

## **Perception of CSR in Public & Private Companies**

Case: Itella & Lidl Finland

Afaq Latif

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<p><b>Author or authors</b> Afaq Latif</p>	<p><b>Group or year of entry</b> POBBA 13</p>
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<p><b>Teacher/s or supervisor/s</b> Dr. Evariste Habiyakare</p>	
<p>Corporate social responsibility has become an important and key concept for today's organizations. CSR refers to voluntarily behave in an ethical manner and contribute to economic development while, consecutively improving the society, workplace, and local community. The concept of CSR revolves around the notion of Triple Bottom Line, which is people, planet and profit.</p> <p>This study is specifically designed to study the concept of CSR and its perception in Public and Private companies in Finland. Different theories were analyzed in contrast with real companies to find out what motivates the companies to engage in CSR and what kind of benefits they tend to achieve by engaging in CSR activities. The sphere of CSR is examined and the founded theory is compared with empirical findings of the study</p> <p>The study aims at finding the possible reasons and motives which inspire companies to engage in CSR activities and also the possible benefits that companies can gain through CSR. Moreover, the question of CSR and its financial implications is raised and through the data gathered and analyzed, author of the thesis has also tried to answer it. The author has explained if or not there is any correlation between CSR and financial performance of the company.</p> <p>The results of the research are helpful in gaining better understanding of the concept of CSR and its implications. The results will enable companies to discover some major benefits of CSR and how to avail them. It will also be beneficial for companies in future decision making processes.</p>	
<p><b>Keywords</b> CSR, engagement in CSR, Implications of CSR, Motives, Benefits, Financial correlation</p>	

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## List of abbreviations

CSR	Corporate Social Responsibility
BE	Business Ethics
NGO	Non-governmental Organization
MNC	Multinational Corporation
FGTA	Finnish Grocery Trade Association

# 1 Introduction

This bachelor's thesis provides a viewpoint to the core question of engagement in Corporate Social Responsibility (CSR) and implementing CSR principles. Corporate social responsibility (CSR) is an uprising concept which appears to be one of the key elements of defining conscientious business practices. Various studies have been made in past to study the impact of CSR on a company's operations and the reporting standards. The main purpose of the thesis is to define CSR in contrast with the current standards and answer the most important question that why do companies engage in CSR. Moreover the thesis aims at providing the important information about the benefits that organizations seek and the financial outcome.

The idea of Corporate Social Responsibility is nothing new, nor is the concept that companies should always act in a responsible and ethical manner. In late 1880s when the industrialisation was at introductory stage it was also been debated about whether or not companies should take social responsibility. The supporters of the notion wanted to introduce some kind of written social ethics for business with the sole purpose to make companies socially responsible. Whereas critics argued that it could mean competition deteriorated and weaken economic growth so it should not be forced to companies. The discussions continued for long enough until recently in the last decade companies have started taking initiatives and have started to be more and more socially responsible. Number of socially responsible companies has increased in recent years and many companies engage in what is called now a days **Corporate Social Responsibility (CSR)**. (Adamsson & Johansson, 2008)

Corporate Social Responsibility (CSR) is defined by Lohman & Steinholtz (2004, 15) as "A concept whereby companies voluntarily integrate social and environmental concerns in their business operations and in their interaction with their stakeholders, beyond what the law requires."

Today there is an increased focus on businesses and what kind of social responsibility they are practising. It is not enough to only offer the best product or service, customers are now considering also the company's values and social responsibility in their purchases. As the consumer's knowledge increases, so does the requirements for sustainable and responsible derived products. Customers also want information about the production,

product content and how the company handled production and distribution. (Lohman and Steinholtz 2004, 16.)

### **1.1 Research problem & research questions**

The issue of corporate social responsibility (CSR) has been of constant concern and centre of discussion for organizations. In fact to be socially responsible is defined as the new reality of the business world. However, it has been really difficult to define what is meant by Corporate Social Responsibility.

This study focuses on Corporate Social Responsibility (CSR) and its implications. It aims at defining what CSR fundamentally means, and what the most common CSR principles are. The main aim of the research is to examine how Corporate Social Responsibility (CSR) is perceived by public and private corporations. The study also aims at defining and explaining the challenges that the organizations might face and the responsibilities they have towards the society. Moreover, it focuses on the various reasons & motives which lead to CSR engagement and also the benefits associated with these reasons.

Based on the objectives of this thesis research problem has been defined as **“Why do companies engage in CSR & How does it affect financial performance?”**

The research questions are built to support the objective of this thesis and lead to answer the main research problem of the thesis. Four research questions are derived

- a. What is CSR & How do corporations perceive Corporate Social Responsibility?
- b. How is Corporate Social Responsibility applied/implemented by companies?
- c. What are the main reasons and motives for having a Corporate Social Responsibility policy implemented?
- d. What are the corporate benefits of having good Corporate Social Responsibility?

By answering the above questions the author is able to better understand the concept of CSR and utilize the gained information to answer the research problem effectively. The questions are designed in such notion that the first question gives a better understanding of the concept of CSR in general and how the organizations perceive the concept in business environment. This will give author a better understanding about why companies pre-

fer to engage in CSR. The literature review including business cases, journals, articles and data analysis are used as the foundation for CSR. Also web published interviews by professionals discussing topics related to CSR process and personally conducted interview with professionals are included in the theoretical framework.

After getting a better understanding of the concept of CSR and its perception for businesses, the second & third questions help the author to relate this perception with the fact how then CSR is implemented in the organizations and the main motives behind having a CSR strategy implemented in the organization. The answer for the current questions comes from studying the annual reports and CSR reports of the companies.

Moreover any previous scandals, publications, newspapers and authors personal experience in the company also provides important information which is helpful in answering the questions. The company strategy and the shareholders point of view is also taken into consideration when discussing the motives for the implementation of CSR in the company.

Subsequently analyzing CSR & its implications and studying the benefits behind CSR the last question will help author to explain if there is any correlation between having a CSR policy and financial performance. For answering the last question company's annual reports are studied, personal interviews are conducted and used as a valuable source of information, articles and company related publications are also analyzed for solid results.

## **1.2 Implementation & thesis structure**

This is a research based thesis which seeks to answer the specified research questions. It is necessary to organize a structure or pathway for the author to follow in order to avoid confusion and proceed in a structural manner. Figure 1 represents the structure of the thesis from start till the end product. Step by step the whole thesis writing process is outlined specifying how to proceed with the research.

The theoretical framework serves as the foundation of this thesis and to build up a good theoretical framework I will use the methodology of literature review. Sources used for literature review are scholarly books on Corporate Social Responsibility, academic research papers, news sources like The Economist & Helsingin Sanomant, Online journals published by reputed sources (Harvard business journal, Academy of Management) and reliable internet websites. The most relevant authors studied for study are Smith, Graig N, Kotller & Lee, Branco & Rodrigues and Kramer & Porter. The literature review will serve as a solid basis for the empirical part of my thesis.



The empirical part of the thesis consists of the in-depth interviews and content analysis of CSR reports, Annual reports and publications. Here, I will apply insights gained in the theoretical part of the thesis and use a range of diverse methods for answering the research questions based on the analysis and comparison with the theoretical part.

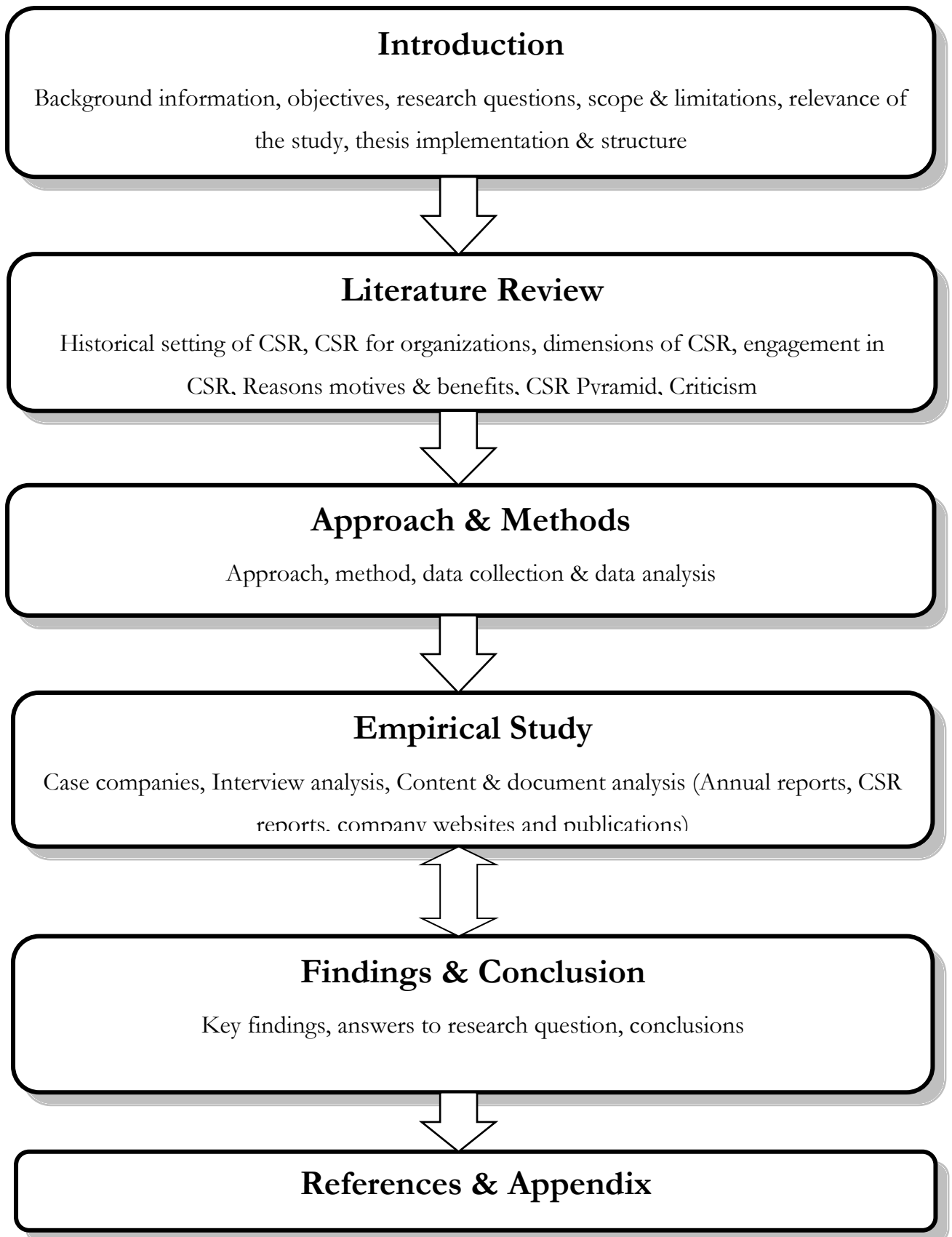


Figure No 1: Thesis Structure (Own development)

### **1.3 Scope & limitations of study**

The field of corporate social responsibility and business ethics (BE) is a very complex one and it offers quite a lot of issues worth investigating with all these changes going around globally. However based on the research problem this thesis focuses only on addressing the issues of Perception of CSR, dimensions & Implementation, reasons or motives behind having CSR and CSR's corporate benefits.

There are certain limitations to this thesis that need to be mentioned. Firstly, as the focus of this thesis is on specific companies and answering the research questions require studying the phenomenon in its natural settings, I decided to go on with conducting qualitative interviews. I decided to conduct in-depth interviews and decided to make use of the annual reports and publications. So the extent of research was limited and thus the choice of methods has impacts on the generalizability and transferability of the results that this thesis will produce. The combination of literature review, analysis of internal data and own qualitative research ensures reliability and validity of the results. However, the results cannot be generalized for all the public and private organizations but if done so it should be dealt with great caution.

## **2 Corporate Social Responsibility**

In this chapter the author will present the key theories and previous research studies that are relevant to the current study. The theoretical context of this study lays mainly in the concept of CSR and the impact it has on today's business life. The literature review starts with defining the CSR and the perception organizations have about CSR, because understanding the basic idea behind CSR lays the foundation of this thesis. The author has decided to study also some arguments against the concept of CSR to develop an understanding of reasons, why companies contradict CSR and if it's valid. After that the notion of engagement in CSR is discussed and supported by reviewing the motives behind engagement into CSR. This will help to build up a good design of benefits that organizations are seeking and to what extent they are engaging themselves to achieve their targets.

### **2.1 Historical setting of the concept of CSR**

The engagement of CSR has switched from obligation to policy or more of a strategy by companies. Before 1990s commitment and involvement in CSR was due to the pressure for "Doing good to look good" But today that is seem to be changing and a shift towards more strategic approach is practiced now a days, which is outlined as "Doing well and doing good". (Kotler & Lee 2005, 8-9.)

Corporate scandals have put corporations in the spotlight and now a days corporations are subjected to a lot of public's attention. Environmental disaster has also been exposed by the media and it is nearly impossible today to turn on the television or read the newspaper without being confronted with yet another corporate scandal.

