highest score, 68%. And figure 7 shows that 87% of the firms are setting some targets. What is paramount in this case though is the amount of material issues where there are targets set to overcome. As one can see in figure 7, only 38% of the firms sets targets for more than half of the material issues. This means that even the ‘best in class’ category is not necessarily setting targets for all the existing issues. The second point of assessment is to find out to which extent firms monitor their performance on the set targets. Once firms decide to set targets they are also prone to report on their performance of reaching the set targets. Figure 8 shows that a large majority of the firms do report on their performance against the set targets, although firms from the Asia Pacific region are somewhat behind on this criterion in terms of disclosing their performance. Reasons for not disclosing performance information could be because of firms are not inclined to disclose failures, or it could mean that firms are not taking these issues seriously and set haphazardly some targets under pressure of some stakeholders in order to temporary avoid negative publicity. Looking at the data, this is a quite plausible explanation of the firm’s perceptions on setting targets to resolve CR issues. As the material issues are not linked to targets in the majority of the cases. By all means, the target setting process for material issues is very far from the accurate reporting and monitoring of financial targets.

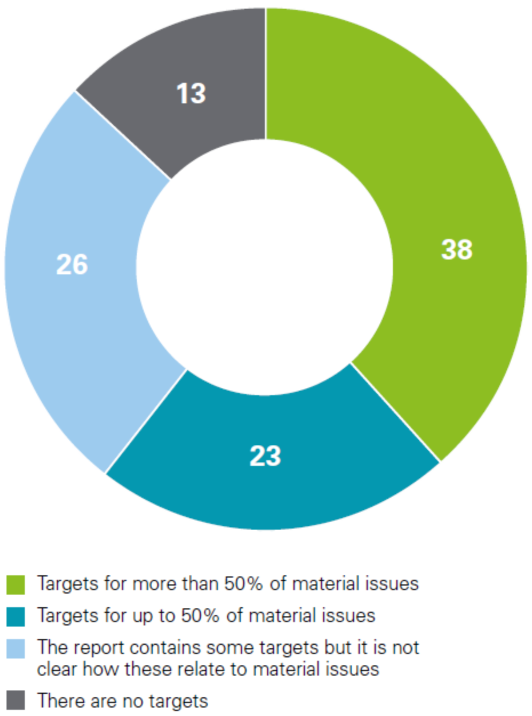


Figure 7: Inclusion of targets related to material issues (KPMG International, 2013)

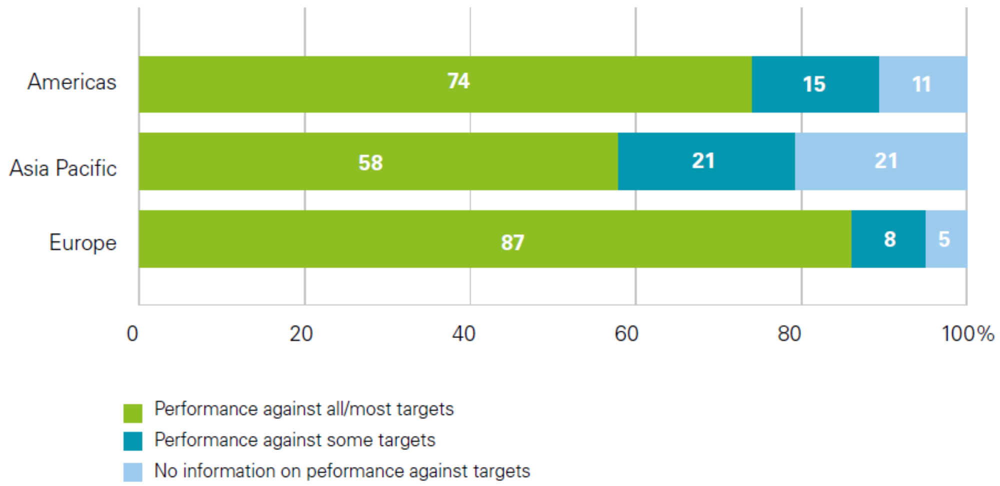


Figure 8: Reporting on performance on targets set (KPMG International, 2013)

3.1.2.4 Suppliers and the value chain

After the aforementioned more inward looking quality criteria, a closer look will be taken outside the borders of the focal firm. This will be upstream in the supply chain of the firms and downstream where the usage and disposal of the products and services will be investigated. Whereas, there were some promising facts to be reported about the performance of the G250 on the previous quality criteria, in the case of the assessment of suppliers and the value chain the overall message is rather negative. First of all it is the quality criterion with the lowest score, see figure 4. After examining the data in figure 9 one can see why. Across the different regions between 9% and 34% of the firms discuss the impacts of their supply chain in detail. And only 12% sets comprehensive targets to overcome challenges within its own supply chain (see figure 10). The G250 seem apparently to believe that they are inviolable on this point. Evidently they seem to have no anxiety that they could face reputational or legal risk, as it is not the firm itself that is engaging in controversial actions.

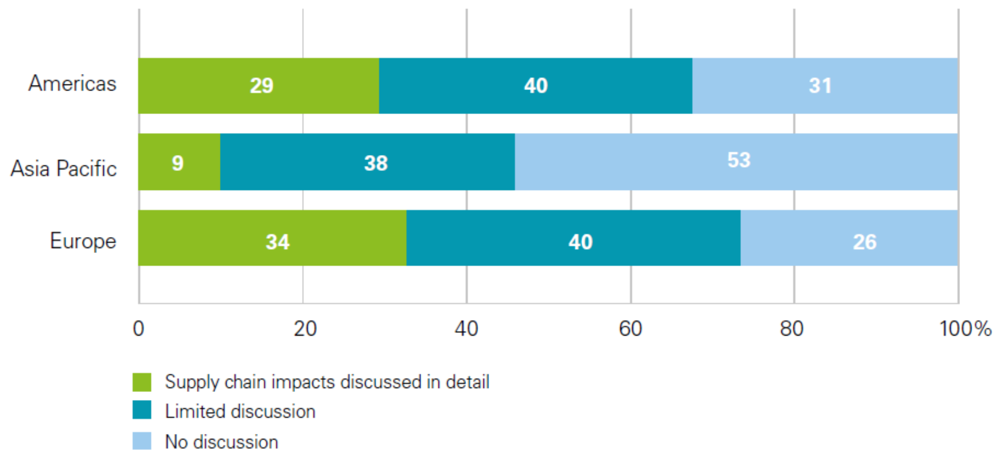


Figure 9: Discussion of sustainability impacts of the supply chain among the G250 (KPMG International, 2013)

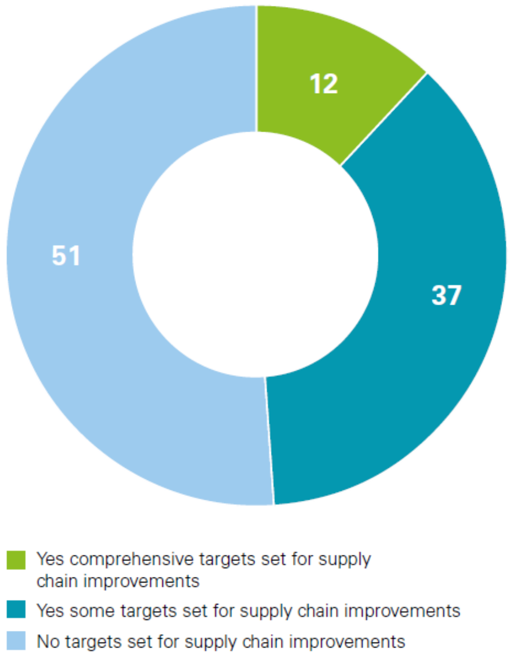


Figure 10: Target setting for supply chain impacts (KPMG International, 2013)

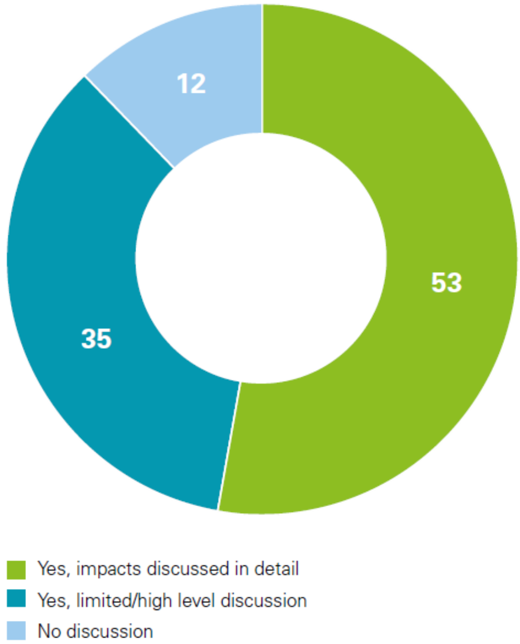


Figure 11: Discussion of impacts of products/services (KPMG International, 2013)

Nor do they seem to fear immediate deleterious effects for their revenues. This assumption is fuelled by the fact that firms are significantly more conscious about the impacts of their own products and services as can be seen in figure 11. This focus on the demand side of the value creation process can be very dangerous, as emerging risks and opportunities can arise more upstream in the supply chain and can evolve in ubiquitous issues where a firm has no answer to in the future. A mind-set less focused on propinquity is therefore needed for a large share of the G250.

3.1.2.5 Stakeholder engagement

A very important source of useful information for the previously discussed quality criteria are stakeholders. Stakeholders can be useful for firms in many respects. Maintaining close relationships could gain for example insights in what risks firms are facing and firms can cope with them in a relatively early phase. Oppositely they can also provide feedback on what they value and give firms new opportunities to exploit.

Despite these advantages firms from the G250 score low on this quality criterion, it is the second lowest score with 53% (see figure 4). Especially firms outside Europe are not inclined to disclose very extensively information on the stakeholder engagement process (see figure 12). The reason they are not inclined to be transparent on this issue is probably because firms do not want to engage with them too much as stakeholders could be seen as a liability instead of a source of valuable information. Furthermore, it could be quite plausible that firms do not want to give in to the demands of stakeholders. And even if they would inclined to, they would not want to disclose it as firms are afraid that it could encourage stakeholders to demand even more which could lead to a tendency where stakeholders will be having more and more power over firms.

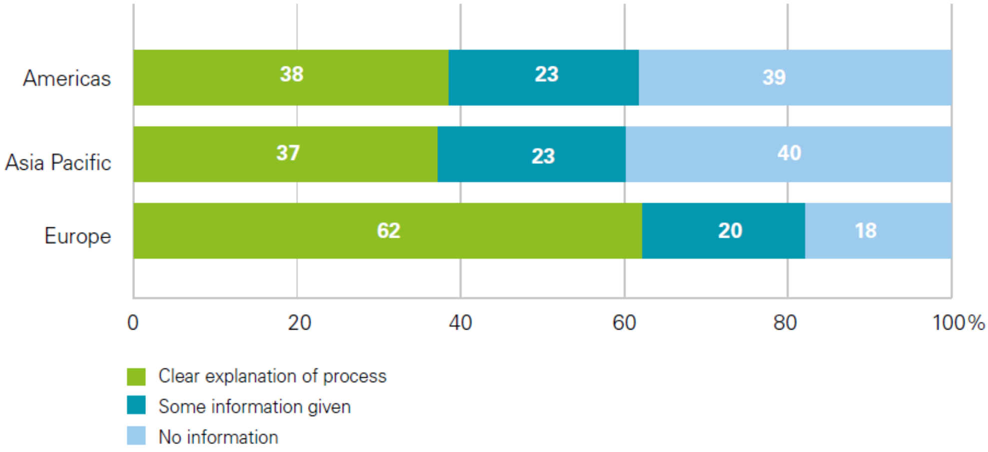


Figure 12: Reporting on stakeholder engagement process among G250 (KPMG International, 2013)

Zooming in at the stakeholder engagement process, only 31% of the firms includes stakeholder voices in their reports. This seems to be a low number, but as figure 13 shows only a quarter of those 31% has a stakeholder panel which includes representatives of different stakeholder groups. And what is even more disturbing is the fact that individual experts are regarded “stakeholders”. In other words, approximately only 8% of the G250 does include voices from different stakeholders in their reports. All in all, the G250 has still a long road to go in order to be completely transparent on their stakeholder engagement process and based on the existing data it is very hard to reach conclusions on the engagement process with stakeholders and the genuine knowledge of firms of their stakeholders.

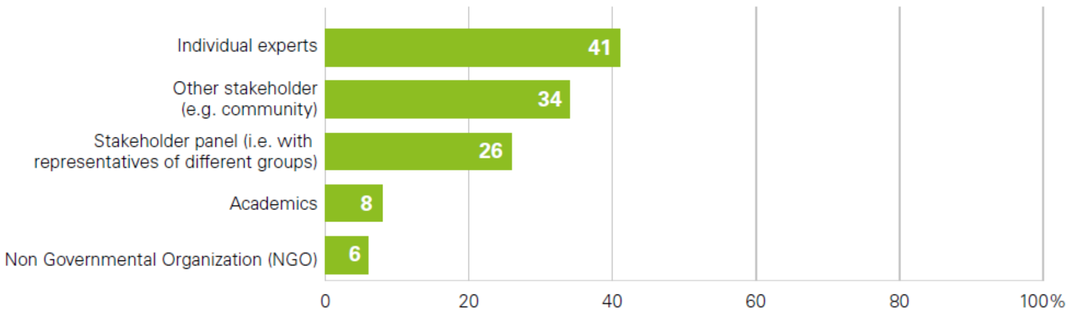
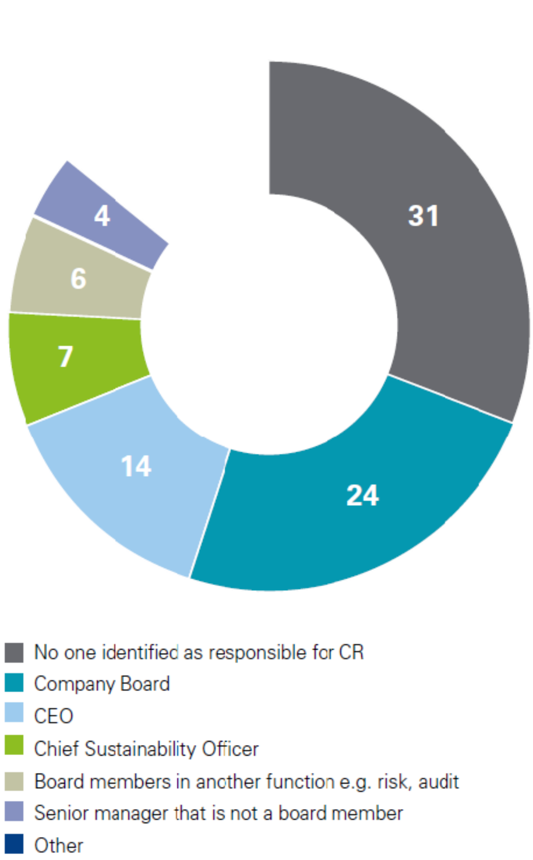
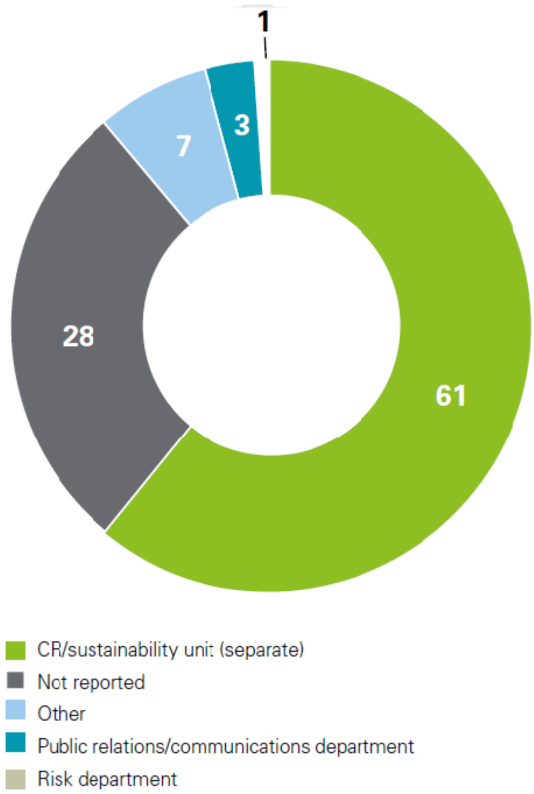


Figure 13: Stakeholder voices included in CR reports (KPMG International, 2013)

3.1.2.6 Governance of CR

This quality criterion is paramount for showing the real intentions of the G250 regarding CSR. A large majority of the firms claim to have someone that is ultimately responsible for CR and is in most cases a member of the company board, but almost one third of the firms does not have a specific person that has ultimate responsibility (see figure 14). On a day-to-day basis firms also assigned a specific unit for managing CR issues in the majority of the cases, but a quite large minority of the firms, 28%, does not have a department that is responsible for CR on a day-to-day basis (see figure 15).





Left: Figure 14: Who has ultimate responsibility for CR?(KPMG International, 2013)

Right: Figure 15: Who is responsible for managing CR issues on a day-to-day basis? (KPMG International, 2013)

However, the governance of CR has one of the lowest scores of all quality criteria, 53% (see figure 4). This score can be seen as rather high, despite the performance on the two aforementioned points. And the reason for this can be easily discovered in figure 16. As figure 16 shows whether or not firms link CR to remuneration. Finding out whether firms are perceiving something genuinely important can be done identifying to which extent they distribute financial resources to that issue. Figure 16 shows that 78% of the firms do not link CR performance to remuneration. And the remaining 22% could be linking only very small percentages of the total rewards. By all means, it undoubtedly shows that firms do not have anchored CR as a genuine part of their value creation process, and that is still a developing phenomenon in the G250’s value creation process. Although its visibility has grown quite eminently in certain areas that were discussed previously among the quality criteria.

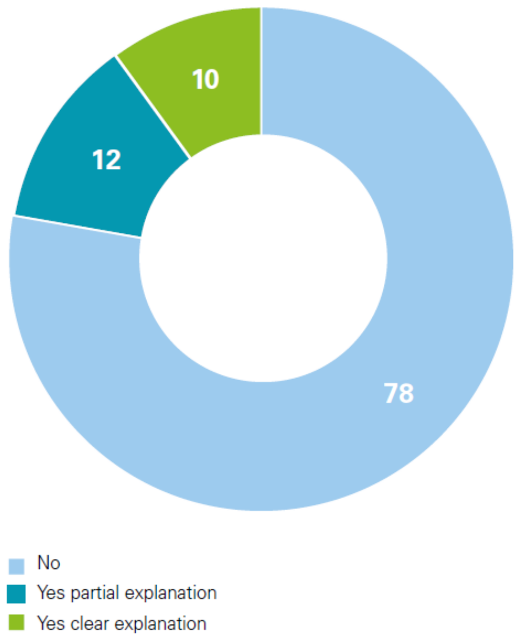


Figure 16: Link between CR performance and remuneration (KPMG International, 2013)

3.1.2.7 Transparency and balance

The last quality criterion is mainly concerned with the balance of the reports. It shows to which extent firms are transparent on failures and challenges. Which eventually must lead to a balanced report with both successes and failures on CR issues. As figure 17 shows only 23% of the firms has a well-balanced report. Which leads to the assumption that more than three quarters of the G250 are engaging in greenwash. The term greenwash can be described as follows: selective disclosure of positive information about a company's environmental or social performance, without full disclosure of negative information on these dimensions (Lyon and Maxwell, 2011). These results show that firms do not have a relationship of mutual trust with stakeholders, as they fear penalties from them in case of full disclosure of negative performance. Lyon and Maxwell (2011) developed some promising propositions, that need to be tested empirically, about the complex interplay between firms disclosure behaviours and NGO's auditing and penalizing behaviour. But common sense tells one that it is more beneficial for both parties to collaborate instead of competing against the actions of the other. As firms are inclined to not disclose at all because of the attitude and penalizing behaviour of NGOs. And NGOs are not providing constructive feedback to firms that could help them to cope with material issues and improve their reputation, because firms also close themselves like a shell for NGOs. Collaborating would lead for firms to less penalizing and more feedback to mitigate risk and exploit opportunities, and an improved image. And for NGOs it would mean that they would get to know more about the real performance and a better understanding of the rationale behind the actions of firms, which they could use for developing solutions together with the firms to overcome the prevailing CR challenges.

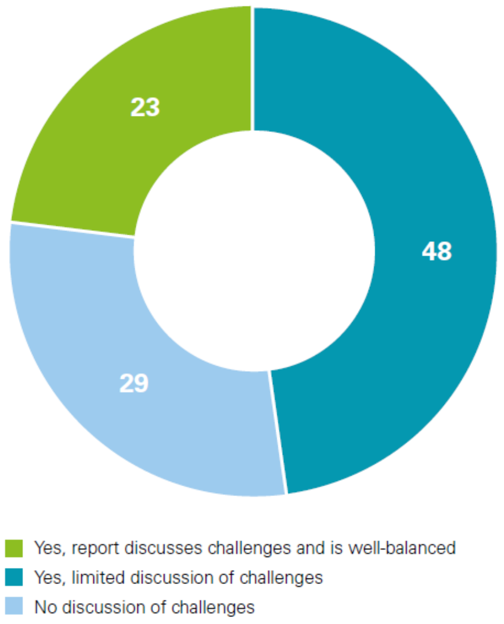


Figure 17: Extent to which firms discuss failures/challenges apart from successes (KPMG International, 2013)

3.1.3 The effects of CSR disclosing on CSP perception

After a mainly descriptive analysis of the current disclosure behaviour of the G250 and N100 a closer look will be taken at the effects of disclosure on the perception of corporate social performance or CSP. The most beneficial situation for society and the business environment would be that firms constructed their value creation processes in a way that results in positive outcomes for both parties. All these CR disclosing efforts could be the result of genuinely enhanced environmental and social performance, or it could be a new form of managing 'liabilities', which could be the perceptions of a majority of the firms of stakeholders. If firms are not trying to achieve higher actual CSP, because they do not believe that CSP can improve their financial performance or they lack resources to construct their value creation process in way to maximize CSP and CFP, then they can try to construct their CR disclosure in way that is beneficial for the perceived CSP. And evidence shows an inconvenient truth, especially for stakeholders. According to Cho et al. (2012) disclosure on environmental performance is influencing environmental reputation, thus not the actual performance. What is even more concerning is the fact that inclusion in the DJSI is negatively related to environmental performance. This means that firms are able to let others perceive them as responsible based on what they disclose and not on what they perform. Furthermore, a potential new stream of research could be emerging that investigates how firms could best disclose CSR information in order to be perceived trustworthy. For example Cho et al. (2013) have found empirical evidence for which way of reporting is perceived as most trustworthy among readers. They found that the usage of texts instead of graphs, the order of the themes and the elaboration on certain topics can influence readers' perceptions of firm's CSR performance and the trustworthiness of the report. These findings show that firms are not ready fully convinced of the benefits of CSP on their value creation process, and are sufficiently creative to let others perceive them as responsible with the use of greenwash. Therefore it is relevant to know what other entities do to improve the actual performance of firms. The next sub-question will discuss the efforts of screening agencies, sustainability indices and NGOs.

3.1.4 Conclusion

The times where corporate social responsibility was seen as a means to redistribute wealth from the organization to society as a gesture of philanthropy, and had only negative effects for profits and financial resources are behind us. Almost all firms from the Fortune 500 are disclosing information about CSR on their websites. The awareness among firms that CSR can have negative effects for their image is ubiquitous. But the conviction of the fact that it should be at the heart of their value creation process and the fact that it could influence their drivers of competitiveness is not extant among all firms.

This is partly due to the fact that firms lack the competences to discover all the effects of megaforces. A large majority of the firms do identify some megaforces and their effects, but they are not able to quantify the financial implications of them. Although more than a third, 38%, does acknowledge that these megaforces have financial impacts on the firm. And one should expect an increase of firms that value CSR in their value creation process if they are able to increase their understanding on the financial implications of CSR. Reasons for the lack of understanding can be seen for example at the materiality assessment of the firms, which is not on an ongoing basis and lacks the engagement of stakeholders. Furthermore, the target setting and monitoring of CSR issues is not as sophisticated as the target setting and monitoring for financial numbers. And when it comes to CSR issues firms seem to be trapped in a propinquity mind-set. If CSR issues are not directly related to the focal firm, corporations tend to lose focus on these issues. Which can be seen with the discussions of the environmental and social impacts of the supply chain of the firms which are very limited. And the discussions of the impacts of the own products and services is considerably more extensive. This gives rise to presuming that firms are aware of the reputational and legal risks of its own actions, and perceive that they are inviolable to actions of others. Although almost all firms have embraced CSR disclosure efforts, and in that way are able to communicate their actions to stakeholders, they are not engaging extensively in a dialogue and collaborating with them. As only 8% of the firms reports on the views of different stakeholder groups and only 2% includes the views of NGOs. And therefore one could assume that firms still fear stakeholders and perceive them as entities that potentially could damage the firm's image. A sign that firms are taking CSR seriously is the fact that a large majority have specific division that is responsible for the day-to-day management of CSR. And that there is someone within the organization that has ultimate responsibility for CSR in the company board. But there is still room for a considerably increase of perceived importance among firms, as only a small amount of firms do link CSP to remuneration. What is quite clear is the firm's fear for stakeholders, which could be seen in the stakeholder engagement process, but is also evident in the transparency of firms on their failures and challenges. And Cho et al. (2012) shows evidence that firms can be successful in greenwashing as their attempts proved to be successful for their reputation and inclusion in the DJSI. The current disclosure methods of firms seemed to have be quite effective up till now for the preservation of their reputations, however a conviction of importance of CSR is starting to emerge.

3.2 Which measures are used by other entities for measuring CSP?

The rationale behind this question is first of all the need to know which measures exist for the measuring CSP outside the corporations themselves. As in the previous sub-question evidence was shown for the flaws of firm's disclosure efforts.

Within this sub-question several themes will be discussed. First, an overview of the measures has to be obtained. Second, the construct validity has to be determined. Third, the objectivity of the providers has to determined. Fourth, deficiencies and possible solutions to overcome them are proposed. A discussion on the effects of these CSP measures will be presented in the fourth sub-question, as these measures are often used as a proxy for CSP in scientific research.

It is important to state that the following list of providers is not exhaustive, and is merely a categorized overview of the providers with the most important entities of each category. There are three important sources outside the focal firm measuring CSP that can be distinguished:

- Screening agencies that assess the performance of firms on ESG factors:
    - MSCI IVA
    - ThomsenReuters ASSET4
    - Sustainalytics ESG Indicator

- Indices that contain stocks of firms with high performance on ESG factors:
    - DJSI
    - FTSE4Good

- Rating programmes of NGOs:
    - Oxfam International 'Behind the brands'

3.2.1 Overview of the providers of CSP measures

3.2.1.1 Screening agencies

The best known and most used CSP rating system in empirical research is the MSCI IVA rating, which is mostly used in its former form when it when it was called the KLD rating. Named after the firm that developed the rating KLD Research & Analytics. The firm was acquired in 2009 by the RiskMetrics Group and the last-mentioned was acquired in 2010 by MSCI Inc., and named the rating after itself. Over the years the rating system changed and therefore cannot be compared with the rating system that was used in previous years. It has emerged into a comprehensive rating system that covers a large amount of environmental, social and governance areas. Therefore, the critiques of for example Chatterji et al. (2009) are not applicable in the current state of the rating system. Their critique was that the rating system was lacking predictive power and did not make use of public available data. The rating system is now constructed differently for each firm. From a pool of 37 key issues, a varying amount of issues are selected that are material to a specific firm. An exception on this rule are the corporate governance key issues which are assessed for all firms. After the selection of the key issues that will be assessed, the exposure of each key issue to the firm is determined and to which extent the management is capable of coping with the risk of opportunity at hand. The higher the risk exposure the higher the management capability is needed to score the maximum score of 10. With key issues that measure opportunities a low exposure leads to a score close to 5 and a high exposure leads to a score that varies more between 0 and 10. Every key issue also has a specific weight in the calculation of the end score. The weight is based on two variables: the level an industry contributes to the impact of the issue and the time frame for the opportunity or risk to materialize. The greater the impact of the industry and the shorter the time frame, the higher the weight. The maximum weight is three times higher than the lowest weight. Then the weighted average of the key issues determines the macro theme scores and pillar scores, which also are ranging from 0 to 10. The weighted average key issue score is derived from the weighted average of the pillar score and should be seen as the real score of the firm. As the scores that are higher in the hierarchy are relative scores. The final industry adjusted score is the score of the firm relative to its peers, the best firm receives a 10 and the worst a 0. This score is then translated into a ESG letter rating which can be seen as the ultimate score of a firm and is the highest score in the hierarchy. The best firms in an industry receive a AAA score whereas the worst performers in an industry receive a CCC score, there is a total of seven different ratings. For a graphical overview of the hierarchy of pillars, macro themes and key issues see appendix 2. For a graphical overview of the hierarchy and construction of the different scores see appendix 3. The sources of information that is used for the IVA rating is very broad. Among the sources are company reports, government data, academic journals, news media, industry experts and NGOs.

The rating system of ThomsenReuters ASSET4 ESG ratings are also used in empirical research, but significantly less than the aforementioned MSCI IVA ratings (Bouten and Roberts, 2013). These ratings exist from 2002 whereas the KLD ratings exist from 1991. The most notable difference with the current form of the MSCI IVA rating is the fact that it also includes economic performance in its overall performance rating. Thus, there are four pillars that contribute to the overall score, that consist of 18 categories. Furthermore, there are more than 250 key performance indicators and more than 750 data points. For a graphical overview of the pillars and categories see appendix 4. Another difference is the provision of standardized z-scores of indicators, categories, pillars and overall scores. The average company score is in this case the reference point, and one can see how much standard deviations a company differs from the overall average for all measurement levels. The large amount of data points is also a significant strength of the ASSET4 ESG rating as it is licensed or sold to other entities, for example MSCI Inc. relies also on this data for their reports (Alsford et al., 2014).