However, corporate scandals are not anything new. They started with Charles Ponzi and Ivar Krueger in early 1900's. Charles Ponzi, who was an Italian immigrant discovered that he could sell international coupons at pretty high price in U.S.A which he bought abroad in order to make profit. The Ponzi scheme was also called pyramid scheme, in which initial investors made a lot of profit by investing for Ponzi. This created a fuss in the market and Ponzi was able to attract more and more investors. But soon after Ponzi stopped buying those coupons and instead started to pay the earlier investors off with the money he got from late investors. He conned investors in excess of \$20 million in total. (Mitchell 2005)

A 21st century scandal by Ivar Krueger is also an example of corporate scandals who run the business of match named "Swedish safety match". According to Frank Partnoy "Krueger used the laissez-faire spirit of the time to persuade cash-strapped European govern-

ments to grant him match monopolies, offering them loans financed by American investors in return". Investors didn't care much about the lack of transparency. He accumulated almost \$154m from them in America, which empowered him to replace banks like the House of Morgan as a source of global finance. After he committed suicide it was discovered that Krueger's accounts were inaccurate, US investors had also been swindled out of millions of dollars through fraud. (The Economist 2009)

It is the result of these corporate scandals which have created lack of trust and because of that shareholders and stakeholders need more and more transparency. Due to these new issues, CSR has become an important issue to be addressed. It has become almost impossible for organizations to escape scrutiny because of tending issues of transparency and accountability. Now the main question that organizations seek to answer is "How to response".

The demand for the companies that invest effectively in Corporate Social Responsibility (CSR) has increased dramatically in recent years from customers, suppliers, shareholders, employees and government. Companies have responded to that change by increasing their investments in CSR related issues. But at the same time some companies have resisted in investing in CSR, reason being CSR contradicts with the profit optimization of the company (Diana 2006; McWilliams & Siegel 2000).

Whatever the drivers for this trend towards CSR may be, the increasing number of reports regarding social, environmental and sustainable effects of the operating business indicate that the companies are taking CSR very seriously in their operations. Increase in interest can also be seen by the amount of academic and empirical research being conducted in the field of CSR.

## **2.2 CSR & organization's perception**

There is no single commonly accepted definition of the notion of corporate social responsibility, nor is a single approach available to be followed by companies. But there are a set of multiple variables which could be molded together into an action plan which could be followed. According to Jeff Buckstein organizations need to develop their own definition for CSR as what it means to them and then develop their own action plan to follow in order to be able to execute their operations in a socially responsible way to all their stakeholders. (Buckstein 2014, 1.)



Public expectations from the organizations to pay greater attention to CSR has increased in recent years and they intend to see more initiatives taken by organizations. Unlike in the past where CSR was limited only and perceived as to donating money for good causes at the end of the year, CSR has a totally new impression now.

In spite the huge build up around the concept today, CSR is not a unique idea. It is just the fact that criticism towards the corporations is far more influential and of great importance to them. Corporations are facing huge pressure by NGO's, community services and other institutional forces due to the increasing demand of responsible business operations (Smith 2003, 50-76.)

Due to the proliferation and increasing power of activist groups and greater media attention to responsibility matters, organizations' non-market strategies are likely to become more important in the future. Based on these facts, it appears to be that now a day's ethical behaviour and conducting business cannot be considered as to separated things from each other (Orlitzky, 2003)

As a response to heightened stakeholder interest, many organizations and MNCs have introduced and implemented new CSR initiatives and assigned additional capital to activities related to CSR. The statement cannot be ignored that organization performing in socially responsible manner helps to a degree, to swerve stakeholder interest on CSR issues. Additionally, this trend has been hardly gone unnoticed by the general public, which has witnessed, for example, mutual aid programs with NGOs and labour unions, Increase in launch of company code of conduct, CSR & Annual reports and corporate promotion campaigns illustrating accomplishments of obligation (Smith 2003, 50-76.)

As a result of amplified demands for CSR attention, now a day's reputational risk is an increasingly critical concern in many organizations, adding stress for CSR responsiveness. Current consumer is more rational and enlightened, which means that sheer symbolic gestures, or lack of actual commitment will be noticed and criticised. Stakeholders which includes the consumers, employees, communities, owners, investors, governments, supplier's competitors and NGO's can penalize the company for actions and practices which are perceived anti-social and not ethically valid. (Smith 2003, 50-76.)

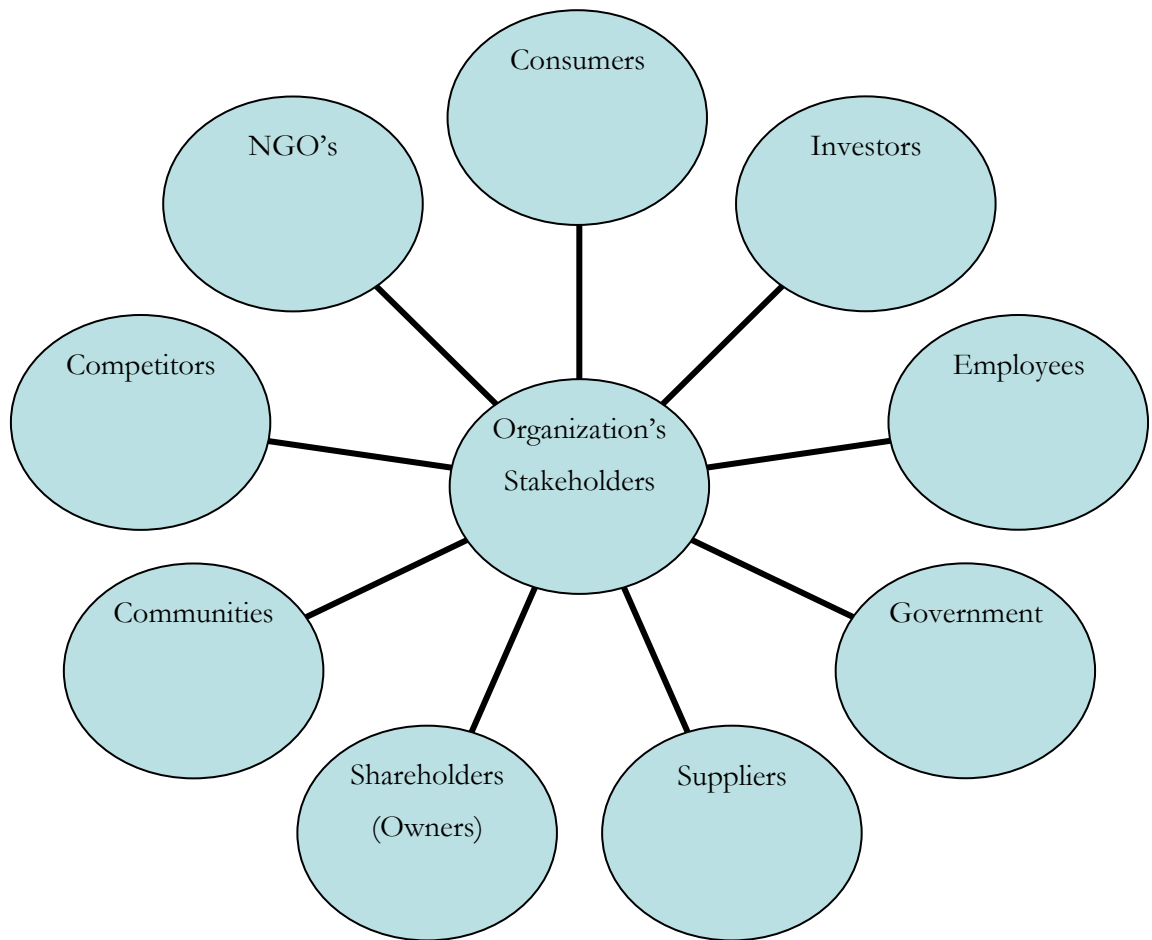


Figure No 3: Organizations Stakeholders (Own development based on Smith. N, 2003)

The overall relationship between an organization and its stake holders has been illustrated in the Figure No 3 which has been developed on the base of definition of stakeholders and their relationship with the organization by Smith, N in his book “Corporate Social responsibility Whether or How?”

Consumer boycotts and labour strikes are some of the commonly used penalties and obvious ways of protest against the organizations by stakeholders which not only disturb the daily tasks of the organization but more significantly can succeed in nurturing huge amounts of destructive media publicity. Due to the up-to-date and high-tech communication prospects, typically including smart phones and social media networking, consumers



are now a days able to get organized pretty well and set up boycotts and dissents effortlessly and quickly building negative publicity and image for the company. If corporations intentionally ignore the CSR ideology that prevails in the local market, they would most likely be putting themselves for increasing resistance and criticism leading to diminished image by the stakeholders (Smith 2003, 50-76.)

### 2.3 Dimensions of CSR

Corporate social responsibility is seen as the interaction between three different dimensions which includes Economic, Environmental and Social dimensions. According to Heiskanen (2004) it is of crucial importance that these dimensions are overlapping in daily operations of the organization. The concept is best explained by a diagram by Elkington John (1998, 56.)

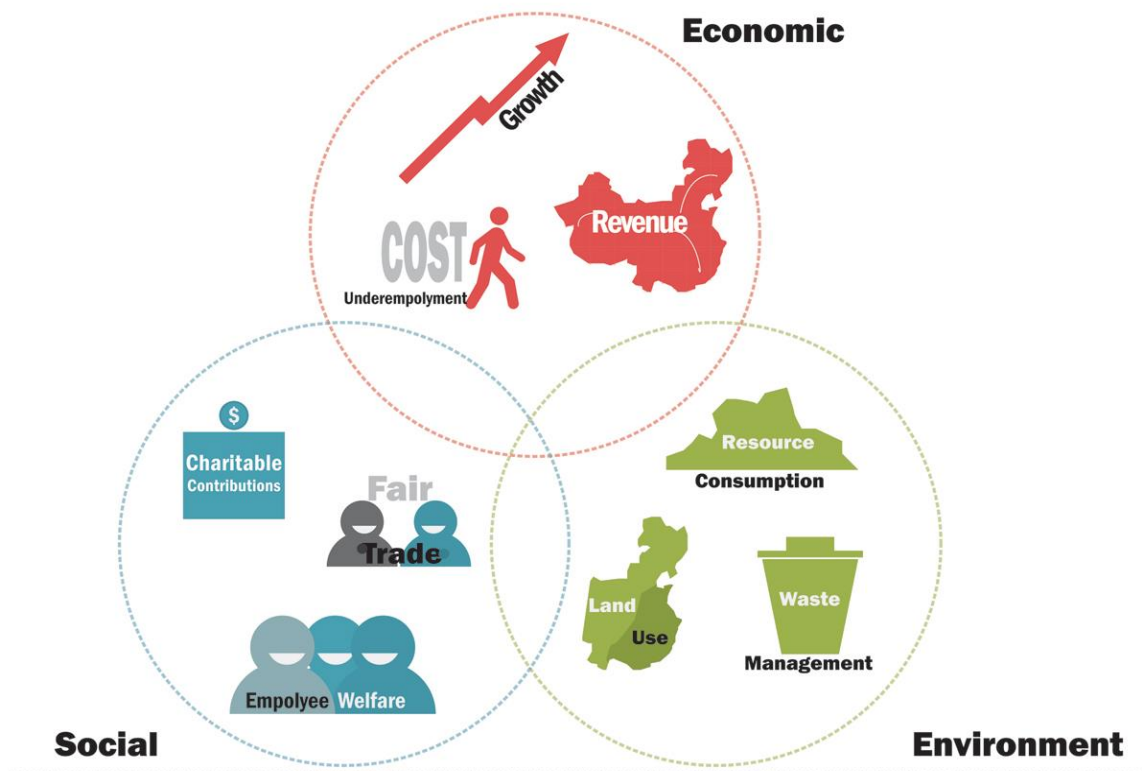


Figure No 4 = Different dimensions of CSR based on Elkington John's diagram (Boundless, 2014)

Ethics, morals and values are considered to be the most important drivers within these three dimensions. Concisely, economic dimension concerns financial prospects such as growth, employment and profitability. Environmental dimension concerns to effect on nature or natural system. Preserving environment for the next generations is one of the goals so in a sense responsibility reaches further than obligations. The main focus of social environment is related to social systems, health issues, human rights, labor rights. The social environment focuses on affected social systems. Health, justice, safety and human as well as labor rights and contribution to the society.

CSR is not only about making money for its shareholders, but there are also other dimensions to it such as acting as a good corporate citizen, be law abiding and taking care of environment and society. Decisions of the organization should be based on community investment, environmental impacts, human rights, and business ethics but not only on financial aspects of the business. In other words the triple bottom line should be kept in mind while making decisions. "People, Planet and Profit" (Heiskanen 2004, 18-19; Jamali 2006, 811-812.)

### **2.3.1 Economic Dimension**

Carroll (1991, 4) states that the businesses in past were "designed to provide goods and services to societal members".

The economic environment relates to financial welfare and it has been said that sustainable development can be achieved by planned economic growth. However, there is a majority supporting the view that the two concepts are totally different. (Rohweder 2004, 31.)

Carroll, Archie B (1991, 2) defines some of the basic characters of the Economic responsibility of the organization in the past being as following:

- Always perform to maximize the earnings per share
- Be committed to being profitable
- Hold a strong competitive position
- A high level of operating efficiency has to be maintained

The relationship has been best explained in the figure no 5 which has been developed by the author based on the definition and relationship of the economic components explained by Carroll, Archie B in her book. (Carroll 1991, 2.)