The last provider that is covered is SustainAnalytics. The SustainAnalytics ESG Indicator is the most recent CSP rating, as it exists since 2009. Ratings are based on over 70 indicators that are industry specific and universal, which comprise 10 different categories. A graphical overview of the categories of the three pillars environment, social and governance can be seen in appendix 5. Company reports of SustainAnalytics provide both quantitative data in the form of absolute and relative scores compared to industry peers, and qualitative data about controversial events. What is most promising about this provider is its recognition for its work. Among users of ESG ratings it is rated the best SRI research firm in 2012, 2013 and 2014 by Extel's IRRI survey. Furthermore, their they are acknowledged for their long-term analyses. As they won the 2011/2012 Farsight Award and are among the nominees of more recent years. This award is awarded to the analysis that integrates long-term ESG factors into traditional financial analysis.

3.2.1.2 Stock indices

In addition to firms that provide CSP ratings there are also stock indices that are consisted of only firms with high CSP. Two of those indexes are the DJSI and the ASSET4Good indexes.

The DJSI is the first index that includes the most sustainable firms in its indexes, since 1999 the index exists and it evolved over time into a more reliable index. Historically there was a considerable amount of critique on the inclusion criteria of the index. See for example the research of Cho et al. (2012), which was discussed earlier. Firms could be included based on their answers of the questionnaires of the DJSI. Worse performing firms could answer in which possible way they wanted without any form of verification. And in this way it was possible for the worst performing firms to be included in the index at the expense of the better performing firms. And this initiative to induce firms to perform better on social and environmental issues was actually leading to the opposite effect. The most recent form of company assessment is the company sustainability assessment (CSA) which overcomes the flaws of the previous assessment methods. The CSA is still based on a questionnaire that is answered by the firms. The questionnaire is composed of questions that each have a different weight based on the industry the firm is operating in. And the different questions comprise together a certain criterion where each criterion has a specific weight which is based on the industry the firm is operating in. The criteria together comprise an economic, environmental and social dimension that each have a weight which is also industry dependant. For a graphical overview of the structure of the assessment process see appendix 8. What could be possibly seen as a remaining disadvantage of the index is the fact that economic, environmental and social issues are assessed that are financially relevant. On the other hand, this is not necessarily a negative point, as almost all environmental and social issues can have an indirect and long-term financial effect. The focus is thus on factors that can have a potential impact on the long-term value creation potential of a firm. Taking a closer look at the points a firm is assessed on one sees the financial element as one of the prerequisites to score a high score for a question:

1. Awareness of the importance to financial impact of the issue
2. Determination of the financial impact due to exposure of the issue
3. Implementation of strategies to manage risks or opportunities
4. Measurement of the results
5. External audit of stated results
6. Transparent communication of strategy and performance on reaching the set targets

But the most promising change is the inclusion of a media and stakeholder assessment. Because as mentioned earlier firms' inclusion in the index was based on the firms' answers and not their actual performance. In the current form of the index there is an ongoing monitoring of media and stakeholder commentaries and other publicly available information from consumer organizations, NGOs, governments or international organizations to identify companies' involvement and response to environmental, economic and social crisis situations that may have a damaging effect on their reputation and core business. And negative events that arise and are disseminated through the media or stakeholders, can lower the scores of the firms or can be so severe that the firm will be directly excluded from the index. Which means that there is no chance for firms anymore to disclose false data or omit data of negative performance. As there is continuous monitoring of negative incidents and performance. Eventually the best performing 10% of the assessed firms of each of the 59 industries are included in the index, which makes the index a relative index, where the best performing firms are included and there is no absolute threshold that has to be reached in order to be included in the index.

The second index that will be discussed is the FTSE4Good index. The historic academic literature is contrary to the DJSI not negative about the effects of the index. Although there were some improvement points. Curran and Moran (2007) investigated the relationship between the inclusion or exclusion from the index and the effect on the share price of a firm. They eventually found empirical evidence for the effects, but they were not significant. One of the point points of critique was the fact that it was unknown why firms were included or excluded, this could be because of the social or environmental performance or changes in their market capitalization. As stock markets need perfect information to function efficiently. Collison et al. (2008) also found that the returns of investors of the FTSE4Good indexes do not suffer nor outperform their base universe indices. But at the time this index was constructed differently, only five dimensions were included: environmental sustainability, relationships with stakeholders, attitudes to human rights, supply chain labour standards and the countering of bribery. The current form of the index has a hierarchy of scores with firm specific and industry specific exposure scores (see appendix 6). There currently 14 different themes where a firm can be assessed on, depending on whether the firm is exposed to a certain theme or not. This depends on the countries where the firm operates in and the industry the firm operates in. The higher the exposure score the higher the performance score has to be in order to receive the maximum score. The weights of the pillar and theme scores also differ and are dependent on the exposure to a certain theme or pillar. There are over 300 indicators that measure the theme scores. Which shows that the current determination of inclusion in the index is much more thorough. As there exist also absolute and relative scores for each level of scores in the hierarchy, for a detailed overview see appendix 7. Contrary to the DJSI which concentrates on data provided directly from the firms, the FTSE4Good explicitly excludes primary data and bases its score solely on public available data. With the conviction that this is beneficial for the credibility and transparency of the data. The FTSE ESG ratings fall under the oversight of an independent multi-disciplinary committee that consists of experts from the investment community, companies, NGOs, unions and academia. Which meets regularly to oversee ESG rating reviews and methodology development. The inclusion in the index also differs from the DJSI. The FTSE4Good index uses an absolute threshold whereas the DJSI uses a relative threshold. For inclusion in the FTSE4Good index a score of 3.5 out of 5 or more has to be obtained. But besides the absolute score of 3.5 there are three additional requirements firms have to meet in order to be included in the index. These three categories of firms will be excluded from the index even if a score of at least 3.5 out of 5 is reached: firms that produce tobacco or weapons, firms that are involved in controversies, and firms that score 0 points in a high a exposure theme will be excluded although they would have a total score of 3.5 out of 5 or higher.

3.2.1.3 NGOs

A third stream of CSP rating entities are NGOs, although their role in this specific act is still in an embryonic state. They still lack a comprehensive rating system like the previously mentioned ones, and tend not to have as much direct relationships with private profit organizations as the aforementioned entities. An expert interview was held with a representative of Oxfam in order to gain more insight in the role of NGOs and their relationship with profit firms (see appendix 9). The reason for choosing Oxfam is because they are the leading NGO that do have a comprehensive rating system that assesses firm's performance on social and environmental issues, which is the scorecard that is developed for the behind the brands campaign of them. Unlike providers of financial services that were described earlier, NGOs do not have the resources to monitor and assess thousands of firms extensively and on a continuous basis. Therefore they attempt to monitor the sectors where the situation is the most poignant. Which are currently the food & beverage industry, clothing industry and mining industry. Or they monitor a certain issue, for example labour rights, environmental rights and child labour. An exception on this rule is as mentioned earlier the behind the brands campaign. This campaign monitors the ten largest firms from the food and beverages industry on seven areas:

1. Women	The Behind the Brands scorecard examines whether the policies of the Big 10 promote women's welfare and encourage their inclusion in the food supply chain on equal terms. The scorecard also looks for policies which guarantee a discrimination-free workplace.
2. Small-scale farmers	The scorecard looks for policies which guarantee small farms access to company supply chains on equitable terms, allow farmers to earn a decent income, and channel investments to them (e.g. agricultural services, credit and inputs) which boost productivity. It also assesses the commitment of companies to ensure that supply chains comply with sustainable production standards, including Fairtrade, Utz Certified and Rainforest Alliance
3. Farm workers	The scorecard assesses whether business policies enforce fair working conditions along the supply chain, allowing farm workers to organize and access grievance procedures and ensuring that agricultural workers earn enough to meet the basic needs of their families (a living wage).
4. Water	The scorecard looks for company policies which lead in mitigating harmful GHG emissions as well as assessing and implementing long-term solutions to changes already in motion.
5. Land	The scorecard measures whether companies have put in place policies to ensure their supply chains are free from land grabs. This includes policies that promote free, prior and informed consent through the entire supply chain and insists on zero tolerance for those suppliers who obtain land through violations of land rights and land tenure.

6. Climate change	The scorecard assesses policies which demonstrate a company's commitment to respecting the human right to water, to disclosing and reducing water use and discharges throughout its operations, and to better managing the use of water from water-stressed regions.
7. Transparency	Assessment of the extent of disclosure of where and from whom raw materials are purchased, and lobbying efforts and financial contributions to governments

The firms that are included in the scorecard are the following: Nestle, Unilever, Coca-Cola, PepsiCo, Associated British Foods, Danone, General Mills, Kellog, Mars and Mondelez International. The scores of the first six aforementioned themes are based on four indicators, which each are contributing a quarter to the total score of the theme:

1. Awareness	Does the company demonstrate general awareness of key issues relating to that theme and does it conduct projects to understand and address these key issues?
2. Knowledge	Does the company demonstrate it measures, assesses and reports key issues and facts specifically in its supply chains that relate to that theme?
3. Commitments	Does the company commit to addressing the key issues relating to that theme in its supply chains?
4. Supply chain management	Does the company require its suppliers to meet relevant standards related to that theme?

The scorecard assesses policies and commitments of the firms that are publicly disclosed. Thus not their actions. Oxfam acknowledges the fact that these policies and commitments can be used for public relations campaigns of the firms, and having them in place should not be seen inherent to desirable circumstances for farmers. The scorecard is focused on small-scale farmers and rules out a significant amount of other actors and issues that are extant in the supply chains of the food and beverages industry. Some of these are: the nutritional qualities of the end products, food waste policies, tax payments to governments where natural resources are extracted, labour conditions of workers more upstream in the supply chain, and sourcing form OECD countries.

Another aspect of the scorecard is the fact that it is developed with the help of the companies, which shows that NGOs are attempting to choose the route of dialogue instead of conflict. This trend towards dialogue is evident as NGOs are persuading consumers not to boycott firms, but instead to start a dialogue and share their values and preferences. This trend is probably a result of historic encounters with firms, like for example with Douwe Egberts. A dispute about their procurement policy escalated into boycotts and the blockading of their headquarters. Douwe Egberts in turn refused to engage in any form of dialogue. Therefore, NGOs have to be very cautious in their disclosure strategy of controversies of private profit organizations, as this leads to an antagonistic attitude of firms which fear for the deterioration of their reputations. Public full disclosure of the social and environmental performance of firms by NGOs will be therefore very difficult to attain which the current attitude and values of firms. NGOs are in this way forced to direct dialogue with firms, and firms can manage the pace, scope and directions of reforms in their supply chains.

3.2.2 Construct validity, objectivity of the providers, deficiencies and possible solutions

In order to assess the construct validity one can take a normative perspective or a descriptive perspective which is paramount for the eventual verdict. From a descriptive perspective one can presume that the CSP raters and indices are asking the right questions and are measuring the right variables. Each issue or theme score is based on multiple key performance indicators, which are developed by experts with different backgrounds, and data that is retrieved is verified by different actors and with the usage of a myriad of data sources.

The current state of the quality of the construct validity of raters and indices can therefore be seen as high. What can be seen as a potential weak point is the definition of CSP that is used by the raters and indices. The main question on this point is what the definition of CSP should be, and whom should be responsible for its determination. Except for the NGOs all the providers of ratings and indices are profit organizations and the firms that they rate are in some cases also their clients. This creates a conflict of interests and makes the objectivity of the providers questionable, which is also acknowledged by the providers (e.g. Alsford et al., 2014). Moreover, the providers of the ratings are also acknowledging the fact that only ESG factors are included in the ratings that influence the financial performance of the firm (e.g. RobecoSAM, 2014; MSCI Inc., 2014). Speaking in terms of Porter and Kramer’s (2002) ‘convergence of interests’ ratings focus on the maximization of the economic benefits of corporate expenditures, and as they focus more specifically on expenditures and actions on social, environmental and governance factors there will be in almost all cases some social benefits. But as there is lacking a main focus on maximizing the social benefits, the social effects of the expenditures and actions of firms related to ESG factors will be haphazard. It seems that these raters have embraced the concept of Husted and Salazar (2006) of the strategic case.

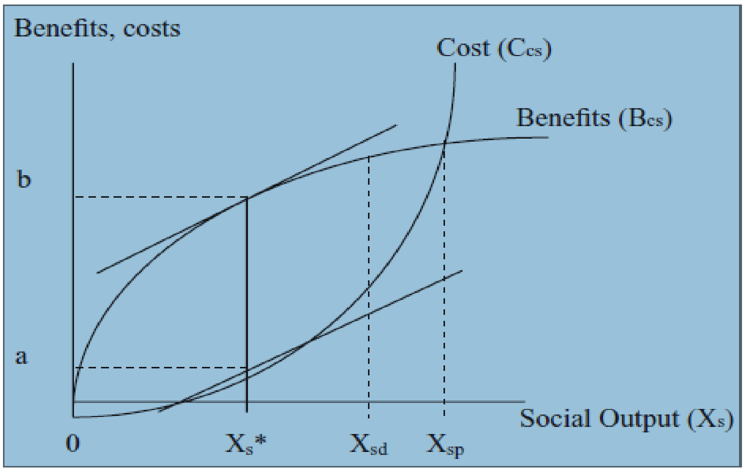


Figure 18: Graphical overview of social cost and benefit curve and the amount of social output (Husted and Salazar, 2006)

Social performance is according to the raters maximized when the financial profit on the long-term is maximized due to social investments. Figure 18 shows that this point is reached at X_s^*. This shows that none of the aforementioned entities are attempting to maximize CSP. The only object they are maximizing is the long-term value of a firm, with the acknowledgment that certain social, environmental and governance issues and certain stakeholders can hinder or augment this financial value. This overall philosophy of the rating entities has similarities with Jensen's (2001) enlightened stakeholder theory. Because there is no de facto disclamation of the maximization of the stakeholders' interests, which can be of social and environmental nature. Nor is there an obligation to maximize these aspects, as long as the long-term value of a firm is maximized. Which can be done by managing these ESG factors in a way that maximizes the long-term value of a firm. Coming back to Husted and Salazar's (2006) strategic case, one can infer that the maximum social output is not reached, with the rating's definition of CSP. And taking a normative stance, CSP should be dependent on the amount of social output and not the amount of economic profit due to social and environmental factors. Among contemporary influential rating entities CSP is not referring to the social output of firms, but to the financial profits that will arise in the future due to expenditures on social and environmental issues.

It does not mean that the construct validity of rating entities' CSP concept is extremely low. Because firms with higher CSP ratings will be producing higher social outputs, but neither is the construct validity sufficient. As a perfect CSP rating is not synonymous with the maximum social output referred to by Husted and Salazar (2006), which is reached in figure 18 on point Xsp.

This finding is not very surprising taking the background of the rating entities into consideration and the entities that are rated by them. As the rating entities are also providers of services to investors, analysts and the firms they are rating. And the objectives of these actors are in most cases still long-term financial value maximization. These ratings are providing information to these actors about to which extent and in which way ESG factors are hindering or fostering the long-term financial value creation potential. The clients are increasingly acknowledging that ESG factors can influence the long-term value creation potential of the firm they are considering investing in, which can be seen by the increase in the total absolute value of the investments made based on sustainability considerations (Eurosif, 2014). This does show that investors are lagging in their conviction of the influence of ESG factors on the long-term financial performance compared to the providers of consultancy services about firm valuation. Which was also found by Nielsen and Norgaard (2009).

A possible solution for this problem of a lack of rating entities that rate CSP in terms of the total amount of social output could be overcome by letting NGOs rate firms on their CSP. Because they do not face objectivity issues, and are pursuing CSP in terms of the maximization of social output. A first attempt of Oxfam with their behind the brands scorecard is also promising in this respect. As its construct validity can be called high in terms of the attempt of the measurement of social output. But it has also delimitations as it is measuring policies and commitments on social and environmental issues and not the actual performance of firms. Furthermore, there is a certain degree of conflict of interests as the firms that are rated by Oxfam also donate money to Oxfam (Oxfam, 2013). Another delimitation is NGO's fear for public disclosure, because of the risk of losing the firm's willingness to negotiate with them about improving their CSP (see appendix 9). A final delimitation is the lack of resources of NGOs to rate firms as thorough as the aforementioned profit organizations (see appendix 9).

An evident solution is therefore currently not available, and overcoming this issue has possibly to be done by tackling its roots in society. As mentioned earlier, firms are currently the most powerful entity and are determining the pace, scope and directions of their supply chains. In order to influence them consumers' awareness and values about the firm's social output have to change dramatically. If this change does not emerge, firms will not be willing to cooperate with rating entities that measure their actual social output. And presumably this change has to emerge in flourishing economic circumstances, which are currently lacking.

3.2.3 Conclusion

As concluded earlier the current state of self-disclosure of firms is still not without flaws and therefore it is relevant to investigate the current state of external rating entities. Three different streams of providers can be distinguished. First of all, screening agencies that assess the CSP of firms. Secondly, indices that contain firms with high CSP. And rating programmes of NGOs.

The oldest rating system and most used among scientific researchers is the MSCI IVA rating. Which is referred to as the KLD rating in most researches. A second widely used rating system is the ThomsenReuters ASSET4 ESG rating system, a strong point of this rating system is its exhaustive data provision. Which is in some cases even used by other rating entities like MSCI Inc. (Alsford et al., 2014). However, among analysts the Sustainanalytics ESG indicator is currently the most valued rating system. As Sustainanalytics was rated as best rating firm by Extel's IRRI survey the last three years.

The DJSI is the oldest sustainability index which rates firms on their CSP. It was criticized for including firms based on their disclosed data and not their actual CSP (Cho et al., 2012). This issue is possibly overcome currently as there is a stakeholder and media analysis included. Which verifies the disclosed primary date of the firms. Furthermore, it is a relative index as the best 10% of each industry are included in the index. A second index is the FTSE4Good index, which differs from the DJSI on two significant points. First, it is based on publicly available data. And secondly, it uses an absolute threshold for firms to be included. Firms with a score of 3.5 out 5 or higher are included.

The third stream of rating entities are NGOs that rate firm's CSP. Oxfam is the NGO with the greatest contribution with their scorecard that rates firms on their CSP. It is not as comprehensive as the rating systems of the aforementioned rating entities, as it focuses on one industry and only one group in the entire supply chain, and it measures commitments and policies. This is mainly due to a lack of resources.

Assessing the construct validity of the rating entities' CSP scores with a descriptive lens one can conclude that the construct validity is high. The rating systems are attempting to capture the extent of the long-term value creation potential of firms that is affected due to ESG factors. And as this is investigated with the help of a myriad of data sources and experts in the field, one could assume that this goal is reached. Because the data is verified and only the issues that are material for each individual firm are assessed. However, from a normative lens one could impossibly come to a similar verdict. Presuming that CSP should be measured by the total amount of social output a firm is producing, and not the financial implications of that social output, one cannot conclude that the current rating entities' construct validity of the CSP of a firm can be considered high or sufficient. As the actual effects on the environment and society due to firm's CSP is not measured. Although some correlations might be visible for the two different constructs of CSP.

Overcoming the contemporary deficiencies is quite a difficult task within the current circumstances. Because of the conflict of interests between the rating entities and the rated firms and the objectives of these two parties, which are profit maximization and not the maximization of social output. A possible provider of CSP ratings without objectivity issues is a NGO, which is willing to rate firms on social output instead of financial performance and value. But, unfortunately in practice there are quite some obstacles. First, the lack of resources to make a thorough assessment of firms like the other rating entities. Second, there exists a certain amount of a conflict of interests as some NGOs are dependent on donations of the rated firms. And lastly, in their persuasion of firms to improve their CSP NGOs are in many cases very cautious with the disclosing of firm's performance issues to the public, because of their fear of a potential conflict. Which eventually could result in the end of a fruitful dialogue between the two sides. The dissolving of this issue has probably to emerge from the altering of the values of consumers. Which is more likely to occur in flourishing economic circumstances that are currently lacking. Consumers preferences for firms with a high CSP, could persuade firms and rating entities altering their attitudes on CSP measuring.

3.3 Which measures are used by valuators to assess the going-concern values of firms?

This sub-question needs to be answered in order to see which methods are used and how that method and the person that uses the valuation method is capable and willing to cope with intangibles in general, in a subsequent part of this thesis a discussion will follow of the incorporation of ESG metrics into the valuation of the going-concern value. In this thesis sell-side analysts are used as units of observation. The full record of the electronic surveys among the sell-side analysts can be seen in appendix 12.

The discounted cash flow method is used by all the analysts as most important valuation method for the calculation of the going-concern value of a firm. One of the analyst mentioned other valuation methods which were: transaction multiples, peers trading multiples, sum-of-parts valuation and net asset value. The analyst's opinions on the influence of intangible assets and future events and scenarios on the going-concern value of a firm were not unanimous unlike their used valuation methods. Two analysts did recognize the significance of future events and scenarios whereas the other analysts did not take them into consideration in the valuation process.

Furthermore, three of the four analysts did not take intangible assets into consideration in their valuation processes. Their rationales however differed, one analyst referred to the used valuation method, one analyst referred to the lack of relevance of intangibles in the studied sector, and the third analyst referred to the fluctuative nature of intangibles and the difficulties assigning value to them. One of the analysts stated on not taking intangibles into consideration:

Intangible assets do not play a role in the valuation process as they do not affect a discounted cash flow calculation (Sell-side analyst 2).

The other analyst that did not take intangibles and future scenarios and events into the valuation process stressed their uncertainty and how to value them:

I find it very hard to assess, for example the potential projects of oil companies, they could prove very profitable or it could result in losing the invested resources. Or goodwill, Nokia for example had a very strong brand name, but it has lost its prior status. And how should one value these issues? It remains very hard. It will always fluctuate, therefore omitting these issues is better (Sell-side analyst 1).

One analyst however stressed that under certain circumstances intangibles can play a significant role in the valuation of a firm. Examples are service firms that generate revenues without having significant tangible assets, and brand names which give a firm the opportunity to command premium prices.

All in all, the empirical results show that sell-side analysts mainly use the discounted cash flow method for the assessment of the going concern-value. Intangibles are in most cases not considered in the valuation and the future scenarios are in two of the four cases considered in the assessment of the going-concern value.

3.4 What are the expectations of scientists on the relationship between CSP and the long-term value of a firm?

This sub-question will answer what the expectations are of scientists on the relationship between CSP and the long-term value of a firm. The answering of this sub-question is threefold, first it will discuss general views on the relationship between the two constructs. Second, it will discuss the proposed requirements that are needed for a positive relationship between the two constructs. And third, it will discuss firm’s access to finance that could be positively influenced by CSP and thereby positively influence the long-term value of a firm.

In the discussion about the effects of CSP on the financial performance of a firm Friedman (1970) is the best-known opponent of firms engaging in CSR. In his view business executives are spending monetary resources which do not belong to themselves if they engage in CSR practices. However, if one takes a closer look at Friedman’s (1970) ideas one could conclude that semantics play a major role in his opinion on CSP and the long-term value of a firm. One example he gives on the relationship between CSR and long-term financial performance is about investing in a community a firm operates in order to attract more easily qualified employees and reduce the wage bill. This action is in his view purely out of self-interest and is not considered as CSR, and if it is called CSR by the firm itself it is in his view window-dressing. CSR is in his view occurs when business executives spend shareholders money on eleemosynary issues that will reduce the firm’s profits. All in all, due to normative reasons firms have to maximize profits and the public sector has to solve social issues in his eyes. Therefore, one could state that Friedman (1970) did not even explore the effects of CSP on the long-term value of a firm and if CSP and profit maximization did coincide he defined it as profit maximization.

After the publication of Friedman’s (1970) article many scientist referred to him and attempted to refute his ideas. It is now widely accepted that Friedman’s position was founded on an inaccurate economic model and was unrealistic in its attempt to isolate business from society when the two are so interdependent (Smith, 2003). According to Kurucz et al. (2008) there exist four categories of rationales for the business case for CSR: The reduction of costs and risk, strengthening legitimacy and reputation, building competitive advantage, and the creation of win-win situations through synergistic value creation. Moreover, the impression created overall is that the debate about CSR has shifted, that no longer is it about whether to make substantial commitments to CSR, but how (Smith, 2003). Jensen (2001) contributed to the answer of the aforementioned question by how a firm is ought to make the trade-offs between the opposing interests of different stakeholders. He acknowledged that the drivers of the long-term value creation potential of a firm were dependant on the firm’s stakeholders and concluded that the eventual trade-off should be make based on the effects for the long-term value of a firm. However, he did not explicate what is most beneficial for the long-term value of a firm or how to use CSR to maximize the long-term value of a firm.

Ambec and Lanoie (2008) however did attempt to show with empirical evidence seven distinct mechanisms that could be used to improve financial performance and thereby ultimately the long-term value of a firm. Moreover, the circumstances in which the desired outcomes are most likely to occur are described. Three of them concentrated on the increase of revenues whereas the other four concentrated on the cost reductions that a firm would encounter due to engaging in CSR practices. A significant remark is the fact that the authors did concentrate solely on the environmental dimension of CSP. The first opportunity for increasing revenues they acknowledge is better access to certain markets. The circumstances in which a firm is most likely to grasp the benefits is if they are supplying the public sector, as governmental institutions are attempting to source their products and services from green suppliers. Second, they propose the opportunity of differentiating products and thereby increasing revenues. Necessary circumstances are the availability of credible information about the environmental features of the product or service, consumer's willingness to pay a premium for these features and the existence of barriers for imitation. A third and last mechanism that is presented for increasing revenues is selling patented pollution-reduction technologies, which is more likely to occur when firms have already extensive R&D facilities. Furthermore, they present four mechanism for reducing costs. First, environmental performance can reduce risk and costs that could arise from external stakeholders like governments, NGOs, communities and the media. Firms from industries that are heavily regulated by governments and scrutinized by the public are most likely to benefit from environmental performance. Second, the cost of materials, energy and services could be reduced by more environmentally friendly production processes. Circumstances in which these cost reductions are more likely to occur are when firms have flexible production processes and there exist within the industry market-based environmental policies such as pollution taxes and tradable permits. Third, firms with high environmental performance have a lower cost of capital, especially firms with shares that are traded on the stock market. And fourth, the cost of labour of firm with high environmental performance can be lowered through reductions of costs due to illnesses, absenteeism, recruitment and turnover. Circumstances in which this will be likely to occur are when emissions can affect employees' health, when firms are attempting to attract young and well-educated employees, and when firms are located in areas where environmental concerns are more acute.

Husted and Salazar (2006) also contributed to the answering of the question of which requirements are necessary for a positive relationship between CSP and CFP. They present three distinct strategies for coping with CSR, which result in different amounts of social output but also different amounts of profits due to engaging in CSR activities. All three situations do not result in negative profits for the individual firm due to the social output it produces. This implies that Husted and Salazar (2006) are suggesting that if a firm embraces one of their three strategies none of them will decrease its profits due to investments in CSR. Moreover, they suggest that the most defensive and reactive strategy, which they named the coerced egoist case, eventually does not lead to the highest profit increase due to investments in CSR. Firms adopting this strategy invest just enough resources in order to prevent immediate penalization from governmental institutions and society in the form of fines and boycotts. Their strategic case, that incorporates CSR into the long-term value creation strategy, will lead to the highest increase in profits due to social activities and also to a higher amount of social output. Furthermore, they conclude that the coerced egoist case, which most of the firms are using as strategy, is least beneficial for society and the profitability of the firm. Thus, Husted and Salazar (2006) expect that the relationship between CSP and the long-term value of a firm will be more positively influenced if a firm incorporates CSR in their long-term value creation strategy than if a firm only reacts to the most severe and immediate social and political pressures.

Porter and Kramer's (2002) views were also congruent with Husted and Salazar's (2006) on certain points. Porter and Kramer (2002) first concentrated on corporation's charitable contributions. They posed that if these were invested in the improvement of the competitive context of a firm the long-term competitiveness of a firm would increase and thereby the long-term value would increase. This would imply that Porter and Kramer (2002) acknowledge that in order to improve the long-term value of a firm it is very important where charitable contributions are invested in and not per se the amount. If the charitable contributions are invested in demand conditions, factor conditions, the context for strategy and rivalry, and related and supporting industries, the long-term value of firm should increase according to them.

Moreover, Porter and Kramer (2006) acknowledged that not only the aforementioned outside-in linkages of the competitive context of a firm contain significant social issues that are worthwhile to address for the long-term value of a firm, but also the inside-out linkages of the value chain contain social issues. Furthermore, they state that if a firm addresses the social issues with the highest amount of shared value, which is the benefit for society and the competitiveness of a firm, the value created for the firm and society will be maximized. This is done for social issues that arise from the value chain activities by looking for solutions to transform value chain activities in a way that benefits society and reinforces the firm's strategy simultaneously. For social issues from the competitive context this is done by investing in the most salient issues that affect the long-term competitiveness of the firm. Porter and Kramer (2006) also stress that a social dimension has to be integrated in the heart of the overall strategy of firm, which is their core value proposition. If these requirements are met firms can reap the benefits of CSR, otherwise the investments in CSR are not beneficial for CSP and CFP.

Porter and Kramer's (2011) final addition to their plea of how to let CSR create as much as possible value for the firm and society was the reconceiving of firm's contemporary products and markets, which in their eyes would unleash a great wave of growth for firms and would address societal issues. This can be accomplished according to them by studying deeper societal needs and investigating how to serve non-traditional customer groups, instead of concentrating on persuasion and demand creation.

Finally, empirical evidence for firms' access to finance that are positively affected by CSP will be discussed. Dhaliwal et al. (2011) found empirical evidence for a positive relationship between initiating voluntary disclosure of CSR activities and a reduction in the cost of equity capital. Furthermore, they found that these initiating firms raise a significantly larger amount of equity capital than non-initiating firms. However, a paramount caveat of this study is the fact that it is an event study. Therefore one does not know whether the effects of the affected perceptions of investors and analysts are sustained or if it will remain a temporary effect. If this is not the case and no sustained competitive advantage is gained, the results for the value of the firm will be nihil.