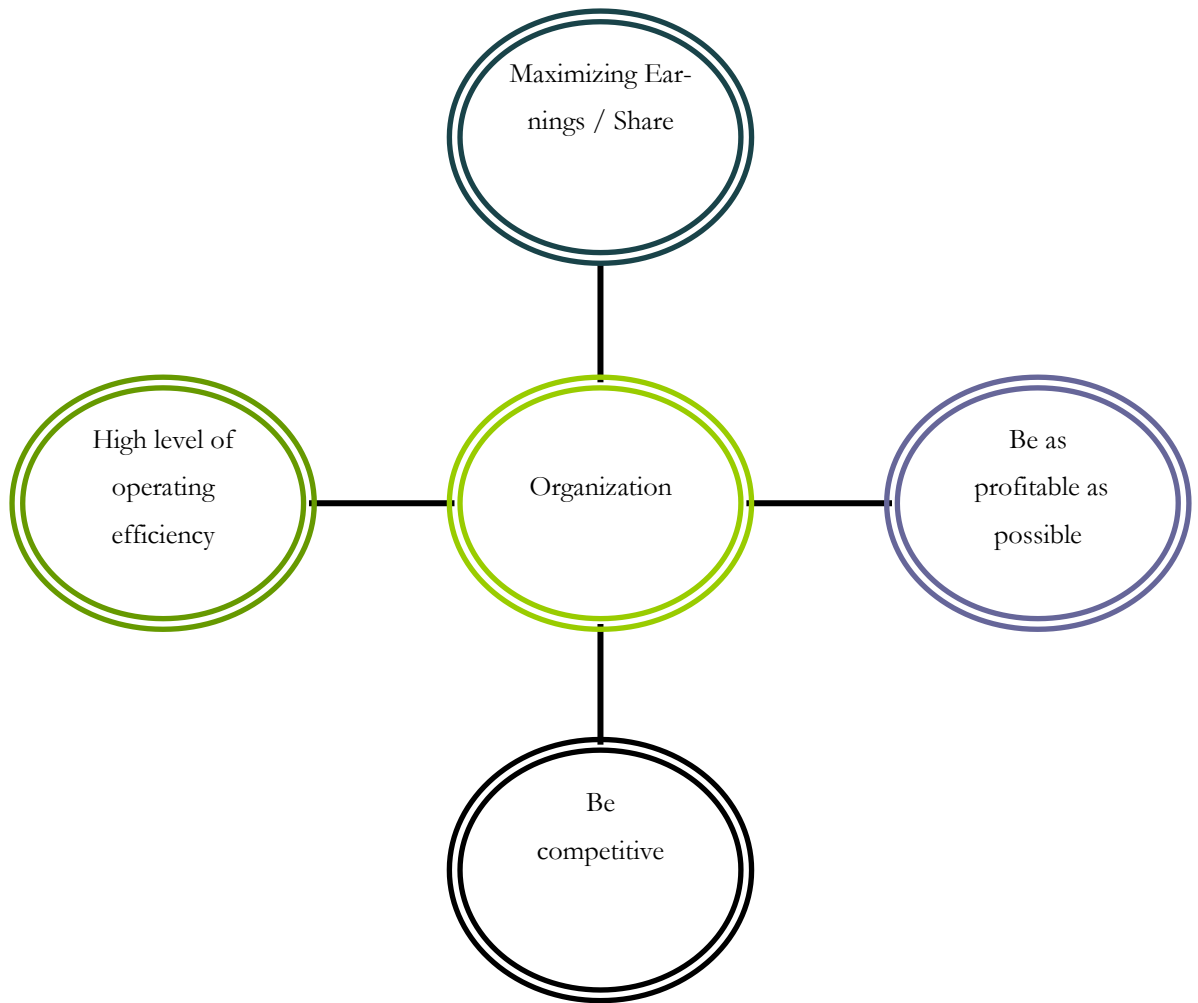


Figure No 5= Economic components of CSR (Own development based on Carroll 1991, 2.)

The recent trend towards globalization has moulded the economic environment in many different ways. There is a huge increase in direct foreign investments, new and effective production methods are being introduced and businesses are spreading to different locations and the improved infrastructure is uniting the business world. These developments have further increased the social welfare gap, while the main benefiter is the industrialized domain. The responsibility of companies to promote equal economic development has increased also effectively. (Rohweder 2004, 33-41; & Sibao & Huaer 2009, 134-135.)

Rohweder (2004, 97-99.) sums the economic responsibility as a combination of profitability, risk management and corporate governance. Directly it deals with cash flows, indirectly it has to deal with national, regional, global and social effects of the business. This makes it also important to practice CSR in other dimensions as well, because maximal profits are no longer the only agenda at hand for the company. It is now required that eco-

conomic stability is gained ethically which means human welfare creation without jeopardising the welfare of the environment.

### **2.3.2 Environmental Dimension**

The increased awareness of environmental problems has altered the nature and aims of international politics. Environmental dimension's objective is to secure the biodiversity and try solving problems at hand and avoid future problems. Investment in sustainable use of natural resources is an important part of this dimension. (Rohweder 2004, 45.)

Major organizations constantly try to affect the environmental agreements, especially the ones that require higher capital investment by protesting against them.

These organizations can even surpass many nations as economic entities. On the contrary, when legislation is strict, companies which are subjected to it normally become supportive to these legislatures in order to eradicate the competitive advantage of companies which have been under more soft legislation. (Kantola 1999, 139-140. & 290.)

Recent trend of environmentalism has turned its focus on human beings rather than being limited to environment and the dimension is only interested in issues that somehow have effect on the interest is only found in issues that have some impact on the grasp of human concerns and values, along with moral associations among them. Protecting the human welfare is the key task here, whereas environmental protection is seemed as a part of protecting human welfare to support sustainable development. (Heiskanen 2004, 26; & Rohweder 2004, 45-46.)

Decreasing natural resources, recycling and sustainable development issues have been the key factors for triggering the environment protection initiatives. At the moment, the issues have been divided in three categories based on local, regional and global problems and effects. Such as population distribution, uneven supply of natural resources, increased production, and amplified consumption. All these problems are causing instability and posing different types of risks. Environment protection initiative aims at raising the awareness about the issues and finding the equilibrium between human action and natural stability. (Heiskanen 2004, 26; & Rohweder 2004, 48-50.)

Environmental responsibility also has both direct and indirect features. The problems and risks that a company itself is imposing on the environment and using the natural resources more sustainably are the direct features of the responsibility. Whereas indirect responsibility can be practiced by protecting the biodiversity and by promoting environmental pro-

jects. Currently, more and more companies are changing the trend and moving towards practicing the protection requirements for the environment beyond the direct approach and more than they are expected. (Heiskanen 2004, 26-29; & Rohweder 2004, 99-101.)

### **2.3.3 Social Dimension**

Social dimension is all about the people and the social culture. Culture is the outcome of the inherited ideas, beliefs, values and knowledge which establishes the base of social action. (The free dictionary, 2014)

The major social responsibility sphere is dedicated for the protection of human rights. Power and control can be used as the means for violation of these rights. Now-a-days issues like illiteracy, health care deficiency or malnutrition are easily forgotten in many countries worldwide. The bigger problem is that countries do not tend to follow the agreements designed to overcome these problems. Because MNC's have the ability to both exploit or improve the human rights conditions, the Social responsibility is posed upon them by CSR.(Kantola 1999, 247-251.)

Social responsibility also has both direct and indirect impacts. Direct impacts could include human welfare care, employee's education, and respect for society as well as the culture. A company is also responsible for its products and health & safety issues and being truthful to the consumers. Indirect social responsibility can vary from local to global level. Indirectly, a corporation can behave responsibly by interacting with authorities, communities and people regarding the sustainability issues. Moreover, Interactions with business partners is also considered an indirect initiative. (Heiskanen 2004, 282-283.)

### **2.3.4 Pyramid of CSR**

The CSR pyramid is designed on a four-layer perspective, according to Carroll economic, legal, ethical and philanthropic standpoints are part of this pyramid. This conceptualization of CSR contains the "idea that the corporation has not only economic and legal obligations, but ethical and discretionary responsibility as well" (Carroll 1991, 3.) Philanthropic and ethical prospects of the pyramids are the one's which are getting more attention these days.

The CSR pyramid is used to determine the level of engagement into CSR activities by companies. A company can be categorized based on the level of their engagement into the responsibilities and thus could be evaluated to determine on which level of pyramid they are currently standing.



Figure No 6= CSR Pyramid based on Carroll 1996 (Global teams, 2014)

## 2.4 Reasons & motives for engaging in CSR

Corporations and suppliers have taken a step towards a more ethical business approach due to recent increase in awareness regarding corporate responsibility. Organizations are now tending towards ethics and its role in bringing economic benefits (Paine, 2003, 12)

According to Paine (2003, 12) “Ethics does not always pay in a short term, but it always counts”

Paine (2003, 12) states in her book that CSR is a very powerful tool and if used actively and smartly, it can bring many economic benefits. She argues that current era demands that corporations be more than profit generating machines in order to survive and perform well. They should be gradually watched as “humanistic entities rather than purely economic” (Paine 2003, 12.)

The motives for participating in CSR vary and depend on the company’s philosophy. A company’s CSR philosophy can be, compliance driven, profit driven, driven by caring, synergetic or holistic. A large number of views about the engagement in CSR are available (Miles & Munilla 2005, 371-385.)

According to Kramer & Porter (2006, 78-92) companies engage in the CRS due to four main reasons as following:

- Companies tend to believe that it is important to be a good citizen and do the right thing at the right time. This moral obligation drives them to engage in CSR activities.
- Companies engage in CSR activities as they are required to follow some rules and regulations set by communities, stakeholders and the government. It is in some cases set as the partial requirement for license to operate.
- The environment and the community are emphasized by the company for sustainability issues. The world council describes it as to fulfilling the current demands without compromising the eligibility of future generation to meet their needs.
- Companies may also engage themselves into CSR activities to improve their image and reputation. Another reason could be to improve the brand image and increase the stock value.

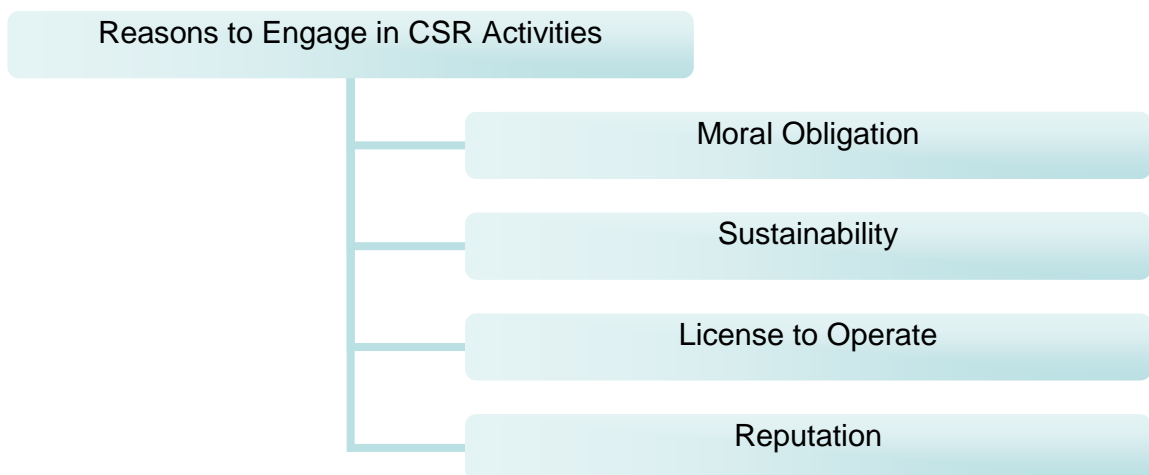


Figure No 7 = Reasons for CSR engagement (Own development based on Kramer & Porter, 2006 78-92)

According to Paine (2003, 12-15) there are five major motives for organizations to engage in CSR activities which are namely risk management, organizational functioning, market positioning, civic positioning and a better way motive.

Risk-management is of crucial importance in an organization. By being a responsible corporation an organization can avoid the risk of putting itself in crisis. A crisis doesn't necessarily have to be an accident putting environment or stakeholders in dangerous situation but it could also involve a situation where erroneous and mislead information is being spread about the organization. Organizations can eliminate this risk by Communicating their CSR engagement for example "Code of conduct". By communicating these rules that what is accepted and what not both internally and externally organizations avoid crisis easily. CSR strategy also helps in managing a risk or crisis situation when the crisis has already occurred. By having CSR strategy companies can manage and eliminate the risk associated with individual or corporate wrongdoing. Corporations now tend to pay attention to CSR as they want to avoid the high-profile blunders and billion-dollar damages. (Paine 2003, 12-15.)

Organizational functioning demands a high level of attention paid to CSR activities as CSR is less about risk management and more about the development of an organization as whole. CSR defines the values of organizations which are essential for "encouraging cooperation, inspiring commitment, nurturing creativity and innovation, and energizing the organization's members around a positive self-image" (Paine 2003, 12-15.)

Market-positioning is the third major motive behind CSR engagement as CSR helps the organization shaping its identity and building the brand name by focusing on the values defined by CSR management. By focusing on these values and communicating a clear set of corporate values organizations tend to earn the trust of stakeholders. One of the major concern for organizations is the fact that what customers think of them and their products, CSR helps defining the organization and communicates the message with the customers and stakeholders hence positioning the organization in market (Paine 2003, 12-15.)

Civic positioning is about company's standing and status in the social community, and not just in the marketplace or eyes of stakeholders. It has become really important for organizations to engage in community projects and play an important role in social community. Through CSR engagement companies aim to develop their company as progressive and reformative power for social improvement. Moreover, it helps in building good relationships with NGO's, government, local communities and aids gaining the legitimacy to oper-



ate in the community. The process as a whole encourages the positioning of the company as a “Citizen of the community” hence winning the trust of the society. (Paine 2003, 12-15.)