El Ghoul et al. (2011) did address this issue and conducted a longitudinal research on the effects between CSP and the cost of capital. They found that firms with higher CSR scores had access to cheaper equity financing. Moreover, especially firms with high CSR scores for employee relations, environmental policies and product strategies had lower equity costs. On the other hand, high scores on the dimensions of community relations, diversity and human rights did not appear to lower the cost of equity capital. Furthermore, they found that participating in the tobacco and nuclear power industry increases the cost of equity capital. Although this does not have to lead to detrimental effects for the overall value of the firms from these so-called 'sin industries'. As firms from these industries are able to provide generally high levels of returns despite higher equity and labour costs (Smith, 2003). Based on their empirical results El Ghoul et al. (2011) conclude that their findings support the notion of firms with good CSR practices have higher valuations and face less risk.

Cheng et al. (2014) found similar results and concluded that firms with better CSR performance face lower capital constraints. They argue that this relationship materializes through two mechanisms: First, better CSR performance is associated with superior stakeholder engagement which enhances the revenue or profit generating potential of a firm through the higher quality of relationships with customers, business partners and among employees. Second, better CSR performance will lead to publicly disclosing CSR activities, the increase in transparency will reduce informational asymmetries between the firm and investors and thereby mitigate risk.

3.4.1 Conclusion

The answering of this sub-question started with the notion of Friedman's article, which was a dictum against CSR. The vast majority of the scientific world however was refuting his view. Many scientists refuted his view on normative grounds, arguing that corporations have to be ethically responsible. More importantly, they refuted his view on the detrimental effects on the profitability of the firm, especially on the long-term. The discussed authors followed the aforementioned recommendations of Margolis et al. (2007) which proposed a contingency and configurational approach towards the study of the relationship between CSP and CFP. Researchers started to investigate with which mechanisms and under which circumstances firms are able to structurally increase revenues and decrease costs.

Furthermore, Porter and Kramer (2002; 2006; 2011) argued why contemporary CSR practices are unfruitful in terms of the economic and social value that they generate. They showed in which social issues firms should invest their charitable contributions and how they should incorporate CSR into their overall strategy in order to reap the benefits for the firm and for society.

Lastly, an emerging stream of research did show empirical evidence for the lower cost of equity capital for firms with higher CSP (e.g. Dhaliwal et al., 2011; El Ghoul et al., 2011; Cheng et al., 2014).

All in all, scientists are convinced of the potential positive long-term effects on the value of firm due to CSP. At the same time they acknowledge that in order to maximize the benefits for the firm and for society a small number of social issues must be addressed that are most related to the firm's value chain and competitive context, and CSR must be a genuine part of the overall long-term value creation strategy of the firm. Which is not the case in contemporary CSR practices. Furthermore, they acknowledge that certain circumstances are necessary in order to be able to reap the benefits of CSP in the form of increased revenues and decreased costs, and that certain dimensions of the construct of CSR are beneficial for the long-term value of a firm and others do not seem to have an effect upon it. However, the most important notion on CSR is the call for abandoning the universalistic approach of CSR practices and stop the pursuit of the investigation of a dichotomous relationship between CSP and CFP.

3.5 How do valuators cope with CSP in their assessment of the going-concern value?

Now that one has investigated what the expectations of scientists are on the relationship between CSP and the long-term value of a firm, this sub-question will investigate the views of the actors that value firms in practice. This sub-question is relevant, because scientists opinion could be very positive on the potential positive effects of CSP on the long-term value of a firm. But in the end valuators are playing a major role in consulting investors about the going-concern value of a firm. And therefore if they are not convinced of the value of CSP or able to assign value to the effects of CSP, firms could be undervalued. This sub-question will attempt to answer whether valuators are considering CSP in their contemporary valuation methods and their views about a possible future integration of CSR factors into their valuation methods. It is worth noting that in the CSP ratings industry and the valuation industry CSR factors are defined as ESG factors, which stand for environmental, social and governance factors.

The incorporation of ESG factors into the assessment of the going-concern value is not a common practice among the surveyed analysts. Two of the analysts provided a negative answer on the question whether they incorporate ESG factors into their valuation methods, whereas the other two analysts did acknowledge that these factors affected the eventual value of the firm in a rather implicit way. This could imply that they do consider CSR metrics in their valuation but fail to explicitly apply a CSR label to these issues, which was earlier acknowledged as a plausible scenario by Warren and Thomsen (2012). One of the analysts exemplifies this view:

They (ESG factors) are often implicitly taken into consideration, and companies with a bad ESG track record are often criticised and traded at a discount compared to their peers (sell-side analyst 3).

Another analyst mentioned an extreme case scenario of the governance dimension of ESG factors, but social and environmental issues do not seem to be taken into consideration in the valuation:

In some extreme cases of bad corporate governance we may apply a discount to the DCF valuation or in case of a long term effect we reflect this in a higher discount rate (sell-side analyst 4).

About a potential future extension of the incorporation of ESG factors the opinions were again divided. Two analysts refuted the influence of ESG factors on the going-concern value, whereas the other two analysts restricted their positive opinion to certain elements of CSR and to certain situations. The respondents stated:

I do not see why a firm would be more or less valuable because of these factors and the effects would be marginal and temporary. If competitors see that it is profitable they will also implement these strategies and conduct the actions that are more eco-friendly or morally responsible. No sustained competitive advantage will arise from these factors. Competitors are constantly spying on each other and monitoring the results of each other's actions.

Society will determine the directions of the innovations based on discussion that are made on ethical grounds and firms and sectors are reactive to these discussions and revise the nature of the investments in innovations (sell-side analyst 1).

It is important to distinguish the various ESG factors, some are probably more important than others. And it may vary depending on industries (sell-side analyst 3).

This depends on the purpose of the valuation. Where valuation is used for a market related event (buy and sell recommendations) simpler more straight forward methods are preferred. In this case ESG factors should be considered only in obvious situations. Otherwise, higher risk should be accounted for in the discount rate (sell-side analyst 4).

The results of the survey show that the analysts take a rather negative stance towards CSP's positive affection of the going-concern value of a firm and that ESG factors are not considered in most cases. If they are considered they are used implicitly and no explicit method is in use for valuing them. Furthermore, some analysts do not see ESG factors affecting value in the future whereas others have more positive attitudes towards applying them explicitly in certain obvious situations. The latter group however could in the future be the largest group as the research divisions of private financial institutions are stressing the embedding of ESG factors into the valuation of firms. Due to the recent nature of these emerging recommendations the actual dissemination into the valuations methods of analysts will still have to occur in the future, and it remains hard to speculate whether or not ESG factors will be integrated in valuation methods by analysts based on these emerging recommendations. For a graphical example of the incorporation of ESG factors into a DCF valuation see appendix 13.

3.6 What are the discrepancies in the views of the scientific environment and the private valuators and their causes?

This sub-question will answer what the discrepancies and similarities are between the scientific environment and the professional environment on their views on the influence of CSP on the going-concern value of a firm. The answering will be based on the outcomes of the previous sub-questions, namely the fourth and fifth sub-question and to a lesser extent the third sub-question. Furthermore, plausible causes for the discrepancies will be discussed.

First of all one could state that the views of scientists' and analysts' views are not completely contradictive. The former group is more positive about a possible increase of value due to CSP and acknowledges the existence of a myriad of contingencies, mediating and moderating variables, necessary conditions and the fact that certain elements of the CSP of a firm appear to influence the long-term value of a firm whilst others elements of CSP do not appear to affect this value. However, they also stress that contemporary CSR practices of firms are not constructed in way whereby the potential positive effects can be reaped (e.g. Porter and Kramer, 2002; Porter and Kramer, 2006; Porter and Kramer, 2011).

The analysts on the other hand appear not to use CSP factors explicitly in their valuation of the going-concern value. Their rationales for not incorporating CSP factors into their valuation methods differ and multiple causes can be discovered. Some analysts refer to the discounted cash flow method they use for their valuation, whilst others use the same valuation method and do alter certain parameters. The discount rate is altered due to extreme cases in terms of CSP for example. This implies that some analysts do not perceive their valuation method as a de facto restrictive factor for incorporating CSP factors. Other rationales for not including CSP factors into the valuation of a firm are can be found outside the reach of the used valuation method, as the analysts also acknowledged whether or not they recognized the fact that CSP could affect the going-concern value.

While there is a considerable amount of consensus among the scientific environment, among analysts the views on this issue differ. Some analysts recognize, in line with the scientific world, that in certain scenarios and that certain elements of CSP can influence the going-concern value. Whereas others do not recognize the affective potential of CSP factors on the going-concern value. The rationales for not recognizing the affective potential included the lack of confidence in the creation of a sustained competitive advantage and the perception of CSP as a hygiene factor that is necessary to operate without affecting value. The former rationale implies that analysts do not recognize the fact that strategic CSR can be able to create a sustained competitive advantage as suggested by Porter and Kramer (2002).

The most compelling cause for the discrepancy could be the different focus of the two groups. Scientists seem to focus on major social and environmental alterations in the future that affect the long-term value creation potential of a firm, like the expansion of markets and the scenario of the combination of resource scarcity and increased demand. Analysts on the other hand seem to focus on the current prevailing paradigms of markets which they expect to continue in the future. This assumption is reflected in their valuation methods where in most cases growth rates and risk are not altered and seem to continue in perpetuity. Although among some analysts there exists a willingness to take ESG factors into their valuation in certain circumstances. Nielsen and Norgaard (2009) furthermore argue that despite the willingness of analysts to integrate ESG factors into their valuation a lack of an adequate valuation method is hindering this.

3.7 What implications do the aforementioned findings have for scientists, governments, firms and other institutions?

This sub-question will answer what implications the findings of the previous sub-questions have for scientists, governments, firms and other institutions.

First, as concluded by prior research (e.g. Margolis et al., 2007), the unfruitful universalistic and dichotomous approach towards the research field of CSP have to be abandoned by scientists. As the empirical results of this stream of research proofed to be inconclusive, because of the fact that a myriad of factors, like mediating and moderating variables, affect the ultimate consequences of CSP. Furthermore, the distinct elements of the broad concept of CSP seem to have differing effects in terms of affective power and the direction of the effects. Second, scientists have not reached consensus on the concept of CSP which can lead to different outcomes of researches that attempt to measure the effects of the same construct (Bouten and Roberts, 2013). Third, scientists have to be more cautious with their choice of construct that is used to measure the independent variable of CSP. As the objectivity of the providers of the data and the construct validity of the ratings can be questioned. Fourth, a contingency and configurational approach towards the understandings of CSPs effects is needed, whereas especially a contingency approach is emerging as a stream of research within the CSP research. An elaboration on this issue will follow in the next sub-question where the future directions of this research field will be discussed. Lastly, the empirical results show that scientists' view on the effects of CSP on the long-term effects of CFP are not disseminated among professional field of analysts, which could imply that more quantitative evidence is needed on the long-term effects of CSP and alterations of the contemporary valuation methods have to be explored.

Looking at the implications for governments, two issues arise. First, they have to bear in mind that CSP and CFP can be instruments for improving society. Firm's viability can be beneficial for society and does not have to be synonymous with a deterioration of society's interests (Carroll, 1999). And according to integrative CSR theories the existence, continuity and growth of firms depends on CSP (Garriga and Mele, 2004). Contemporary governmental policies however seem to be constructed in a way whereby society's interests are satisfied at the expense of firm's viability (Porter and Kramer, 2011). Second, government's CSP could be also a significant issue to scrutinize, as Banerjee (2008) stressed the influence of the world's largest corporations on governmental policies, and there exists a prevailing perception of corruption within the public sector (TransparencyInternational, 2014).

Looking at the results of sub-question one, firms seem to have acknowledged CSP as a means of mitigating immediate legal and reputational risk, but seem to fail to use CSP to foster their long-term value creation potential and society's interests. The latter was also stressed by Porter and Kramer (2002; 2006; 2011), and based on the outcomes of the surveys among analysts it seems that they are not persuaded sufficiently by firms actions to alter their going-concern values. Which could imply that the analysts' perceptions are congruent to Porter and Kramer's (2002; 2006; 2011) views of contemporary CSR activities of firms, and that these CSR activities are unable to enhance firm value. One might conclude based on the aforementioned findings that firms are lacking a long-term focus on CSR issues and therefore are unable to exploit future opportunities and mitigate future risk. Which would imply that they have to reconceive their long-term strategies. However, one has to bear in mind that non-disclosure of firms on this issue is not sufficient to reach a conclusive verdict on this point. As a plausible explanation for not disclosing the long-term strategy could be the prevention of sharing this secretive information with competitors, and thereby loose a potential sustained competitive advantage over them.

And finally there arise implications for entities that are responsible for rating firm's CSP. As was acknowledged in sub-question two the credibility and objectivity of rating agencies and indices that assess corporation's CSP can be questioned due to their profit maximizing nature and the conflict of interests that arises from the fact that the assessed corporations are in many cases also their clients. NGOs therefore could be a potential solution for the aforementioned issues that arise from the earlier mentioned rating entities as they are not associated with objectivity issues. However, as was concluded in sub-question two NGOs lack sufficient resources to conduct a thorough assessment of a large amount firms on a frequent basis. Therefore, collaborations between civil society institutions and private profit organizations that rate firm's CSP could be established in order to make progress in overcoming the aforementioned issues.

3.8 Which future directions are needed to progress this field of study?

Lastly, this last sub-question will propose five recommendations that will be beneficial for fostering this field of study. The recommendations concentrate on the independent variable of CSP, new research forms and the exploration of relevant related themes.

First, one could conclude that based on the literature review of the history of the concept of CSP that there exist a myriad of definitions and approaches towards the concept. Although, Dahlsrud (2008) found that most definitions are to a large extent congruent on the type of elements they contain, however a synthesis within this field of research is not extant yet. Furthermore, scientists should question their prior use of CSP proxies which were CSP measures of for-profit institutions which also had issues with the conflict of interests that existed between them and the assessed corporations which were in many cases also their clients. Hence, scientists should operationalize the concept of CSP themselves and use their own constructs for measuring CSP in future research.

Second, the continuation of the contingency approach towards studying the concept of CSP and the investigation of distinct elements of the concept of CSP should be pursued. As prior research has shown that the concept of CSP is a broad concept which contains a large amount elements which have different consequences for CFP, and prior research has shown that there exist mediating and moderating variables that affect the consequences of the independent variable of CSP. This research stream is still in an embryonic state however and therefore scientists should continue it in order to discover more relevant factors that affect the relationship between CSP and long–term CFP.

Third, as the prior empirical contributions to this field of research had mainly a large scale and quantitative character it was hard to find out which mechanisms caused the differing outcomes of these researches. Therefore, small scale qualitative and quantitative research could be beneficial for overcoming this issue, whereby a configurational approach towards the relationship between CSP and long-term CFP could be used in order to discover as much as possible factors that affect the relationship and through which mechanisms. A useful tool to for monitoring all the CSP factors, other factors and their relationships that attempt to affect the long-term CFP could be the balanced scorecard of Kaplan and Norton (1996). Hereby one could discover for an individual firm which unique chain of cause and effect relationships of different CSP factors within the four perspectives of the scorecard contributes to long-term CFP improvement and through which mechanisms. It would also be an useful tool for the measurement and monitoring of the progress of the factors that should contribute to the improvement of the long-term value creation potential of the firm, which can be done by monitoring relevant performance drivers and outcome measures. A possible unfruitful CSR strategy could be explained by the lack of progress of the performance drivers or the discovery of the fact that the performance drivers are not affecting the outcome measures and therefore should be altered. Another typical characteristic of prior research was that it was cross-sectional in nature or that there existed an one year lag between the independent variable and the dependant variable. As several researchers acknowledged explicitly and implicitly that the longer the longer the time horizon the more important CSP factors become (e.g. Warren and Thomsen, 2012; Porter and Kramer, 2011), it should be more fruitful for the demonstration of the potential of the beneficial effects of CSP to conduct longitudinal research whereby individual firms will be monitored closely over several years and possibly decades.

Fourth, as most prior research concentrates on the financial effects of CSP no attention was given to the effectiveness of the CSR actions of firms on their contribution to society nor their effectiveness towards the improvement of the ecosystem. Whilst the aforementioned two issues ought to be the performance drivers of the long-term value creation potential of a firm, and an end goal in itself based on normative grounds. Therefore, more research should be dedicated to this area.

Lastly, new valuation methods have to explored that are able to value ESG factors. As the contemporary widely used valuation methods are unable to value ESG factors and are anchoring paradigms within the analysts environment that assume the status quo will continue in perpetuity. Which could lead to significant distortions of the going-concern value of a firm.

4. Conclusion and delimitations

An overview of the most important conclusions of the previous eight sub-questions are presented in a table in figure 19.

Before reaching any conclusions and answering the main research question one has to stress some significant remarks regarding the delimitations of this thesis. First, it is highly unlikely that the representativeness of the sample that was used to investigate the valuation practices of sell-side analysts is very high. As the absolute sample size was very small and the sampling method was a combination of two non-probability sampling methods, namely purposive sampling and snowball sampling. Future research should, in order to increase the representativeness of the units of analysis, make use of larger sample sizes and attempt to make use random sampling methods.

Furthermore, it remained unfortunately outside the scope of this thesis to present any empirical evidence on the effects of CSP on long-term CFP due to time constraints and the lack of availability of prior research. However, this issue will remain hard to overcome due to its nature. As it is unfeasible to measure the CFP of a firm for the coming decades and thereby to be able to assess the extent to which the present going-concern value is affected by the future CFP. And precisely this evidence would be useful to influence firms, investors and analysts to alter their current perceptions and actions towards CSP. Due to the expected volatile and dynamic nature of global markets in the coming decades the ability to measure the long-term effects of CSP on CFP are paramount for incumbent corporations. As the coming decades are expected to differ drastically compared to the past decades in terms markets, ecosystems, demographics and a myriad of other significant factors (KPMG International, 2012), the empirical results of longitudinal retrospective studies are highly unlikely valid anymore and thereby applicable to current and future circumstances. Furthermore, due to the lack of the usage of effective CSR strategies in the past (Porter and Kramer, 2011), retrospective longitudinal research will not be able to empirically prove the full potential of the effects of CSP on long-term CFP. However, one could also start a stream of research that would measure the effects of different CSR strategies on long-term CFP, which would imply that it would take decades to reach any conclusions and thereby this stream of research would not provide any value to incumbent corporations presently. Thus, as mentioned earlier it remains very hard to tackle this issue.

When one attempts to answer the main research question one could tackle the issue from the perspective of different relevant actors. Especially from the extrapolation of prior empirical research is very hard to reach any conclusive answers on the question whether CSP has a positive influence on the long-term value of a firm. Even though there were found in many cases positive correlations between CSP and CFP (e.g. Bragdon and Marlin, 1972; Hart and Ahuja, 1996; Waddock and Graves, 1997; Preston and O'Bannon, 1997; Dowell et al., 2000; Barnett and Salomon, 2012), due to the quantitative nature of the researches it remains hard to assure that CSP is causing an increase of CFP. As another variable could be causing the increase of both variables or CFP could be causing higher CSP scores. The most plausible scenario however is the latter, as a significant amount of research found higher correlations for CFP causing CSP than vice versa (e.g. Preston and O'Bannon, 1997; Waddock and

Graves, 1997; Orlitzky et al., 2003; Allouche and Laroche, 2005; Margolis et al., 2007). Reversing the main research question by asking whether CSP has negative effects on CFP, a far more conclusive answer can be reached as prior empirical research, analysts and private profit-maximizing corporations do not see CSP as necessarily detrimental to CFP and the long-term value of a firm.

Based on the aforementioned findings of prior empirical CSP research and analysts valuation practices one could conclude that the CSP did not positively influence the going-concern value of a firm in the past and that firms with high CSP scores were not valued higher because of their high CSP scores by analysts. But, the most financially successful corporations did have the highest CSP scores. Do these findings exclude the possibility of CSP to positively influence the going-concern value in the future? With continuation of the current state of affairs an affirmative answer should be given. However, if firms would alter their CSR practices, invest their CSR budget in the right social and environmental issues, align their CSR strategy with their overall strategy and if analysts would alter their prevailing paradigms about valuation practices and their valuation methods, then there certainly could be a positive effect of CSP on the going-concern value in the future.

Figure 19: Overview of the main conclusions of the eight sub-questions

1. Which measures are used by private firms and disclosed about CSP?
• CSP measures are extant on websites and in annual reports of largest corporations, reports disclose information on conducted CSR activities and how they cope with relevant CSR issues • CSR is not a wealth redistribution mechanism anymore for firms • CSR evolved into a tool for mitigating immediate reputational and legal risk • CSP is treated mainly as a hygiene factor and not as a potential value affecting factor
2. Which measures are used by other entities for measuring CSP?
• Three streams of providers of CSP ratings are extant: Specialized screening agencies, stock indices that assess firm's CSP and include only firms with high CSP, NGOs • The construct validity of the first two streams of providers can be considered high from a descriptive lens. But not from a normative lens, as the financial implications are measured from coping with CSR issues instead of the social output. Furthermore, objectivity issues exist as the entities from the first two streams of providers are profit maximizing and there exists a conflict of interests as the rated firms are also their clients • NGOs do not face objectivity issues. But are not able to conduct a thorough assessment resulting from a lack of resources. Fear for the termination of their dialogue with firms causes cautiousness with public disclosure of firm's CSP
3. Which measures are used by valuators to assess the going-concern values of firms?
• All the analysts mainly used the discounted cash flow method for their assessment of the going-concern value • Most analysts do not consider intangibles in their valuation for differing reasons: the used valuation method, the fluctuative nature of intangibles and the difficulty of assigning value to them • Future scenarios are not considered in the valuation in half of the cases
4. What are the expectations of scientists on the relationship between CSP and long-term value of a firm?
• Scientists acknowledge the possibility that CSP can increase the long-term value of a firm, but dismiss an universalistic effect • Certain circumstances are needed to reap the greatest benefits in terms of structural cost reductions and increases in revenues • Especially social issues that arise from a firm's competitive context and value chain must be addressed in order to create the largest amount of value • CSR must be incorporated in the general long-term value creation strategy in order to create the largest amount of economic value and social value
5. How do valuators cope with CSP in their assessment of the going-concern value?
• Half of the analysts do not take ESG factors into consideration in assessments of the going-concern value of a firm, whereas the other half does alter their valuation in a rather implicit way due to ESG factors

- The latter group is positive about the explicit future usage of ESG factors for their valuation in certain specific contexts
- The research divisions of private financial and consultancy institutions are stressing the future embedding of ESG factors into contemporary valuation methods like the discounted cash flow method

6. What are the discrepancies in the views of the scientific environment and the private valuators and their causes?

- There exists more consensus among scientist than among analysts about the value increasing potential of CSP
- Rationales for not recognizing the value increasing potential of CSP among analysts include the fact CSP is seen as a hygiene factor instead of a value creating factor and the inability of CSP to create a sustained competitive advantage
- Discrepancies might be caused by a different focus of the two groups: Scientists focus on major social and environmental alterations that affect the long-term value creation potential with the continuation of contemporary strategies. Analysts focus on current paradigms in existing markets which they assume will continue in the future

7. What implications do the aforementioned findings have for scientists, governments, firms and other institutions?

- The universalistic and dichotomous approach of CSP research has to be abandoned. Consensus on the concept of CSP is needed. More caution is needed with the construct selection for the measurement of CSP. An increase of a contingency and configurational approach towards CSP research is needed. More quantitative empirical evidence is needed of the long-term effects of CSP and alterations of contemporary valuation methods have to be explored in order to convince analysts to incorporate ESG factors into their valuations
- Governments have to bear in mind that CSP and CFP are beneficial and have to pursued simultaneously instead of at the expense of each other. The CSP of governments and other public institutions is also worth assessing
- Firms might have to reconceive their long-term strategies for reaping the benefits of CSP
- More collaboration between civil society institutions and profit maximizing CSP rating entities is needed for overcoming current CSP rating issues

8. Which future directions are needed to progress this field of study?

- A synthesis on the point of the concept of CSP is needed. The usage of a self-constructed construct for CSP measurement would be useful
- The continuation of a contingency approach and study of distinct elements of the CSP concept is needed.
- Small scale longitudinal qualitative and quantitative research is needed whereby the studied factors can be monitored with the BSC.
- The study of the effectiveness of CSR actions in terms of progress for society and the ecosystem would be useful
- The exploration of valuation methods that are able to cope with non-financial metrics and future scenarios with major alterations would be beneficial for the ability to value ESG factors

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Appendices

Appendix 1

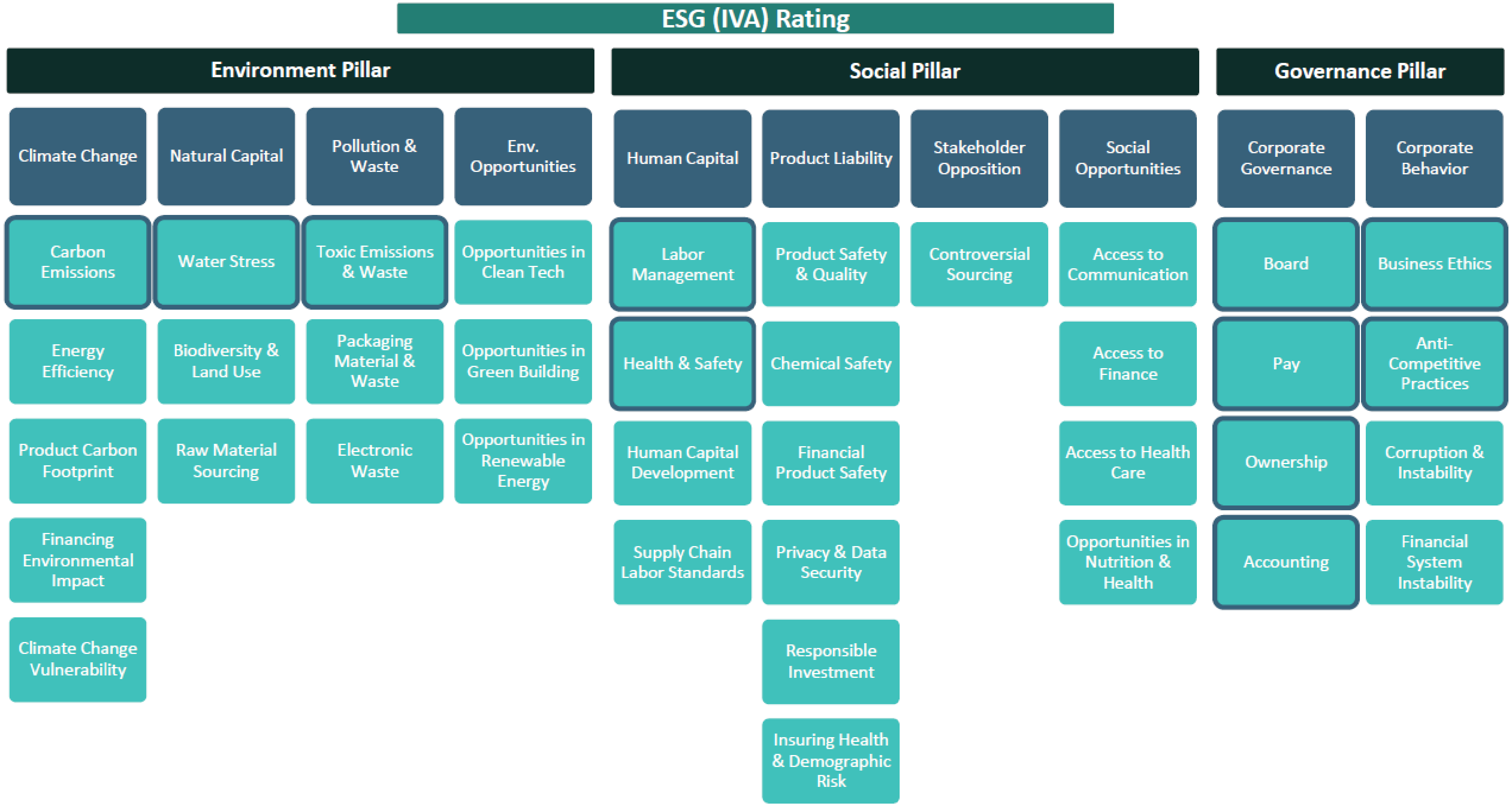
N100 countries:

Americas	Asia Pacific	Europe	Middle-East and Africa
Brazil	Australia	Belgium	Angola
Canada	China	Denmark	Israel
Chile	India	Finland	Nigeria
Colombia	Indonesia	France	South Africa
Mexico	Japan	Germany	UAE
US	Kazakhstan	Greece	
	Malaysia	Hungary	
	New Zealand	Italy	
	Singapore	Netherlands	
	South Korea	Norway	
	Taiwan	Poland	
		Portugal	
		Romania	
		Russia	
		Slovakia	
		Spain	
		Sweden	
		Switzerland	
		UK	