A better way motive argues the ethical principles which are fundamental values of responsibility, humanity and citizenship, and need no corporate validation as they are just about human rights. A better way motive is all about corporations basically being honest, fair and acting as a responsible citizen, which in turn helps them to win over the potential consumers and stakeholders resulting in increased economic performance. (Paine 2003, 12-15.)

Reasons	Functionality
<b>Risk Management</b>	CSR management can eliminate risks related with corporate and individual crisis.
<b>Organizational Functioning</b>	CSR values shape a well-functioning organization that boosts cooperation, encourages commitment, develops innovation and improves image of the company.
<b>Market Positioning</b>	CSR helps shape a company's identity and reputation, it helps brand building and aids in earning the trust of stakeholders.
<b>Civic Positioning</b>	CSR encourages the development of company's image and establishes the company as a strong pillar of the community.
<b>A Better Way Motive</b>	CSR helps the company to honour human rights and its value thus bringing the organization the right to operate.

Figure No 8 = Summary of CSR motives (Own development based on Paine 2003, 12-15)

Kotler & Lee (2005, 10) argue that “The main reasons for the companies to participate in CSR are to look better, feel better, do better and live longer”.

If a company participates in CSR activities it will look good to the potential customers, investors and media. Moreover it is also claimed that by participating in CSR employees, customers, stockholders and board members will actually feel good. They also argue that CSR helps to improve the brand which results in lasting longer (Kotler & Lee 2005, 10.)

Today the importance of corporate image and reputation has increased a lot as the markets have become more competitive. To improve and maintain a good image and reputation many companies are engaging in the CSR operations. And organizations can face serious hit in their image or reputation if the consumers are not satisfied with their operations (Smith 2003, 50-76.)

Kotler & Lee (2005, 10) state that reputation of the organization has become very important intangible asset in recent years and that the organizations with strong image and reputation are tend to last longer. They also state that by having a good CSR image a company can create competitive benefits such as improve sales, strengthen financial relations, harmonize employee relations & boost recruitment and managing crisis.

## **2.5 Corporate benefits of CSR**

Companies engage in CSR for the benefits that are associated with the practice of CSR in business. Some of the major benefits listed are, improved sales & Market share, strengthen financial relations, Harmonize employee relations and increase recruitment, improved brand positioning & image, decreased costs and crises management. (Kotler & Lee 2005, 10.)

Improved Sales and market share: Customers now a days are more concerned about the product development rather than being apprehensive about the quality and price of the product. This shift has forced the companies to operate in more sustainable and responsible manner as now actions are more important than what companies say. (Kotler & Lee 2005, 12-19.)

Moir (2001, 16-22) believes that the customers considering to buy the products or services are very anxious about the company’s engagement in CSR activities. He states that

a strong image developed from the organizations CSR activities expands the sales and market share of the organization.

**Strengthen financial relations:** By acting in socially responsible manner organization aims to raise the level of awareness and make its presence in the market known in order to attract significant players in financial loop. Specifically, they try to increase the investor appeal of the company. Investors do not like to invest in a negligent and immoral business as those companies do not possess value in the market. Therefore investors are more persuaded to invest in businesses with active CSR actions and exceptional reputation (Smith & Taylor 2002, 668.)

**Harmonize employee relations and boost recruitment:** The organization engage in CSR activities to retain a good image which encourages potential candidates to associate with the organization. CSR also plays major role in maintaining a motivated work force. Employees feel proud and committed to values of the company which ensures better performance and economic gains for the company. CSR results in greater employee loyalty and good relations with the employees help maintaining the human capital as well as attracting new people. CSR gets more and more important in retaining good workforce as employees now a days prefer to work with companies who are more and more socially active and operate in responsible manner (Kotler & Lee 2005, 12-19.)

**Improved brand image & positioning:** Brand image of the company lies in the hands of the customers and as customers have a positive attitude towards the companies which are involved in the CSR activities, it makes it vital for companies to include CSR in overall operations to ensure customer affiliation with the products. Customers associate themselves with the values of the company which creates a specific brand image of the company. They also state that by acting in a more responsible manner companies can improve the brand image and overall positioning of the company in the market. (Kotler & Lee 2005, 12-19.)

**Reduced costs:** Companies which are engaged in CSR activities are most likely to get free publicity in newspapers, articles being published in the newspapers and interviews being conducted, which can help to reduce the direct marketing costs such as costs of marketing campaigns. Thus CSR can also act as a cost reduction and profit increment element for the organizations. (Kotler & Lee 2005, 12-19.)

**Managing Crisis:** The good image and reputation developed through CSR activities can also be a real good asset for the organization in times of crisis. The company actively in-

involved in CSR activities presumes an innocent image in case of crisis thus resulting in less or no damage to the company. The Companies craving for improved risk management is the biggest benefit that organizations seek and is a powerful factor behind CSR engagement.

It will be impossible for less responsible companies to obtain working capital, finances or even to develop steady business relationships with stakeholders. It is really important to act responsibly in order to maximize long-term profitability and value as today. (Kotler & Lee 2005, 12-19.)

According to Kotler & Lee (2005, 12-19.) "It is not only accepted to act in a social and responsible way but it is what is expected".

The fact that CSR has become very important in long run and it is key role player in gaining the competitive advantage over the competitors has been acknowledged widely. In addition the organizations which are highly rated for involvement in CSR activities have greater performance and outcomes than the ones with low involvement in CSR. (Kramer 2006, 78-92.)

The economic institutions such as stock market has started to register and list the organizations which are managing CSR activities and the data about the CSR activities is also listed for the potential stakeholders. All these actions has increased the pressure on organizations to participate actively in CSR. (Idowu 2007, 136.)

### **2.5.1 CSR & concept of financial performance correlation**

According to McGuire, Sundgren & Schneeweis (1988. 854-872) "It is really hard to determine whether there is any relationship between the financial performance and CSR engagement". Due to the fact that there is very scarce evidence and conformity in the matter determining the correlation is very hard.

There are three major view-points to the concept to determine if this kind of relationship exists. Firstly, the company engaging in CSR activities is most likely to face economic disadvantaged situation than the one not investing in CSR. The second approach states that the company investing in CSR is benefited in terms of productivity and employee morale. The third interpretation of the view-point stresses that the costs of operation aroused by investing in CSR are offset by the benefits received. The authors further explain that, due to these investments the consciousness among the customers is most likely to increase. Which will build up customer loyalty and ensure profitability in long run. It is also

explained that CSR is not only effective to build strong relationships with the customer but it also helps to construct relation with other stakeholders. These kind of relationships facilitate the business to ensure profitability (McGuire, Sundgren & Schneeweis 1988, 854-872.)

It is been argued that by engaging in CSR there is an increment into the costs of the company in comparison with the competitors not engaging in it. However, the customers are not interested into the companies which are not engaging in CSR activities and maintaining responsible operations. (McGuire, Sundgren & Schneeweis 1988, 854-872.)

The major objective of organizations behind engaging in CSR is to improve financial performance. However, the case is not same for all the companies engaging in CSR. It rather depends on the attitude of the higher management and the degree to which the company esteems itself to be responsible for the society. (Sarbutts 2003, 340.)

## **2.6 The concept of CSR & stakeholder theory**

Acknowledging the significance of the stakeholder is crucial when engaging in CSR activities. It is of keen importance to stress on the issue of instrumental stakeholder theory as the satisfaction of stakeholders is the key to long term success of the business. Furthermore, by having good relationship with key citizens of the marketplace generates competitive advantage for the organization. Due to these specific reasons organizations are motivated to act responsibly and engage more and more in CSR to create sound relationship with stakeholders. (Jones 1995, 404-437.)

With the high amount of power stakeholders have over corporations today, it seems only natural that stakeholder theory is considered as the dominant paradigm in CSR. In current era, stakeholders possess a high amount of power over organizations. Which makes stakeholders naturally the centre of attention in CSR activities. Multiple stakeholders have different views of their own which are indirectly manifested in their demands from the organizations. Meeting all these demands from various stakeholders also presents a substantial, if not insurmountable, challenge for the organizations. (McWilliams & Siegel 2001, 117-127.)

Concerning this challenge, Strike (2006. 850-862) argues that organizations are good and bad at the same time. He explains the notion that organizations being socially responsible in certain activities thrive in creating value, whereas being socially irresponsible in other actions end up destroying the value. It is commonly agreed that employees of the firm are

one of the key stakeholders, not only the resource of the organization. But in reality it appears to be somewhat different, as there have been many scandals involving misuse of the employees.

Numerous institutional stakeholders, such as social movements, labour unions, government and NGO's have stressed on organizations to treat employees in more responsible manner. The responsibility issues regarding to employees mainly includes, respecting the work contract, observing the practices of local culture, human rights and following the health & safety regulations in general. By treating employees in good and responsible manner, organizations are more likely to increase employee satisfaction which promotes lower employee turnover. (Campbell 2007, 950.)

The fact that pressure has increased from stakeholders to engage more and more in CSR activities and to act in responsible manner. Moreover, they explain that it is totally unacceptable by stakeholders, like NGO's, government organizations and labor unions that a company acts without concern to the society or against it. Therefore, it has become crucial now for the organizations to act in responsible manner in order to gain societal and stakeholders trust and approval to operate. (Kramer & Porter 2006, 78-92.)

To conclude it all up, he further argues that due to these changes, an increased level of knowledge & concern to the society and stakeholders being more knowledgeable, the companies are forced to engage in CSR activities. Most of them do not participate to do the right thing, but they do it as it is required to increase the economic value of the company. (Kramer & Porter 2006, 78-92.)

### **2.6.1 Responsible communications**

Stakeholders appreciate the sharing of information and transparency by the organizations quite a lot. Sharing of the information and transparency through actions are also responsible for building trust and goodwill. (Jones 1995, 404-437.)

Organizations should aim to form effective two-way communications and employ negotiations with all its known stakeholders (Freeman 1984, 223.)

According to Bernstein (1984, 8)"A company has a duty to communicate. A duty to its many publics and to itself, because non-communication is negative communication. Impressions will be made. The company had better have a hand in making them."

The quote put in a nutshell, encapsulates in a clear way the insistence of corporate communications. Furthermore, it explains that corporate communications are an important part of responsible behaviour. When the organizations inform or communicate with affected stakeholders, it is not only seemed polite but also perceived as an act of openness by the stakeholders. The quotation also illustrates the interests and stakes of the organization for itself engaging in clear communications. (Bernstein 1984, 8.)

Moreover, evidence suggests that open communications are responsible for favourability of the organization, and favourable corporate reputation can earn an organization competitive advantage. Thus, it would be practical to assume that organizations are keen to engage in this type of reputation building as not knowing only gives ground for rumours and ambiguity. (Fombrun & Shanley 1990, 233.)

According to Morsing & Schultz (2006, 323-338), "Having good and clear communications is fairly relevant for MNCs, because they engage in different practices as compared to local actors. This can result in becoming the victim of prejudgement and stereotype."

Furthermore, they discuss three types of CSR communication strategies, which are employed by organizations when engaging stakeholders.

First in the list is the information strategy, which is pretty much just about providing the information to stakeholders. In this type of strategy organizations use one way communication approach and just give the information to the stakeholders and do not listen to them. Secondly, in the response strategy. In this strategy organizations use two way communication approach with stakeholders. Meaning that communication flows in two ways, but the communication is more based on necessity than willingness to change procedures. Last in the list is the involvement strategy. The aim of this approach is to establish a honest and authentic dialogue with the stakeholders. Organizations aim not only to have a sincere communication but also are willing to be influenced by these communications (Morsing & Schultz 2006, 323-338.)

As a whole, it is evident that active and comprehensible communications are important part of responsible organizational behaviour. Furthermore, in terms of reputation development, having socially responsible practices is not of much use if nobody gets to know about them.

## **2.6.2 Features of CSR communication**

Balabanis, Lyall & Phillips (1998) have categorized the major aspects of CSR into fundamental groups. They explained that in past these aspects were most likely to retain the following attributes:

- Release of information to stockholders
- Sharing of information with board members
- Activities of dominant behavior
- Equality for the minority groups
- Profit Sharing
- Environment Protection
- Advertisement of ethics

They explain furthermore, that these were the traits of CSR in past. These traits were practiced actively by companies in order to show their engagement in CSR and were also considered one of the ways to communicate CSR.

According to Balabanis, Lyall & Phillips (1998) most of the features are now a days controlled by the law, which has transferred the focus to some new aspects. Such as

- Protection of environment (waste recycling, emission reduction)
- Compassion (charity donations, welfare work)
- Engagement in social causes (involvement in issues related to human rights)
- Urban investment (working with government on different projects, support small communities through startups)
- Employee relations (flexible time, job-sharing, staff treatment, health and safety standards)

These aspects are some of the main communication features. The organizations now a days are focusing more and more on these aspects and the main aim is to raise the awareness regarding their engagement in CSR. (Balabanis, Lyall & Phillips 1998)

## **2.7 Criticism against CSR**

In last few years the focus on CSR and engagement in CSR has increased a lot but there is still a majority of people who claims that CSR is not a company issue. Critics claim that company's real goal is to increase the shareholders wealth and not to take care of society.



They explain that putting a lot of focus in CSR activities takes the eyes off the real goal of the company which is maximizing profit. Thus in a sense CSR confuses the corporations of their real objective complicates the essence of what they should do. (Henderson 2001)

Instead of being the priority of corporations to address, CSR is rather addressed by the governments. According to Friedman (1962) "There is one and only one social responsibility of business-to use its resources and engage in activities designed to increase its profits" (Friedman 1962 cited by Ian 2009)

CSR reduces the emphasis on profit and should for that reason be excluded from legitimate corporate concerns. In addition he states that corporations or managers could not be the best fit to engage in and handle social responsible issues. (Friedman 1970)

Growth of the profits by legal means is the sole purpose of the organization and donations are unfavorable to corporations as it may result in decline in profits or rise in costs. (Snyder, Hill & Martin 2003)

CSR is against the primary purpose of the business as it is costly and is responsible for deterring organizations from profit making. CSR is something that organizations saying that they are doing but reality could be really different. (Rao 2009)

The main focus of businesses should be on the core objective which is to increase the profits and create job opportunities. The fact that corporations are not responsible for the rest of the world has to be accepted and thus private concerns are to be separated from public interests as they have nothing to do with each other or CSR. Politicians are responsible for the society and its well-being not the businesses. (Henderson 2001).

Corporations just appear to be socially responsible in order to save their image and brand and also to avoid critics. CSR is only perceived as a branch of PR and a mask that companies use to hide themselves. It has become a "vital tool in promoting and improving the public image of some of the world's largest corporation" (Behind the mask, the real face of CSR 2004, 1.)

The question that whether CSR is a mask to hide behind or not is not the main question to be addressed at the moment. What is important is to make certain that corporations take ownership and responsibility for their activities.

### **3 Research Method & Approach**

The most critical part of any research is the choice of the research method & approach for data collection and analysis. Based on the choice of the research method or approach taken one can tell how the research is made and for what purpose.

“To ensure a high quality consistent and the logical flow of information, it is very important for a researcher to pay attention to the suitability and the limitation of the method” (Miles & Huberman 1994, 3-6.)

This thesis is research oriented and will be conducted as a case study involving qualitative research. In order to gain a more comprehensible and more reliable picture of the case study, data collection techniques chosen for this research will include both interviews and a thorough content & document analysis of printed material, web pages, online or published articles related to the case companies.

#### **3.1 Qualitative research**

Qualitative research is non-numerical research, and the data collected through that is rich and deep. There is constant contact between the researcher and the subject. Qualitative research helps to understand the underlying facts and enables researcher to see the world through his subject’s eyes. (Bryman 1988, 76.)

Qualitative research can be very effective method when there is a need to identify mechanisms under the surface, address complex and rich phenomena. Qualitative research is also very helpful due to its traits of combining different views and events and contribute to formation of successful relationship. (Miles & Huberman 1994, 147.)

Qualitative research demands a thorough data collection process where behaviours, events or activities are examined. The focus of the research is on understanding processes, actions and motivations rather than collecting quantified data. (Goodson & Phillimore 2004, 3.)

Instead of providing a broad view of a phenomenon that can be generalized to the whole population, qualitative research seeks to explain a current situation and only describes that situation for a specific group or case.

Researchers collect data in a natural setting with an understanding to the people under study, and they analyse their data both inductively and deductively to establish patterns or

themes. The final report provides a complex description and interpretation of the problem, and a study that adds to the literature or provides a call for action (Wiersma 1995, 211-212.)

In this study qualitative research method is used because qualitative research is conducted in order to understand the context in which participants in a study address a problem or issue. Qualitative research is used to follow up quantitative research and help explain the mechanisms or linkages in causal theories or models. (Mora 2010)

### **3.2 Case study**

Selection of research approach is of great importance for the execution of research. Each research approach has its own way of collecting and analyzing empirical data, following its own logic. A case study is a most relevant research approach when the researcher seeks to explain a circumstance or present phenomenon. A case study is selected when the research objective is to answer questions “How or Why” for a specific situation. The choice of case study approach is also justified when a topic needs to be explained in detail and depth. (Yin 2004, 1-3.)

When case study is chosen as a research method, the research process starts with a comprehensive literature review. The research questions or objectives can only be formulated accurately after the needed background information has been gathered and a thorough picture of the case has drawn. (Yin 2009, 3-11.)

Case studies require that more than one type of data is gathered for evaluation in order to build a more processing more logical and valid case study. This results in better understanding of the research topic and explain the phenomenon with more validity. Case studies often requires the researcher to go through different documents including, annual reports, archival records, brochures and media publications. (Altinay & Paraskevas 2008, 77.)

There are multiple approaches to the case study methodology and there has much debate on whether a single-case approach is better or multiple-case studies. Neither one of them is regarded as a better approach as it all depends on the research that is being done and the topic at hand. (Altinay and Paraskevas 2008, 78.)

Furthermore it is stressed that the number of cases should and always be dignified against the nature of the research. Every now and then there are cases that are unique or

could be considered extreme, and choice of method is totally dependent on the topic at hand. (Altinay & Paraskevas 2008, 78.)

A multiple case study facilitates the researcher to discover differences within and between the cases. The goal of conducting a multiple-case study is to investigate findings transversely. It is important that the cases are chosen very carefully as comparisons will be drawn later on. Based on the findings the researcher can expect similar results across cases, or predict opposing results based on the theory. (Yin 2004, 4-5.)

In this research two case companies were selected based on the nature of the studies. The fact that the researcher aims to study the perception of CSR in both private and public companies lead to the decision of choosing two different companies, one of them being private and other a public company. There are significant differences between the companies in terms of for instance size and type of business, operating environment, amount of employees and so on. Findings and conclusions do not apply on every private, public or international company since every company is distinctive and has a unique structure, culture and implementation strategy totally different from others.

### **3.3 Data collection**

The important of selecting relevant data sources is based on their ability to provide accurate and rich information in relation to the research objectives of the study. One of the most distinctive features and core strength of Case study method, is the capability to exploit multiple sources for data collection (Yin 2009, 114.)

This thesis uses quite a few different sources in obtaining the research data. The main data sources used for the collection of relevant data include media archives, printed reports, documents & material assessment available online and lastly semi-structured interviews. These methods have different strengths, providing alternate viewpoints to the research question.

Rationale behind using multiple data collection techniques was to gain a better and more coherent understanding of the topic at hand. The selection of multiple different data collection techniques also increases the credibility and validity of the research.

### **3.3.1 Documents & content assessment**

The use of content analysis as a data collection technique requires access to company documents, brochures, reports or other available data. The content analysis technique serves as a data collection and analysis technique simultaneously (Altinay & Paraskevas 2008, 131.)

Content analysis is frequently used for data collection purposes as it is very much less time consuming and the researcher does not require a big budget for data collection.

Use of document and content analysis as data collection technique requires carefully analysing the documents and contents accessible. In order to find the most relevant information possible. (Altinay & Paraskevas 2008, 127-128.)

Analysis of documents and content is a great tool to be considered for the acquisition of rich and valuable information regarding certain case. However, the data gathered through this technique could not be considered sufficient or valid enough to validate the research or draw any conclusions. (Yin 2009, 3.)

For the sole purpose of gaining valuable information regarding the case companies, documents and available material will be studied and assessed by the researcher. This includes, the websites, annual and CSR reports, any published material and any previous research done on the company. Because, of the nature of the data collection method and due to the fact that a case study approach should be complimented with multiple data collection sources. Interviews are also held with different level personnel's to get more in-depth information regarding the case companies.

### **3.3.2 Interviews**

Interviews provide an interactive situation, where causal inferences and generous explanations have the potential to offer insight on the research study. Interviews are rich in information and contribute to the availability of in-depth material for better understanding of the concept (Yin 2009, 102.)

For the purpose of qualitative research, interviews are most likely to be the appropriate data collection method. As the purpose of qualitative research is to gain deep understanding and get detailed and rich information regarding the topic, interviews offer many opportunities for this purpose. Interviews can take place anywhere, and could be held face2face

or virtually. The data collected through the interviews is rich and deep in knowledge (Altinay & Paraskevas 2008, 107.)

There are both advantages and disadvantages of doing the interviews. On the positive side it provides the information that is rich and highly valuable but it poses some threats to the reliability of facts also. When doing an interview there is the possible risk of the respondent giving the answers that he or she believes the interviewer wants to hear. Moreover, interviews are really time consuming and it is very difficult to interpret the data (Denscombe 2000).

In this research, however, interviews serve a really important and positive role. In the following research as multiple sources are used for data collection, information gathered through interviews allows the functionality of data comparison. The researcher can compare the data with the findings derived from documents and content analysis. This way the different data collection tools also serve as a validating tool for each other.

### **3.4 Data analysis**

The data is subjected to qualitative content analysis, which is a commonly used qualitative research practise. It is used to interpret meanings from the content of text data. (Hsieh & Shannon 2005, 1277-1288.)

Qualitative Data Analysis is the array of processes and procedures with which we are able to develop some kind of explanation for collected data through qualitative research. Qualitative data analysis is used to interpret the raw data collected into meaningful information regarding the case being investigated (Online QDA 2015)

Qualitative data analysis demands an explanation of the research case influenced by the data collected during the data collection process. In order to achieve that goal, own interpretations need to be made based on the data analysed. (Altinay & Paraskevas 2008, 167.)

According to Altinay & Paraskevas (2008, 168) for the analysis of qualitative data there are two types of approaches available, which are deductive and inductive approach respectively.

Deductive (theory-based) approach to the data analysis refers to highlighting the key themes that have developed from the literature review and conceptual framework during

the content analysis. Putting it simply, the researcher basically draws conclusion from the general theories, which are discussed in literature review and tries to apply them in the real case. It is also said that nothing can be observed without a theory and that a theoretical background needs to be established before inspecting a phenomenon. Therefore the deduction approach is used so that from existing theories general conclusion are drawn about a current phenomenon. The usage of deductive approach makes certain that the vital themes are included in the analysis (Altinay & Paraskevas 2008, 168.)

On the contrary, inductive approach offers also great benefits for researchers. This approach does not limit the themes that might emerge from the data and often results in generating new knowledge. Ideology behind inductive approach is that the researcher starts with observations, then draws up a theory based on those observations. The induction is based on data from real life cases. Inductive approach prevents the researcher from taking a biased view on the matters, allowing the significant issues to be identified from all types of sources (Altinay & Paraskevas 2008, 170.)

In this research both approaches were used in order to benefit from advantages of both techniques and develop a better interpretation of the data as well as generate new knowledge apart from the set theories.

### **3.5 Reliability and Validity**

Reliability and validity are the key factors to be considered, when the credibility of the research is questioned. Both factors are vital for deciding, how trustworthy the research is. Reliability refers to the extent to which the data collection methods result in consistent data and findings. Putting it simply, if the same case is studied by other researchers, would the results be the same and consistent. The validity of a research is measured by the truthfulness of the results. Meaning, if the aim of the study has been achieved or not? (Altinay & Paraskevas 2008, 130.)

The use of multiple data collection techniques and sources is one of the many important attributes, contributing to the reliability and validity of the research. (Altinay & Paraskevas 2008, 130.)

In order to present a clear and complete picture of the research for the reader, the researcher has tried to deliver transparent, thorough and rational description of research methods used, the different phases of data collection and analysis process.

### 3.5.1 Validity

Multiple data collection sources were used including documents & content analysis, interviews and analysis of media archives in order to obtain rich and deep data. These sources have different strengths and provide different perspectives to the research, thus contributing towards the validity of interpretation. Potential bias is also ruled out due to the richness of data, the rich and complimentary data helps in comparison in order to spot any bias. This way multiple sources increase the validity and reliability of the research.

A lot of attention was put in data collection and analysis process in order to avoid any researcher based bias in process. Preliminary theme was established already which acted as guiding tool for collecting most relevant data. This development was meant to rule out any subjective judgement which could affect the data collection process. In analysis a cognisant effort was taken to be dependent on specially the raw data as a basis for reasoning.

The attention was also paid to the fact that density of causation concerning the case phenomenon contains a high risk of misinterpretation. However, to avoid that risk a number of steps were taken to diminish the probability of incorrect reasoning. Data from different perspectives allowed to create rigorous understanding of the case concepts and the factors that contributed to them. Some of the important analytical tactics have been used to tackle internal validity problems. Establishing chain of evidence, building explanation and addressing rival views are few of them (Yin 2009, 41.)

External validity is a very serious issue for the case studies as a single case study offers poor foundation for generalization. This is not seen a problem for this study, as the results of this specific case study are not applicable to another organization in the same situation. The primary objective of the study was to understand and explain the phenomenon of CSR and its implications in public and private companies. Thus, contributing to the better understanding of the concept and the reasons, or benefits which persuade organizations to engage in CSR. Based on findings of the research, researcher suggests that some arguments can have general applicability. (Yin 2009, 43.)



### **3.5.2 Reliability**

Following a well-developed study procedure is an effective way to increase the case studies reliability (Yin 2009, 79.)

Thus, a “Plan of action” was developed to be followed. First of all, the overall portrayal of the case was done, which included stating the objectives and general considerations. Secondly, the data collection processes were chosen, and different approaches for collection explained.

According to Yin (2009, 119) “building a case study database of important documents is of key importance, when the reliability of the study comes in question”.

Thus, during the research process the researcher has put a sensible effort to document as much data as possible. The interview data was collected by the researcher himself. Most of the respondents were part of top management and had been working with the organizations for long time.

Even though, a lot of actions were taken to increase the quality and reliability of the research, there is one potential limitation to interview data. The respondents obviously represent their organizations, which is why it is possible that some of the information provided may be biased or misrepresenting. Thus there is possibility of interview bias, which respondents may create in order to represent their own organization in better light.

### **3.6 Timetable**

The whole study is expected to be completed in a time period of six months. The research started by the end of October 2014 and was expected to be completed by the month of April 2015.

#### **October 2014**

The research topic for the study was chosen after careful consideration and consultation with potential supervisor. A topic analysis was prepared and submitted for approval by the end of October, 2014.