Source: KPMG International, 2013

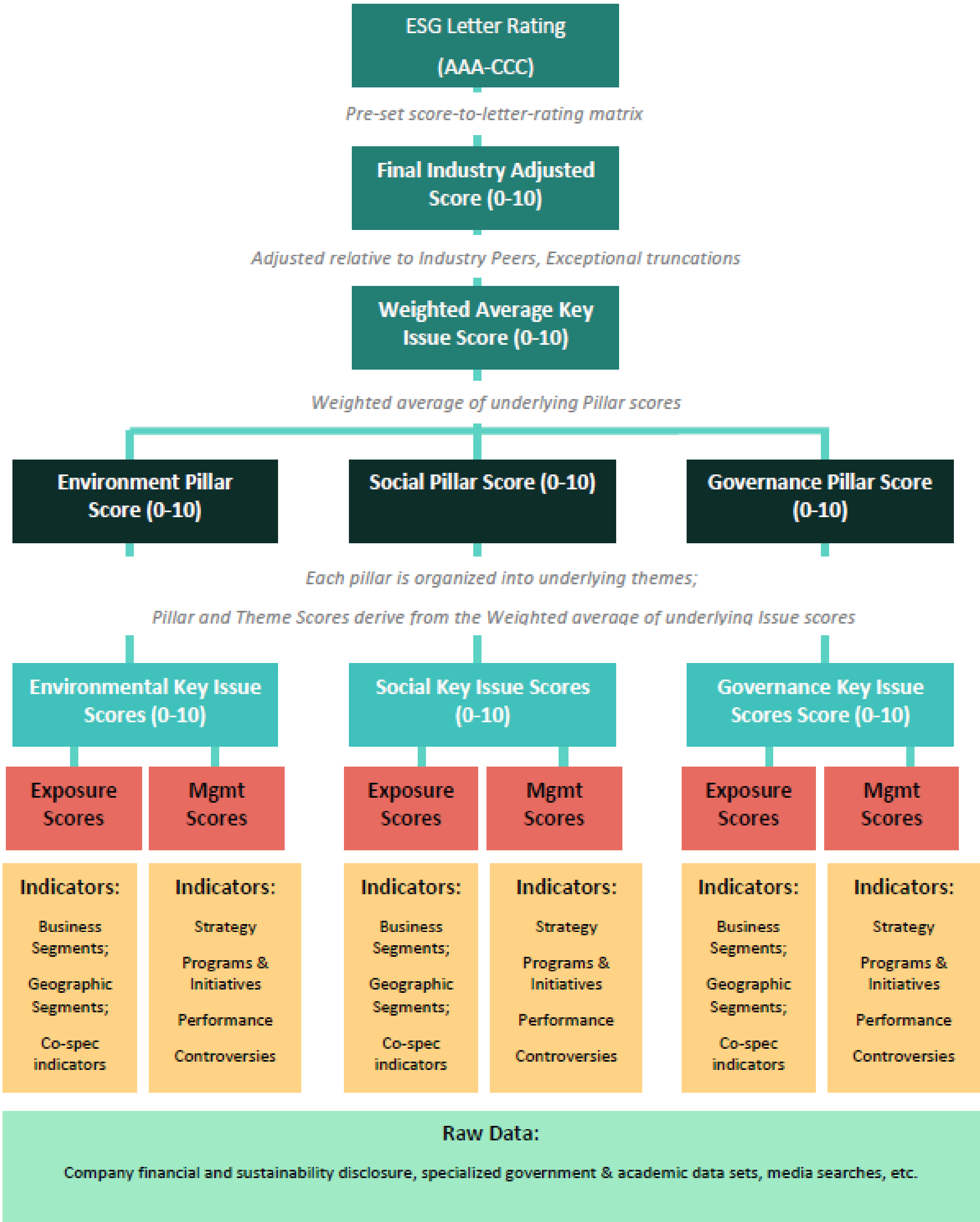
Appendix 2

MSCI ESG IVA issues assessed and hierarchy: Source: MSCI Inc., 2014



Appendix 3

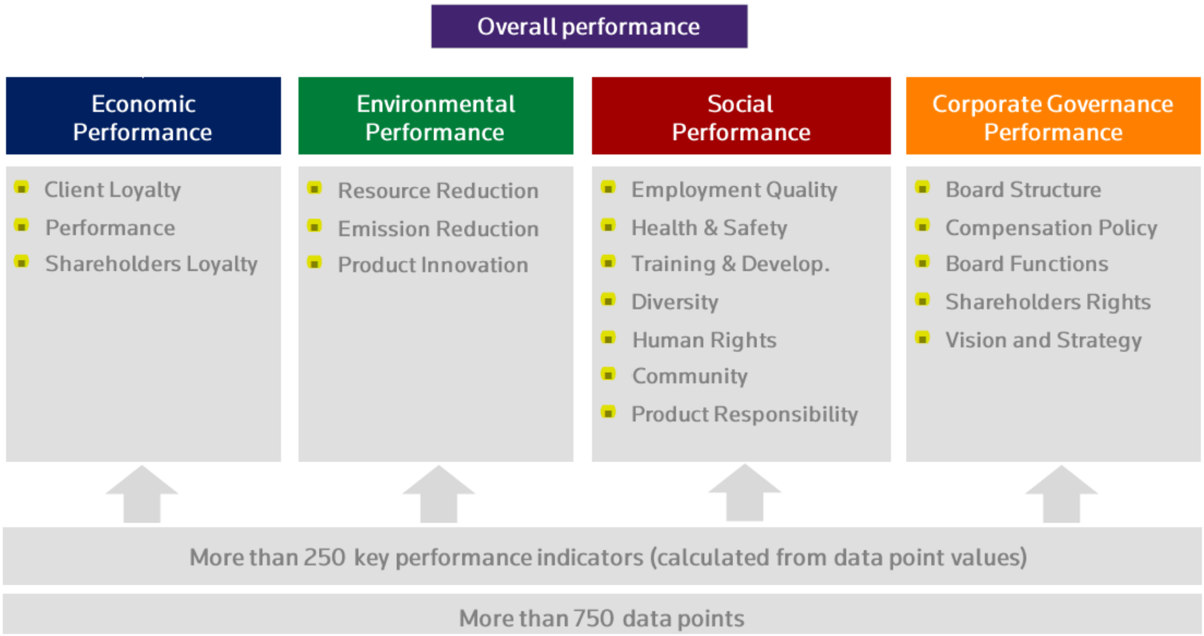
Hierarchy of IVA scores:



Source: MSCI Inc., 2014

Appendix 4

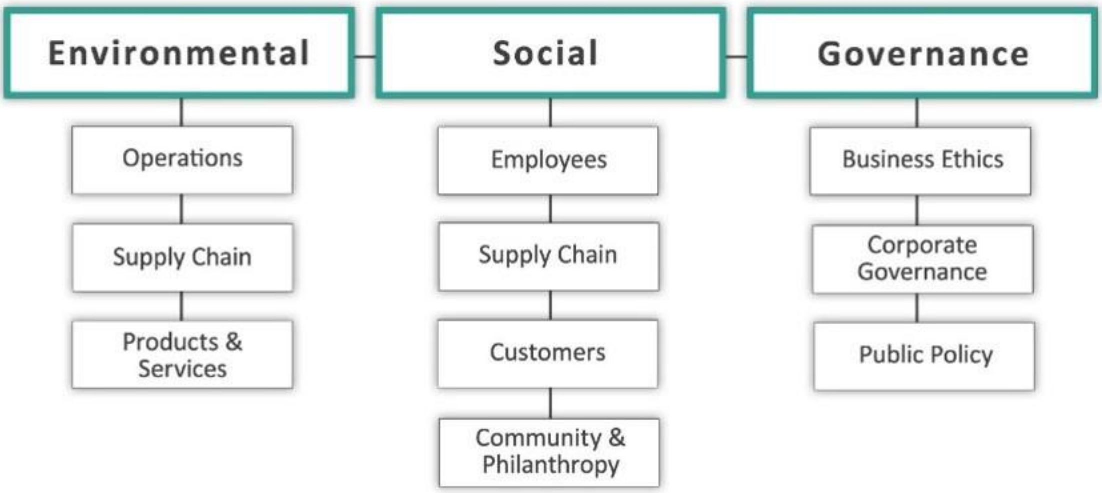
Performance hierarchy of ThomsenReuters ASSET4 ratings:



Source: ThomsenReuters, 2012

Appendix 5

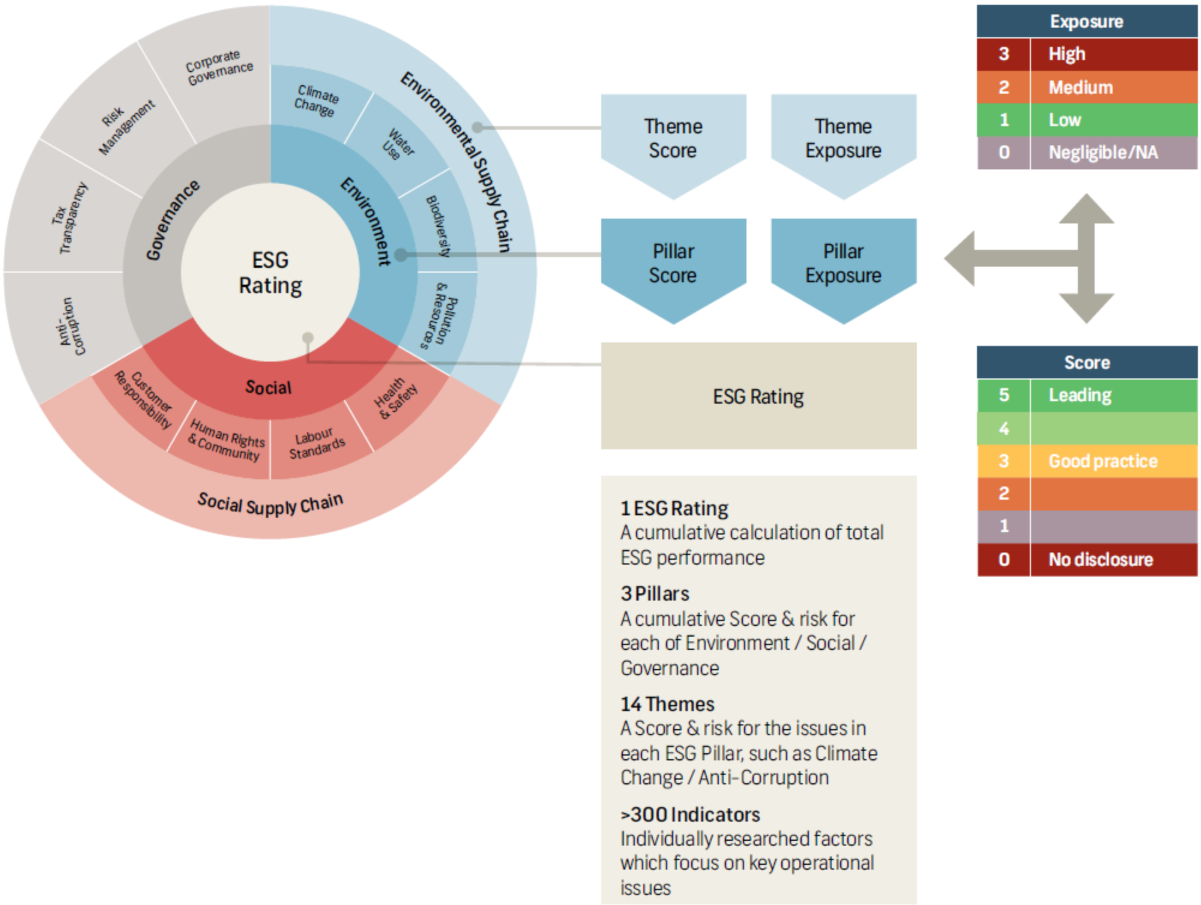
Rating hierarchy of SustainAnalytics



Source: SunstainAnalytics, 2015

Appendix 6

FTSE ESG ratings model:



Source: FTSE, 2014

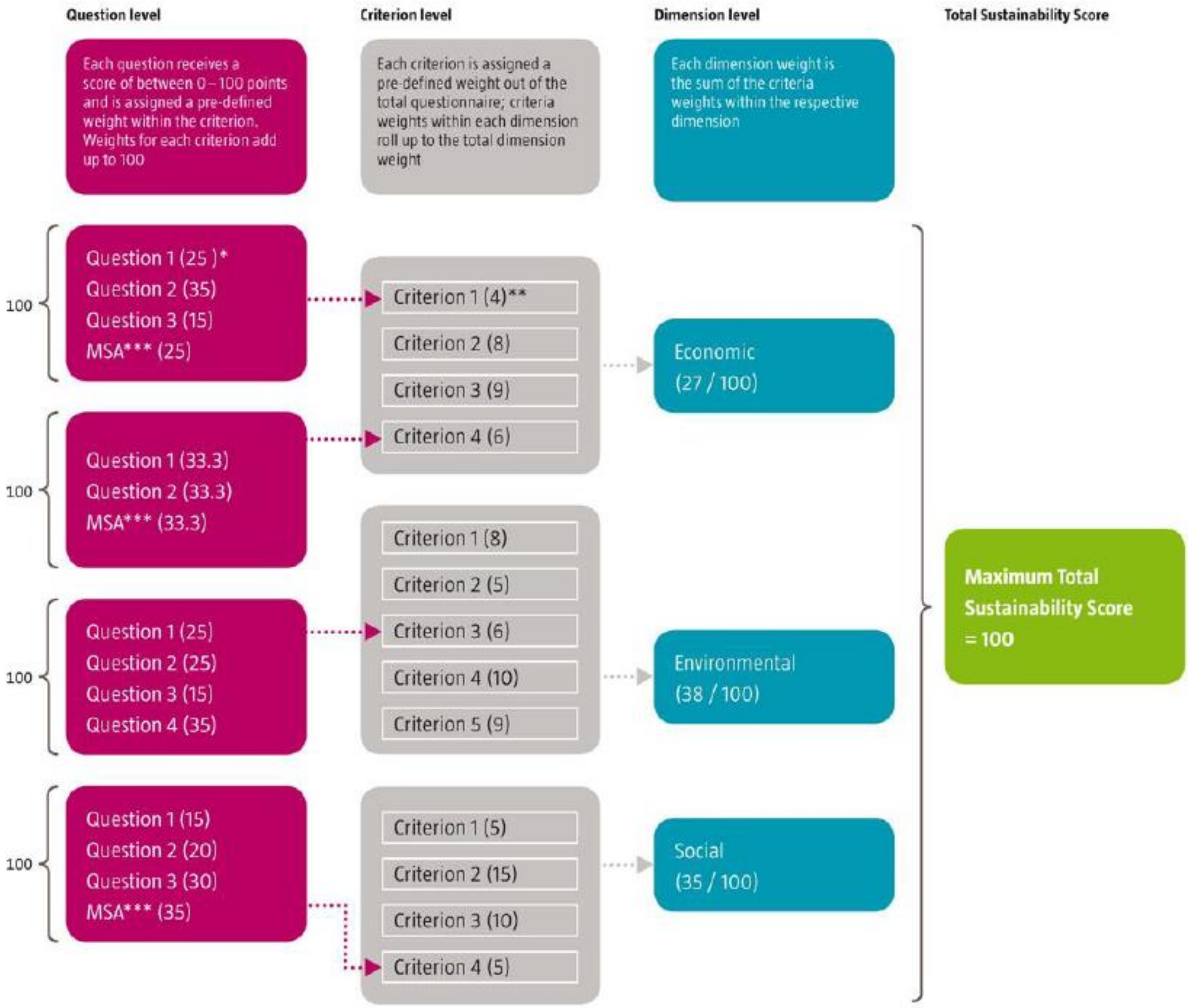
Appendix 7

Score hierarchy FTSE4Good rating: Source: FTSE, 2014

Data hierarchy	Score assessment	Exposure assessment	Data range
Top Level	1 ESG Rating		Absolute ESG Rating: 0-5 to 1 decimal point ESG Supersector relative ESG Rating: 1-100 percentile
Second Level	3 Pillar Scores Environmental, Social, Governance	3 Pillar Exposures Measures the relevance of each of the 3 Pillars to each company	Absolute ESG Pillar Score: 0-5 to 1 decimal point Absolute ESG Pillar Exposure: 0-5 to 1 decimal point ESG Supersector relative ESG Pillar Score: 1-10 decile
Third Level	14 Theme Scores e.g. Anti-Corruption, Climate Change, Health & Safety	14 Theme Exposures Measures the relevance of each of the 14 Themes to each company	Absolute ESG Theme Score: 0-5 to 1 decimal point Absolute ESG Theme Exposure: 0-5 to 1 decimal point
Fourth Level	350 Indicators Typically 10-35 per Theme An average of ~ 125 indicators apply per company	*Indicator applicability is relative to Theme Exposure*	Points assigned per indicator met