#### **November 2014**

The author of was notified of the approval of the topic analysis in the beginning of November. The first thesis seminar was organized on 13th of November at the Porvoo Campus.

The author started working on introduction of the topic, a plan of action for the execution of the research and possible theories to be studied.

#### **December 2014**

The second thesis seminar was agreed on to be held on 8th of December. The author presented the complete introduction chapter and also a basic layout of the theoretical background. After the seminar the author kept on working the theoretical framework and also advanced ahead to decide on the research method and approach.

#### **January 2015**

The author contacted the case companies to secure a date for the interviews. Meanwhile, kept on working the thesis to develop a background of the case companies and based on the pre-analysis continued to formulate the questionnaires.

#### **February 2015**

Theoretical framework was completed. The research approach and methodology were decided based on the needs of the study. Interviews were also held in February, 2015. Author tried to gather as much data and information regarding the case as possible. The data gathered through interviews was analysed later on.

#### **March 2015**

An interview had to be postponed earlier in February due to unavailability of the respondent. So, an interview was carried out later by the end of March 2015. In the meantime the author tried to get as much documented and online material as possible and analyzed it.

#### **April 2015**

The data collected through the last interview was analyzed and based on the data analysis the key results were presented in the final chapter. The completed research report was handed out later on by the mid of the April 2015.

No	Month	Description of Tasks
1	October	Topic Analysis submitted for Approval.
2	November	Topic approved for research and 1 <sup>st</sup> thesis Seminar organized.
3	December	2 <sup>nd</sup> thesis seminar organized. Introduction chapter presented and basic theoretical framework explained.
4	January	Continued working on theoretical framework and research approach.
5	February	3 <sup>rd</sup> thesis seminar organized. Complete theoretical framework and research methodology chapters were presented. Later on interviews were held.
6	March	Case company's document and content analysis done. One last interview re-scheduled.
7	April	Interview data analysed. Completed thesis research submitted to supervisor.

Figure No 9= Timetable for the research (own development)

## **4 Lidl & Itella Finland**

The focus of this study is solely on one private corporation, Lidl and one public owned company Itella which are located in Finland. Selection of these companies was based on the fact that they fulfill the criteria for the case study, as one of them is a private company and other a public company and both are operating in Finland. Another reason which led to this selection is the element of employment, the author of the thesis has been working with these companies in past and is currently employed by one of them which would make it rather easy to get an insight on operations and schedule interviews for data collection. Itella is very well diversified company with different group of businesses and operations both nationally and internationally. For this specific research the author will focus on the Postal and Logistics operations only in Finland.

Both companies are successful established firms and have well-designed web pages for information. There are well-developed Corporate Social Responsibility reports available and published by Itella throughout the years stating what the company is working towards and what the acceptable rules and principles are. Lidl, on the other hand is a bit conservative about the disclosure and does not publish any CSR or Annual reports.

In this chapter firstly, author has provided the background information about the case companies. Then a case narrative is built which explains different events in the history of operations, initiatives taken by the company and the reasons behind the events. Source information and proper citations are provided for raw data and interviews.

### **4.1 Lidl Finland**

Lidl is a German-based multinational grocery retailer owned by Schwarz Holding Group. It is one of the biggest European grocery chains and has stores in almost all of the European countries. The company originated in south-west Germany in late 1930's and the international expansion began later on in 1990's (Lidl Finland, 2015).

Lidl entered the Finnish market in the fall of 2002, where it operates as an independent subsidiary named Lidl Finland. Lidl's business model is hard-discounter, which is characterized by a limited product selection, private brand supremacy and strong price competition. According to the company's mission statement, the main business idea of the company is to offer customers high quality products at low prices. (Lidl Finland, 2015).

In 2013, the grocery retail sales was roughly 16.55 billion euros net. The Finnish trade market is highly concerted, as there are two major groups holding most of the market share. The S-group and K-group, dominate the market with respective market shares of 45% and 34 % (PTY, 2015).

Basically, Finnish retail market lacked any competition as there were 2 major players controlling the prices, which were pretty high. In 2002, Lidl entered the market with its specific price originated business model which shook the Finnish retail market. As a result, the competition was increased and Finnish rivals had to adjust their operations and prices. (Häggman, 2002). Lidl's market share was only 2,8% by the end of 2005, which was increased by up to 5,1% in 2009. According to current publication of PTY, Lidl is the 3<sup>rd</sup> largest market share holder in Finnish market with a market share of 8,1 % .The company is sited as the price leader on the market with likely price advantage of 10-15% over the rivals (PTY, 2015)

In addition to groceries, Lidl sells a supplemental stock of non-food convenience items. The product offering in early years was considered narrow and private. Whereas now a days, the selection of products offered is more extensive and includes a lot of local Finnish brands. The company started its operations with only a handful of stores, which was followed by a rapid increase in numbers in following years. The company currently has 141 stores operating throughout Finland and has two main distribution centres in Janakkala and Laukaa (Interviewee 1, 2015)

#### **4.1.1 Case narrative**

As discussed earlier the Finnish retail market was quite concentrated and conservative. There were no hard discount retail chains available in Finland and the prices of products were pretty high (PTY, 2015)

According to the management of the company, Lidl saw the market vacuum and decided to fill that up. The Finnish market had high buying power and there was no competition whatsoever as there were two major chains controlling the market share. The company saw the opportunity and decided to enter the Finnish retail market. (Interviewee 1, 2015)

The company entered the Finnish market in 2002. The communication policy of the company was eccentric for Finnish culture as the company did not share or communicate at any point. Stakeholders were not informed of the objectives concerning the Finnish market entry, which was really odd. It was really hard to make sense of company's objectives or

operations due to silence and asceticism of the company. This lack of communication resulted in rumours and assumptions about the company. (Parviainen, 2011)

The company did not had any know-how of the market or Finnish business culture. The company's management was dependant on parent company in Germany for all kind of disclosure. (Interviewee 1, 2015)

Opening of Lidl's first store in 2002 created buzz and curiosity amongst the consumers. A wide array of responses were to be seen as some consumers rejected the company immediately and others welcomed the alternative offerings. However, still long after the company's non-existing communication stayed the same, which confused the consumers and other stakeholders. Consumers demanded more information regarding the products and place of origins, as well as more transparency of operating standards (Parviainen, 2011)

The company was dependant on the word of mouth for publicity. Meaning, rather than communicating and informing their stakeholders of the strategies, they decided to stay quiet and let the fuzz go around. The Finnish market was concentrated, the consumers were excited and based on international image and rumours an image was already developed in the market. Some considered it as a market tactic, whereas others a very big mistake. Whatever the case, the event was very rare to be seen and Finnish consumers were eagerly waiting for it (Interviewee 2, 2015)

The core strength of the company was international product volume, which assured low prices, but the selection of goods was very low. The consumers were interested in many local products, which increased pressure on the company to add local products in selection. Due to scarce resources and dealing with suppliers, Lidl was still not able to introduce local products in the stores. All this again resulted in negative image, as consumers perceived Lidl as unenthusiastic to offer what consumers really want. (Parviainen, 2011)

Management of the each and single country is in charge of developing and retaining the concept of Lidl locally. We entered, learned and adapted. Many of the major Finnish products were included in the selection after the concerns from consumers. (Interviewee 1, 2015)

In 2004, Lidl was again part of a scandal. The parent company in Germany was accused of employee mistreatment and disobeying labour agreements. As expected, the stakeholders in Finland associated these accusations with the local subsidiary as well. As the

year got closer to the end, the allegations and rumours about Lidl's policies just intensified. German human rights association presented Lidl with the title of "Big Brother" an infamous title for the bad behaviour with employees. (Furstenborg, 2004)

PAM Finnish labour union confirmed that Lidl in Finland was obeying the work contracts. But there were a lot of complaints filed against the organization by current and ex-employees.

Employees were constantly monitored through the surveillance cameras fitted throughout the shop. Video display was set in the managerial office room, which was under constant observation by store manager or supervisor at all times. This kind of environment was very hostile and made employees very uncomfortable to work. The control of working environment was very strict by the management and employees were not given very much of significance (Interviewee 2, 2015)

The accusations and rumours were mostly based on the scandals going on abroad and Lidl Finland was unfortunately being targeted based on them. There were totally weird rumours spread in Finland about the discrimination of women and employees in general, none of which were true. Lidl was just unable to handle the situation properly as there was very low communication but we learned soon enough and started cooperation with PAM which should have done earlier (Interviewee 3, 2015)

According to PAM vice-president Kaarlo Julkunen, the main problem was the differing organizational culture. The management of Lidl Finland were trained in Germany and had very little know-how of local culture. The strict working policies of parent company were unacceptable in Finland. However, Lidl Finland started to adapt and correct its policies very quickly and differences were negotiated properly (Taloussanomat, 2010)

Julkunen added furthermore, that the company had a European style of doing business and were not aware of Nordic practices. They did not advertise or communicate with stakeholders. The trade unions were not given any clear reports of operations. All these things together contributed to the rumours and negative image of the company. All in all, the differences were sorted out (Taloussanomat, 2010)

By the end of year 2004, the company faced huge criticism for the secretive practice and non-communicative strategies. The company decided to respond to this on-going criticism and take stakeholders in trust. Lidl promised to change its Silent communication policy and be more transparent in the future. (Taloussanomat, 2004).

The company admitted that the old policy was not suitable for the requirements of the operating environment. The company noticed that by being more open and communicative it can gain more benefits like, approval of stakeholders, reputation and justification of its actions. The company followed up with interviews and public appearances by CEO and management (Taloussanommat, 2004)

The lesson was learned from our mistakes and from the constant criticism by the media and consumers. It was not an overnight change but we worked towards it constantly. The company was more open to communicate and this change in policy brought many benefits to the company. The company started to gain respect and reputation by the stakeholders. (Interviewee 2, 2015)

Employees were given more attention and value. The mistakes were not repeated again. We corrected our practices. Feedback and evaluation programs were set up to find the problems and workplace issues in order to deal them in proper manner. (Interviewee 3, 2015)

There were huge management level changes going on. The company started hiring managers from Finland and the German employees were called back. With new management came new practices. The surveillance at work place was stopped. The company started to give more value to the employees at last. The company advanced very much between 2006 -2008 improving its policies towards employees (Interviewee 2, 2015)

Lidl's Antti Tiitola stated that as an organization Lidl has been able to adapt to the change and reinvent itself as service organization. The company now listens to what customers demand and now gives priority to the customer service (Kauppalehti, 2009)

Lidl started cooperation with Amiedu, a personal development services and training provider for personnel. Company launched a customized retail business in Business and Administration programs in cooperation with the Amiedu. The training programs began in Tampere, Jyväskylä, Oulu and Helsinki.

According to the release Lidl's aim was to develop the skills of all its personnel. One of the main priorities was to provide the opportunity for staff to obtain vocational qualifications. Lidl's national training sessions were organized and coordinated with Amiedu and the training was held in cooperation with local educational services providers (Taloussanommat, 2009).



The company was ready to do whatever needed to improve the practices. Employees were provided beforehand training for the job. The company wanted to develop the know-how of its employees, which led to this kind of initiatives. This showed that Lidl was serious in making investments in its employees and to develop their know-how. (Interviewee 2, 2015)

The company took many initiatives to prove itself as socially responsible citizen. Launch of the youth employment program was appreciated a lot by consumers and media as well. The program was introduced to support local community. Lidl started employing 500 youth workers from 2010 for the summer and the program still continues being a great success. (Interviewee 3, 2015)

Lidl also became a partner of Finnish Skiing Association, which reflected upon the interests of the company to support the local community by investing in it. The company was on way to be more and more socially responsible. Lidl also announced that it will become the member of FGTA, which was a very big advancement by the company. (Taloussanommat, 2010).