Appendix 8

Structure of the assessment process for the DJSI:



Source: RobecoSAM, 2014

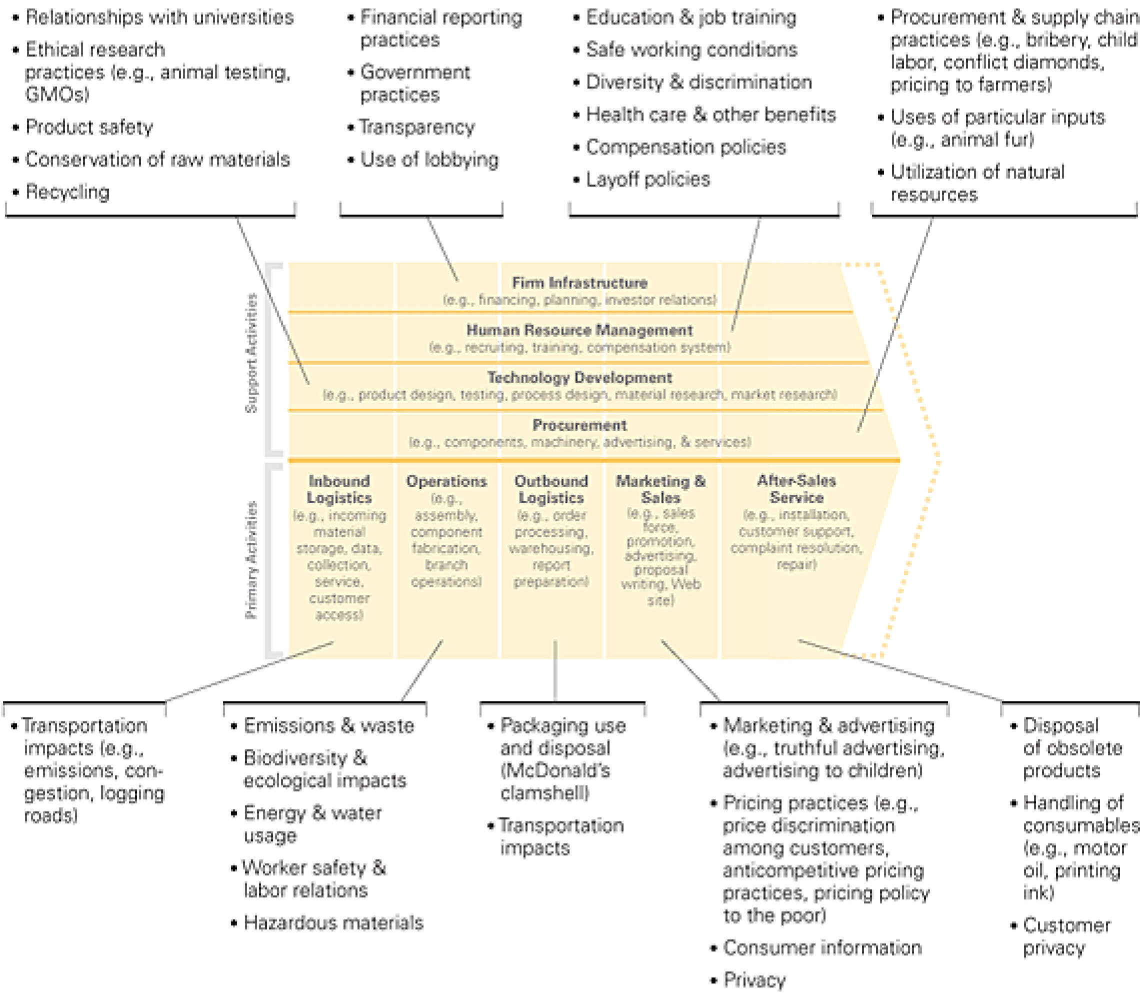
Appendix 9

Expert interview with Hilary Jeune, EU Policy Advisor, Oxfam EU Advocacy Office Brussels, Belgium

How are NGOs/Oxfam connected to private firms?
We see ourselves as the voices of people that are affected by firms and prefer to see ourselves as a civil society entity. We do not see ourselves as NGO but a watchdog. We are one of the three entities of an interconnected triangle that is composed of governments, NGOs and businesses. More specifically one can distinguish three categories of connections: First, there exist monitoring campaigns like the 'behind the brands' campaign which assesses the disclosed policies of the food and beverages sector. Second, there are collaborations between civil society, governments and firms like the Ethical Trade Initiative. And third, there exist partnerships with firms whereby their CSR initiatives are executed by civil society institutions.
How are companies monitored on CSP?
NGOs do not have enough resources to cover everything so they work in different sectors. You have for example the food and beverages industry, the clothing supply chain or mining industry or specific issues like labour rights, environmental rights, child labour that are monitored. So, yes companies are monitored by many different groups but it depends on which sector or what issue. And in most cases not individually. This is sometimes also a very sensitive issue and companies are becoming more aware of bad press. So many times NGOs choose the route of dialogue directly with them and not making it public. Making it public and company bashing often closes the door to any sort of dialogue in the future. See for example the case of disputes between Douwe Egberts and the Max Havelaar foundation. Douwe Egberts has taken loads of local authorities in the Netherlands and Belgium to court to say that their procurement process is wrong as they asked for fair trade coffee. They lost and went to the European court to decide. All because they refused to go fair trade after a massive protest by Dutch NGOs on their coffee. Which included blockading their headquarters. So it is very much a tactics decision by the NGOs how they work on this.
Do you have any sort of award for profit maximizing firms that achieve excellent performance on social and environmental aspects?
No, we do not have any form of awards. But if firms are linked to us in any sort of way it can be seen as an award. Furthermore, one has to be very careful with relationships with firms, as they could see one as a hazard. And therefore they could stop the whole collaboration with us.
What is your opinion about the CSP of the world's largest corporations?
Food companies for example are engaging in responsible initiates, but purely out of self-interest. They are realizing that they have to invest in small cacao producers and rural areas. Otherwise the people leave to urban areas. They are now creating a living wage for them in order to prevent that they will lose their input of resources for the production of their own products. If the firms did not create a living wage for the small producers the prices of cacao would increase significantly and reduce their profits drastically. In other words, it the cheapest solution in terms of profit preservation. Governments are also not too harsh on their firms as they are dependent on their taxes. And lower profits would mean lower budget for governments, and less resources to reign the country.

Appendix 10

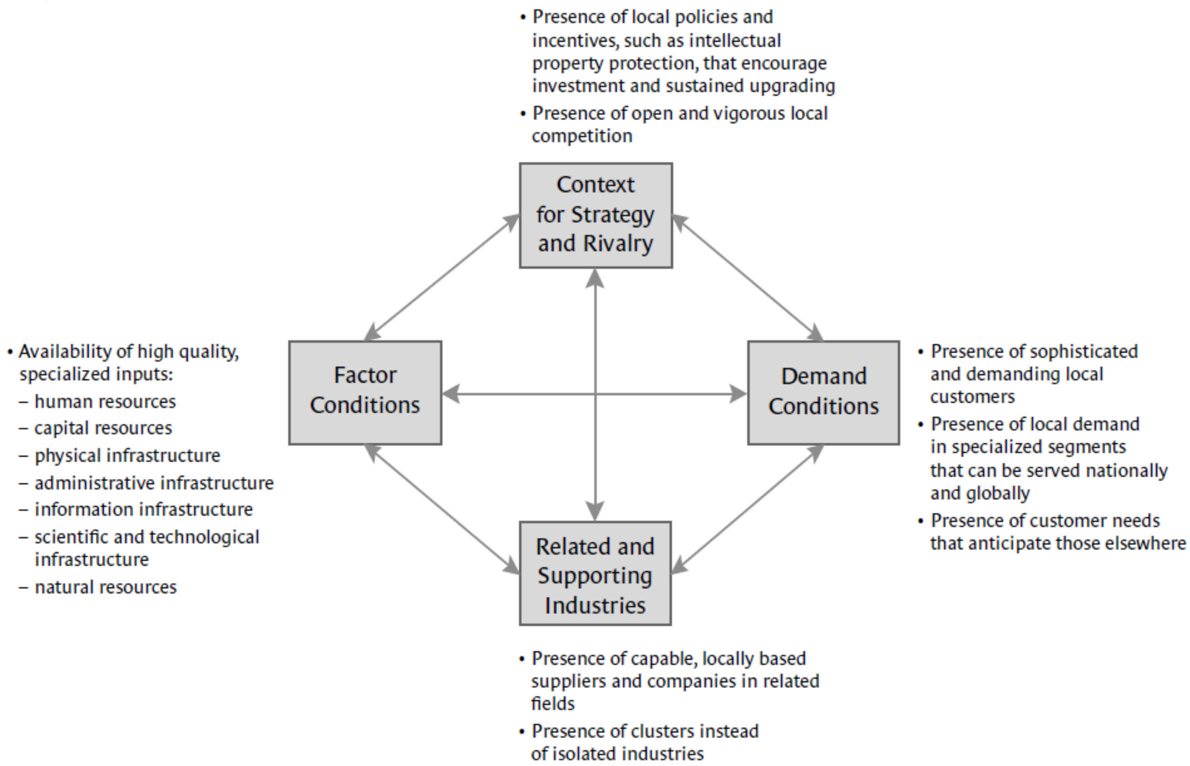
Inside-out linkages that arise from the value chain of a firm:



Source: Porter (1985)

Appendix 11

The four elements of the competitive context:



Source: Porter and Kramer (2002)

Appendix 12

Sell-side analyst interviews:

Sell-side analyst 1

1. Which valuation method do you use to assess the going-concern value of a company?
I use the DCF method for assessing the going-concern value of a company. It is the most used method and most convenient one to use.
2. How do intangible assets and future scenarios/events affect the value?
I find it very hard to assess. For example the potential projects of oil companies, they could prove very profitable or it could result in losing the invested resources. Or goodwill, Nokia for example had a very strong brand name, but is has lost is prior status. And how should one value these issues? It remains very hard. It will always fluctuate, therefore omitting these issues is better in my view.
3. Are ESG factors considered in the valuation, and if yes, in which way?
At best one could present some remarks. But the valuation is based on the performance potential of the core activity of the corporation. The investor does not care whether some firm is not environmentally friendly or products are produced with the help of child labour, they only care about their returns and the risks associated with those returns. And consumers do not restrain from buying from clothing retailers that use child labour in their production processes, they keep buying those products.
4. What are your views about integration of ESG factors in the valuation methods, and about their influence on the going-concern value?
I do not see why a firm would be more or less valuable because of these factors and the effects would be marginal and temporary. If competitors see that it is profitable they will also implement these strategies and conduct the actions that are more eco-friendly or morally responsible. No sustained competitive advantage will arise from these factors. Competitors are constantly spying on each other and monitoring the results of each other's actions. Society will determine the directions of the innovations based on discussion that are made on ethical grounds and firms and sectors are reactive to these discussions and revise the nature of the investments in innovations.

Sell-side analyst 2

1. Which valuation method do you use to assess the going-concern value of a company?
We use the discounted cash flow method for our valuations, which is the only right valuation method in our view.
2. How do intangible assets and future scenarios/events affect the value?
Intangibles do not play a role as they do not affect a DCF calculation.
3. Are ESG factors considered in the valuation, and if yes, in which way?
No ESG factors are considered in the valuation.
4. What are your views about integration of ESG factors in the valuation methods, and about their influence on the going-concern value?
ESG factors are seen as a hygiene factor. They are seen as necessary conditions to continue one's operations. The profitability or value creation potential on the long-term are not affected by these factors. And therefore they do not influence a going-concern value.

Sell-side analyst 3

1. Which valuation method do you use to assess the going-concern value of a company?
I use several valuation methods depending on the situation. The discounted cash flow method, peers trading multiples, transaction multiples, sum of the parts valuation (when you have several divisions with limited synergies between each other), net asset value.
2. How do intangible assets and future scenarios/events affect the value?
The value would vary depending on the anticipation of profitability (scenario driven) and how comparable businesses are valued on the stock exchange and in private transactions. Intangible assets can sometimes weigh significantly in the valuation of a business. It is particularly true for service companies where you can sometimes generate revenues/profits without necessary having significant tangible assets. In other businesses where trademarks and brands can command premium prices, intangibles are very important too.
3. Are ESG factors considered in the valuation, and if yes, in which way?
They are often implicitly taken into consideration, and companies with a bad ESG track record are often criticised and traded at a discount.
4. What are your views about integration of ESG factors in the valuation methods, and about their influence on the going-concern value?
Of course, this is a good idea. Although in practice investors would apply a discretionary discount to stand alone valuation to reflect negative ESG scores. Also, it is important to distinguish the various ESG factors, some are probably more important than others. And it may vary depending on industries.

Sell-side analyst 4

1. Which valuation method do you use to assess the going-concern value of a company?
It depends. In the utilities sector we sometime extend the DCF for the useful life of the power plants, otherwise we assume a rate of growth and rate of return into perpetuity which we apply to the final valuation. The latter methodology adds a lot of weight to the terminal value and it should be applied consistently across the sector.
2. How do intangible assets and future scenarios/events affect the value?
We do not take into account intangible assets in the DCF valuation. These are less relevant in our capital intensive sector. We take a view on future scenarios and events and use this view to calculate our estimates. The valuation therefore reflects the analyst's view on future events.
3. Are ESG factors considered in the valuation, and if yes, in which way?
In some extreme cases of bad corporate governance we may apply a discount to the DCF valuation or if long term we reflect this in a higher discount rate.
4. What are your views about integration of ESG factors in the valuation methods, and about their influence on the going-concern value?
This depends on the purpose of the valuation. Where valuation is used for a market related event (buy and sell recommendations) simpler more straight forward methods are preferred. In this case ESG factors should be considered only in obvious situations. Otherwise, higher risk should be accounted for in the discount rate.

Appendix 13

Example of the integration of ESG factors into a DCF valuation for firms from the beverages industry:

TRADITIONAL ANALYSIS		S+R ANALYSIS		
GDP growth, consumer spending trends	Volume of units sold	Consumer trends or regulation may affect volumes.	Health & Wellness	Governance
		Water scarcity could affect operations.	Water	
	x			
Inflation; commodity prices; competitive dynamics; FX.	Revenue per unit	Higher prices may be required due to taxation on sugar, for example.	Health & Wellness	
	-			
Number of employees, wage inflation, cost of goods sold; marketing; overheads; logistics, etc.	Operating costs	Investment in the supply chain could result in higher operating costs. Sustainable supply chain important to source products in a secure manner; local suppliers reduce transactional FX risk	Supply Chain	
		More expensive ingredients required to reformulate and maintain taste	Health & Wellness	
	-			
Expansion of production facilities	Capital Investment	The R&D cost of reformulating products to maintain taste with a reduction in sugar	Health & Wellness	
		Water scarcity may require investment in technology.	Water	
	-			
Current tax rates; countries of operation	Tax	Appropriate tax payments to local governments	Governance	
	-			
Interest rates; amount of debt	Interest	NA		
	=			
	FREE CASH FLOW			
	x			
	Useful Life of Assets			Governance
	÷			
Equity/debt split; cost of capital	Discount Rate	All risks above.	Overall ESG Risk	
	EQUITY VALUE			

Source: Alsford et al. (2015)