Lidl Finland continued improving its practice and being more socially responsible. Lidl's sales were shot up during the time period of 2012-2013. The profits rose up from 4.2% to 6.5 % of the net sales. By the end of the year Lidl had a total of 140 stores and employed a total of 3 554 employees. Market Research Company Nielsen estimated that Lidl's market share increased to 5.5 percent during the time period. (Taloussanommat, 2013)

By the end of 2013, Lidl's market share reached up to 7 %. According to CEO of Lidl Finland Lauri Sipponen, the company has benefited from the decrease in purchasing power of the consumer due to recession. He also added that the recession has increased the flow of customers towards Lidl and with new image and practices Lidl is boosting its sales. (Taloussanommat, 2013)

In 2014, the company decided to install CO2OLtec refrigeration systems in the distribution centre. Lidl was the first company to install the systems in Finland. The purpose was to reduce the CO2 emission and save on energy consumptions. Another valid step taken by Lidl Finland to validate its intentions for the society. The company was aimed at being more and more socially responsible (United Technologies, 2014)

By the end of year 2014, the company announced an increase in the salaries for the employees living in metropolitan like, Helsinki, Espoo, Vantaa and also for the employees

working in distribution center. According to PAM, the living expenses are very much higher in these areas and Lidl has decided to reimburse the employees to help them out. The raise is done in accordance to the work contracts and that PAM has been working in cooperation with Lidl. (PAM, 2014)

Currently, the company holds the market share of 8,1 % which is increasing dramatically throughout the years.(PTY, 2015)

The company has modified its practices & policies and learnt to adapt to local culture. Times have changed and the company is more and more active in social engagement. We have changed the focus towards our customers and their needs. Lidl has more and more local products now in the selection and we offer a diverse quantity of international goods. Our customers are satisfied with us and the services, which has made us the 3<sup>rd</sup> largest retail market in Finland. We see ourselves as an organization growing more and more in near future. (Interviewee 1, 2015)

## **4.2 Itella Finland**

Itella is a public owned a Finnish company, which is divided into four basic business groups. The main business groups are, Postal services, Logistics and Parcel services, Itella Russia and OpusCapita. The sole owner and shareholder of the company is the state of Finland (Posti.fi, 2015)

Company's history spans nearly 400 years. Starting back in 1638, the company started its operations in Finland, as part of the Kingdom of Sweden at the time. The company continued its operations and formed different mergers throughout the time until the end of 2001. When the company became a public owned subsidiary as Finland Post Corporation. Later on in 2007, the company changed its name to Itella Corporation due to internationalized business operations. (Itella History Ever since, 2015)

In the year 2011, a new company Itella Posti Oy was formed and Finnish Postal services were transferred to Itella Posti Oy. Moving on, the company changed the name of Itella Bank Ltd to savings Bank Ltd and Opus Capita was formed as subgroup of the company in 2013. (Itella History Ever since, 2015)

In January 2015, the Itella Corporation and Itella Posti Oy were merged together and re-named as Posti Group Corporation. (Itella History Ever since, 2015)

Head office of the company is located in Pasila, Helsinki. The operating environment of the company expands in up to eleven countries at the moment. These countries include Latvia, Lithuania, Norway, Poland, Sweden, Germany, Slovakia, Finland, Denmark, Russia and Estonia. The net sales of the company amounted for 1,977 million in the year 2013. Currently the company employs more than 26000 employees overall (Posti.fi, 2015)

Mission of the company is to manage and create smooth flow of commerce and everyday life. The company aims to be the first choice of customers for postage, logistics and e-commerce services and set's this as the vision of the company until 2020. Primary goal of the company for coming years is to secure sustainable foundation for the services and to make sufficient investments in growth area (Posti.fi, 2015)

#### **4.2.1 Case narrative**

The company was founded back in 1600's and was under a continuous transformation stage until the beginning of 2000's., when the company became a state owned company in Finland. The company was now solely owned by the state of Finland and operating as Mail Communication Company in Finland. The company kept on growing and took over logistics businesses expanding the operations to Baltic and other Nordic countries. In 2003, the company acquired the early morning newspaper business in Finland (Leijonajakelu) from Sanoma Osakeyhtiö as a new part of mail communications. As a result of the acquisition company's market share increased from 40% to 70% (Itella History Ever since, 2015)

In year 2006, Finnish Post becomes the first company in Finland to use natural gas operated cars for delivery. Furthermore, the foundation for employee well-being was developed. (Itella History Ever since, 2015)

2007 was the year of great developments and changes in the history of the company as the company changed its name to Itella Corporation. According to the statement published by the communication department the change in the name was the need of the time. The company was involved in many different businesses and services sector and could not operate with the old name Posti Oy. This change was also required by the internationalization of the Finland Post Corporation

The company started using the name Itella since June, 2007 and the change of name was also in act for all the groups operating under the company both nationally and internationally. (Posti Newsroom, 2007)

Tarja Pääkkönen senior vice president of the company said that the brand renovation is a very big step and that it will benefit the company and consumers both national and international. The new brand Itella will be introduced to the consumers through operations and marketing campaigns. Itella's logo will be accompanied by an image signifying efficiency, intelligent solutions and success. The new image would also be seen by consumers as most of the delivery vehicles will bear the image. (Posti Newsroom, 2007)

The company also faced a lot of criticism in media and publications for re-branding the name of the company. The article published by Hanken, raised some interesting questions. But the main issue discussed in the article was why the company did change its name and who is responsible for all that re-branding costs? What are the benefits that people of Finland will get as shareholders? The company was operating very well being Finland Post then why all these expenses and so on. (Net impact hanken, 2007)

Company countered the criticism by publishing interviews and took active part in media conversations. The company published the first issue of the magazine "Flow", which was intended for corporate customers. The aim was to provide information about Itella, its offerings and services for the customers, policies, operations and industry related solutions for the customers. (Posti Newsroom, 2007)

The company becomes the first Finnish organization to use bio-fuel in its vehicles in Finland. Later on in 2007, Itella associates itself with Eurovision and Football by sponsoring the events. The company made quite a lot public appearance and branded themselves pretty well. Marianna Tuomisto, further explained that the Finnish football association is an important partner of the company and the company thinks that it is really beneficial and crucial to support sports in Finland (Posti Newsroom, 2007)

In 2009, Itella launched the Carbon Neutral Service program. The company was the first to launch this kind of program. According to Hanna Kaustia, the Carbon Neutral Program was one of a kind and unique. Itella provided opportunity to its customers to make green selections. Customers by paying a small additional price can purchase the green service that ensures the neutralization of carbon involved in product delivery and transport. Furthermore, she adds that Itella supplies funding for climate projects to ensure that emission caused by Itella green deliveries is compensated. Itella is determined to reduce the carbon-dioxide emission by 30% by 2020 and the company will also adapt to green electricity from 2011. These events were characterized as the long term aspects of environment project. (Posti, 2009)

In 2010, company achieved the ISO 14001 environmental certificate, and new sorting technologies were deployed. (Itella History Ever since, 2015)

CSR is reflected in all the operations and activities of the company. We as an employer are constantly changing and developing more effective operating methods. One example could be the initiative taken by the company to get rid of old delivery system and update it with electronic delivery devices. The old system was based on papers, every day a bundle of delivery lists were printed which was time consuming and not so environment friendly. Employees also had many issues and found it very difficult to work with the old system. New electronic system is fast and reliable. The method is eco-friendly and easily adaptable by employees. Positive feedback was received later on from both employees and consumers. (Interviewee 4, 2015)

By the end of the year 2012, Itella becomes the first company to totally go Carbon free in its delivery operations. (Itella History Ever since, 2015)

Itella's project called "More well-being through interactive and participatory management" was applauded by Finnish Association for Human Resource Management (HENRY). The program gets special attention and positive response for actions taken in the field of HR. The end of the year also embarks among many achievements the membership of Diversity Charter Finland and Climate Partners Network for Itella. (Itella History Ever since, 2015)

In 2013, the company presented its vision for the year 2020. The main focus in the vision was on the strategies to make operations easy and to invest more in e-commerce. The company's delivery volume was decreased dramatically in the mid of the year. President and CEO of the company, Heikki Malinen said that the transformation of postal and logistics industry has its implications and these are the effects of those implications on Itella. Delivery volumes have decreased due to the technological advancements also, but economic recession being the biggest influencer on the company's results.

The delivery volume for parcel and goods is experiencing a strong growth due to increase in e-commerce, but it as well lurks the delivery volume of old traditional newspapers and magazines. He furthermore added, that Itella will refocus its strategies and seek further growth through e-commerce. (Posti Newsroom, 2013)





Figure No10 = Vision and basic values of Itella (Itella Annual report, 2013)

At the end of 2013, the company again was faced with a dilemma. The deliveries were delayed and services were badly affected. Posti Workers Union (PAU) posted a ban on additional work and overtime on the company. The reason for the ban was ongoing negotiations between the company and PAU. Negotiations were going on for long enough and there was no collective agreement in force at the time which resulted in the ban. However, the company took initiatives and reached the agreement based in centralized labor market settlement, and there was no harm done. (Posti Newsroom, 2013)

The year 2013, brought also a lot of negative publicity for the company through international operations. The company was facing criticism to its international subsidies but the effects were not so blazing to the local industry. Company's online service, Pot's Electronic Consumer Service was used by criminals for fraudulent purposes. Company assessed the situation and filed a complaint to the local authorities. (Itella, 2013)

Company is awarded ISO 9001 and ISO 14001, Quality and Environment certificate for all the logistics operations in Finland. Moreover, occupational Health and safety certificates were awarded to more than 20 freight terminals.

List of achievements for the company just get bigger and bigger as, Headquarter of the company was awarded by WWF as the Green House Office. Green Office is an operational environment management system that aims at reducing the ecological footprints and greenhouse gases. (Itella History Ever since, 2015)

Itella install's driving monitoring devices in the all the vehicles. According to Heikki Malinen CEO of the company, "While cars are being developed to become more environmentally friendly, eco-driving and driving habits of the driver remain at least equally significant". (International Post, 2014)

By the end of 2014, Itella installed driving habit monitoring devices in all the delivery vehicles. This initiative was also a part of the environmental responsibility program. We installed the devices as it was really important to monitor the driving behaviours of the drivers to reduce overall road emissions and also to promote safe driving habits. There are already some positive developments as fuel consumptions have decreased compared to past years (Interviewee 4, 2015)

Company promotes workplace health and safety actively and one of the reasons for installing the monitoring devices was to ensure workplace safety. By installing monitoring devices, we have seen reduction in accident occurring frequency as drivers are more careful about speed limits now while driving. The change overall has been positively effective and we hope to improve workplace safety and reduce costs in the near future with the help of the program. (Interviewee 4, 2015)

January 2015, Itella group changes its name to Posti Group Corporation. According to Itella's CEO and president Heikki Malinen, operating under two different brand names was not very effective. Company used different names for local consumers and corporate customers, but the model did not work as expected. It just increased the operational costs. Company's name was changed back in 2007 due to internationalization of the company and its diverse operations. The Posti Group Corporation name was in effect on January 1, 2015. (Post & Parcel, 2014)



Figure No 11 = Itella to Posti Transformation (Postal technology, 2014)

“I’m very excited about this name change and I hope that our customers see this as a positive step,” says Malinen. (Post & Parcel, 2014)

Posti Group’s strategy is evolving and emerging constantly as the industry and the market are undergoing a vivid transformation. Posti is a traditional and respected Finnish brand and consumers have a very strong and special relationship with the brand. Posti is respected and trusted by the consumers widely. Company has a desire and keeps on renewing and reinventing its services.

Currently the company employees 23,000 persons and has a net sales of 1,859 million Euros. Strategic goals of the company are to provide high value solutions for customers, be profitable, best work place and be the leader in Postal Industry. (Posti Annual Report, 2014)



## 5 Results & Findings

The results of the study are presented and discussed in the chapter. Based on the information received through interviews and content analysis author has addressed the research questions accordingly.

### 5.1 Perception of CSR

According to Lidl Finland CSR is part of the company's basics values and is reflected in everyday operations. The company lists its core values and consider them the spirit of the company. Company publishes on their website that it considers all of its activities for economic, social and ecological responsibility and engages in all processes in a responsible manner. (Lidl Finland, 2015)

Even small acts can be achieved remarkable things. Company's actions and strategies are based on development of a better future. All our actions are aimed at making the world a better place to live. (Lidl Finland, 2015)

CSR is integrated in everything that company does. It is key part of our core values and corporate culture. For us it is really important to operate ethically on all levels of the organization. Reputation takes time to build up and our viewpoint is continuous improvement of the company by being responsible member of the Finnish Society. We believe learning is the key to achieve this and we are continuously improving and defining the core values of the company based on the needs. (Interviewee 1, 2015)

In Lidl's operations, Economic responsibility is very much important as maximizing the shareholder wealth is the goal of the company and CSR appears to be a tool to achieve that goal. But the company also takes their social and environmental responsibility seriously. Lidl puts focus on their ethical and social responsibility. Company has described their key responsibilities in their code of conduct or general guidelines published on the website. These guidelines include workplace well-being, human rights and working conditions.

Company's core value and operations guidelines include a list of following items.

- The company's basic values
- Management of the basic values
- Customer relationships

- Managerial work
- Action in business relationships
- The company's basic values
- The basic principles of occupational health and safety (Lidl Finland, 2015)

On the contrary, for Itella CSR is a situation where company integrates with stakeholders on daily basis regarding social, environmental and financial concerns. According to Itella, taking into account the stakeholder expectations is part of the core responsibility at Itella and foundation of the business operations.

At Itella, CSR is subjected to an extensive range of expectations. They define those expectations as following, company should be financially profitable, environment friendly (reduced emissions), it should provide high-end services and it should ensure well-being at work. (Posti CSR Report, 2014)

The company's core values include acting as a good citizen not only to consumers but also to other stakeholders. The responsibility is integrated throughout the whole organization. Since Itella is a logistics and transport company environment and work place safety are quite close to the company's core values. For Itella, CSR is closely connected to sustainable development, which refers to protecting People, environment and profitability of operations. (Posti CSR Report, 2014)

Economic responsibility is much more important for Itella as long-term financial stability is crucial for the company to fulfil its other responsibilities. It is really important to be financially stable in order to improve the performance of daily operations both locally and internationally. More financial resources can help to invest in different responsible projects such as, renewal of cars, work place improvement and employee well-being as well as product delivery system improvement. Being economically profitable at Itella is beneficial for all the shareholders and they want to be the most profitable company in Europe. The company is constantly looking for growth opportunities in local and international markets and with profitability in place they can achieve sustainable development in responsible manner. (Posti CSR Report, 2014)

Logistics and transportation have a huge impact on the environment such as, emissions, traffic control, fuel stability, dirt and noise. At Itella, environmental concerns are of great attention as company describes environmental and safety concerns to be the core of their operations. Company constantly demonstrates high level of concern towards environment and society and strives to improve its impacts on the community.

Itella has also published a list of code of conducts for both employees and other stakeholders involved in the operations. In these code of conducts ethical policies are described and morally acceptable manners are explained by the company.

The company's main aim is to produce services that are required by the society. They want to create green logistics that will have great impact on the environment and the emissions. Company believes that CSR has been the cornerstone of its key activities throughout the history and plays an important role in the company. (Itella Annual & Corporate Responsibility Report, 2012)



Figure No 12= CSR at Itella (Itella Annual & Corporate Responsibility Report, 2012)

## 5.2 Implementation & communication of CSR

In Lidl, the CSR is implemented through education of the employees. The employees are provided training and informed about the responsibilities that they have to fulfil. CSR is in addition implemented through the company's operational guidelines. However, the communication polices of the company are not as strong as the company does not publish any Annual Report or CSR Report for its stakeholders. CSR is solely communicated through

the operations of the company and its engagement into social activities. Company is continuously working to improve its implementation and communication systems and a proof of that is the Audit program of the company.

Interviews are organized with the workers and managers at all the stores throughout the year to find problems relating to sustainability or responsibility issues faced by employees and to educate them on any possible issues. Company is striving to improve its practices and this is the reason the company has also started the evaluation program for employees to discuss any issues or problems at work place. (Interviewee 3, 2015)

Whereas at Itella, the CSR is implemented through the daily operations of the company. The company constantly strives to improve daily operations in social, environmental and financial areas. Company has also has guidelines and code of conducts for employees and other stakeholders to follow and implement. Through these code of conducts, company has set standards for their customers, suppliers and other stakeholders. CSR is constantly monitored through management systems such as ISO 9001, 2000 and 14001. (Posti CSR Report, 2014)

Itella has a well-designed communication policy. The company publishes Annual report and Stability & CSR reports annually. Company shares its visions and missions with the stakeholders and informs them constantly about the responsible initiatives taken by the company. At Itella, company also gets into constant communication with the employees through different training and educational seminars. (Posti CSR Report, 2014)

### **5.3 Reasons & motives for CSR engagement**

Motives and reasons to engage in CSR vary from company to company. In case of Lidl Finland, financial performance is vital for the company as money is needed to expand the operations and provide better customer service. To achieve economic stability it is very important for the company to be competitive and this is done by building up a strong relationship with stakeholders. Company is actively participating in CSR to improve its brand image.

According to Paine (2003) a good brand image can drive the business to success and provide the company with competitive advantage over the rivals. Lidl, is working persistently to improve their reputation in the market.

Stakeholder pressure was another reason to engage in CSR. Lidl Finland, was subjected to high pressure by stakeholders for more openness and better employee well-being. Also

due to the closed operations of the company a negative image was building up and stakeholders demanded more information and openness in its operations.

We believe that the company should adapt to the local culture and values. Consumers now a days demand more and more information regarding the operations. By engaging in CSR the company aimed at winning over the trust of the consumer and we have done so pretty well.

It is also good to work with local authorities and NGO's to support local communities, but it should not be only to gain legitimacy but to be progressive towards social improvement. That is what drives our involvement in social activities (Interviewee 1, 2015)

Another reason for Lidl Finland was to avoid ending up in crisis. The company decided to engage in CSR to share its vision and mission with the stakeholders to eliminate any kind of risk of ending in the crisis. Company wanted to improve it's civic-positioning to discard any kind of rumours or allegations going around and rove itself to be responsible citizen of the society. Company wanted to take an active role in the society by putting time and effort for social benefits.

Lidl Finland, being a foreign subsidiary has been target of media and public attention. Different demand and obligations were put on the company by local authorities but we have out bested them all. Company has always been active towards the environment and responsible behaviour but it took us some time to find the proper communication channels. CSR engagement was also necessary to discard any allegations and rumours about the company and show our commitment towards the corporate responsibility (Interviewee 1, 2015)

Whereas for Itella, the main reason to engage in CSR is to spread their values and contribute to a sustainable environment. The aim of the company is to strive for the sustainable development and in doing so have a better place to leave behind. (Interviewee 4, 2015)

Itella's values lie in social improvement rather than commercial gain of the company through CSR. Cooperation with society and local communities is a way of achieving this goal.

At Itella, CSR is very important because as a well trusted Finnish company it is very important for us to be honest, fair and responsible. We believe that when customer chooses our services they choose our values. Moreover they know that when they buy our prod-

ucts and services in a long run we are making a difference to make this world a better place (Interviewee 4, 2015)

Another reason for the company to engage in CSR is to improve their working conditions and improve the environmental practices. The company values its employees and other stakeholders the most and is constantly trying to fulfil their expectations.

By having a close and nonstop relationship with our stakeholders, the company eliminates the risk of any possible crisis. But for us it is not only about preventing the crisis or eliminate risks but also to build up trust with stakeholders, earn their respect , honesty and take responsibility for our actions. (Interviewee 4, 2015)

For Itella, creating a better image or reputation is not the foremost important reason to engage in CSR. The company is actively engaging in activities and cooperating with NGO's and society, simply because it is their way of doing business. They want to build up a better place to live and consider it their moral obligation. Creating good image and reputation are the side effects of being ethical and responsible in their operations.

Another reason to engage in CSR is to build a well-functioning company. Company believes that their CSR initiatives will inspire people with good skills to join the company and motivate present employees to be proud of their part towards more responsible behaviour. It is also a way of building the brand image for Itella by winning the trust of their stakeholders.

But all in all, the goal of the company in the end is to be a responsible citizen and contribute for a better environment and a good society. (Posti CSR Report, 2014)

#### **5.4 Corporate benefits of CSR engagement**

Lidl Finland, benefits from CSR by having improved brand image and reputation. Organization's reputation and image has become very exposed in current competitive world (Smith, 2003). Lidl, realizes that the company has to work and engage in responsible manner to achieve these long-term goals. Their image is very crucial for their success in the market and for long term stability.

Good image has also helped to create loyalty amongst the consumers and other stakeholders, which in turn has made their market position stronger and empowered them over their rivals.

Another possible benefit for the company is improved sales and thus resulting in higher financial benefits for the company. Being associated with positive developments and well-being of society leads to greater customer affiliation and more customers buying from the company.

Lidl's market share is increasing dramatically throughout the years and we are proud of our practices. Customers are loyal to us and trust us. Even though the results were not easy to be achieved but the company's commitment made is possible. (Interviewee 1, 2015)

Sales of the company are rising. But the only reason for that is not the cheap selling process but the practices that have been put into the development process. Consumers today are smart and expect the organizations to behave in responsible manners that is why we are getting attention and loyalty from customers. (Interviewee1, 2015)

Attracting and retaining potential employees is another benefit of CSR engagement. Employees prefer to work for organizations who are more active in CSR. Lidl has benefited from good reputation and image and is very much appreciated by employees for its initiatives.

According to Juha Ojala, Negotiating Manager at PAM, Lidl is demonstrating and beginning to be quite an exemplary employer. (HS, 2014)

Commitment to environment and society, specifically speaking the workplace well-being has brought us more productive workers and greater loyalty. Employees are happy with our practices and are morally willing to support us in our operations. This has helped to attain and retain a more productive workforce. (Interviewee 3, 2015)

Final corporate benefit for having a CSR in Lidl's case can be seen as the crisis management. As according to Smith (2003) a company can present an image of innocence in case of crisis if it has been socially responsible. The company benefited from improved image and trust. International scandals were not so much able to destroy the company in local market.

At Itella, CSR is the way of doing things. Actions are much more important than the words and that's the approach at Itella for doing business. (Interviewee 4, 2015)

For Itella being socially responsible adds an image of good corporate citizen and makes them trustworthy for stakeholders.

According to Smith (2003) reputation and trustworthiness are the major factors that affect customer and employee loyalty.

Building up this kind of image helps Itella to gain the trust of their customers and other stakeholders. At Itella the reputation of the company is one of the most important intangible assets CSR is the source for achieving that.

Itella is in direct communication with its stakeholders, which also eliminates the risk of crisis. Thus, CSR has another corporate benefit for the company, as it enhances the trust of the stakeholders resulting in elimination of crisis risk. (Interviewee 4, 2015)

Itella also believes that their Green and responsible image has made them an attractive employee. (Posti CSR Report, 2014)

At Itella, thousands of applicants are applying for the job throughout the year. Company's policies and open communication of vision has made them an attractive employer. Employees relate themselves as part of the company's vision. This has helped company to retain a good work force and is a real asset for the company. (Interviewee 4, 2015)



## 6 Conclusion

The results of the study show that the perception of CSR varies from company to company and is based on the basic values of the company. It is perceived as obligation by some and responsibility by others but is practiced by all. Author has found out that it could be the necessity or requirement of market to participate in CSR. Companies engage in CSR to make themselves look better but in the end it is the right thing to do.

The study also supports the fact that there are many different reasons for the companies to engage in CSR. One important reason or motive that author has found is reputation or image of the company. Companies engage in CSR to develop and improve their image in the eyes of stakeholders. The pressure from stakeholders and institutional environment is another contributing factor towards the increased focus on CSR engagement. The consumers among other stakeholders have higher demands and concerns regarding the operations of the company, which has inspired companies to engage in CSR and use it as a strategy to gain competitive advantage in the market.

A company's main aim is to maximize profit and be as profitable as possible but then there comes the question Why invest in CSR? Author has found out that even though the main goal of the companies is to satisfy the shareholders and be profitable, it is not possible to be achieved without being responsible.

Companies apply and communicate the CSR engagement differently, but the research has provided with some basic aspects of CSR. In this study, it has been seen that companies mainly participate in the areas of Environmental and Social aspects. They have environmental friendly policies and are constantly engaging in environment protection and improvement programs. In social aspect, companies are promoting work-place well-being and are working with the betterment of human rights. They engage in charity events, support local authorities, have youth and education programs to show their commitment to the cause and communicate their values.

There are huge benefits that could be gained from CSR engagement. Most important of all are increased sales, loyalty, brand image and management of crisis. The study has shown that companies that engage in CSR have good chances of improving their market and brand image. The customers and employees are demanding and changing with the needs of the time. They demand companies to engage in CSR, behave and operate in socially responsible manner. Once they affiliate their own values with the company's prac-

tices, a brand loyalty is developed which in result bring more profit and motivated work force.

Lastly, the notion of financial performance is analyzed, author has found out there is a correlation between CSR and financial performance of the company. Author believes that CSR affects the financial performance of the company positively as consumers give significance to CSR engagement. As the study reveals that though CSR Engagement Company's image and reputation can be improved, thus it could result in higher sales and more profit. Another reason to believe that CSR can affect financial performance positively is because companies value economic stability more and their main goal is to be profitable, which means by investing in CSR they aim to achieve that goal.

### **6.1 Case companies Itella Vs. Lidl Finland**

Lidl and Itella Finland both perceive the notion of CSR in same manner but Itella has some special targets set for CSR. At Lidl, CSR is perceived as what they do and how it affects the society and environment around them. Whereas Itella, perceives CSR as the pursuit of social and environmental development and be an active citizen towards the sustainable development of the society as whole.

Sustainable development and values are important parts of organizations CSR activities. CSR is a big component of their values and how they operate. Moreover, organizations culture, strategies and vision are built upon that. However, Itella has always been very active and successful in communicating their values, visions and missions with general stakeholders. Itella has put a lot of focus in CSR and communications to achieve their aims. The company aims for strengthening profitability and sustainable development and for that company's trust building policy has always inspired them to be more and more active with stakeholders.

Whereas Lidl on the other hand has not been so very active in CSR and communications with stakeholders. As the very initial approach of Lidl was very weak and far from what they state in their values, company faced liabilities, criticism and negative image in the market. Lidl, is still working towards more open approach as still now company does not publish any annual or CSR report for stakeholders. The company tries to do everything by keeping the values in their own mind, which is not a very exemplary approach. However, company's values are clear and are depicted through their actions and activities in local society and employees. All in all, both companies show that the success of the business can be achieved only and only through responsible and sustainable behaviour. However,

Itella puts more emphasis on CSR and strongly believes that CSR is the way of doing business and creating sustainable development.

At Itella, ethical and social responsibility are the ones which are being more and more attentions to. They believe that companies should act in an ethical manner to make profit, as it is their responsibility to leave this world as a much better place for upcoming generations to live. Workplace safety and environmental aspects are the most important ones for Itella, as they believe that being a green logistics company they are reducing the emissions and delivering a positive effect on the environment around them. Environmental initiatives are the ones that organization pays more attention to and is always working to improve environmental stability.

Whereas in Lidl, being sustainable and acting as responsible citizen is believed to be acting ethical. For them ethical issues include, human rights, working conditions and environment and they pay constant attention to them. Both of the companies are working with various NGO's and local authorities to prove their commitment for the sustainable development. They believe that working with local authorities or NGO's can help boost many projects and society as general can benefit heavily from that.

There are numerous motives and reasons behind the engagement in CSR. For Itella, the main reason for engagement in CSR activities could be seen as the image and reputation that company has built over the years. Being a public and state owned company, Itella is being well respected and trusted by local consumers. Company's motive behind the engagement is CSR is mainly based on spreading their values and vision and by doing that they want to be part of a sustainable and long lasting change. To put it in simple words company works towards the betterment of society. It believes it is their moral obligation to be a good corporate citizen and make the world a better living place. For Itella, it is being ethical and responsible, and by being responsible and active in CSR create a profitable business and a good brand. The company also expresses their concern for employees and stakeholders. They state that by engaging in CSR, they are encouraging and motivating employees, consumers and other stakeholders to be a responsible citizen thus in the end creating value for the society.

One of the biggest reason in case of Lidl Finland to change its approach and engage more actively in CSR was the mounting stakeholder pressure. It was the driving force that led to company's initial change in strategies. Stakeholders demanded from Lidl to be more open in its operations and there were various other complexities along with rising product variety demands.

One motive that is certainly seen in the operations of Lidl and its engagement in CSR is the Crisis management. Engaging in CSR and share its values and visions with stakeholders was one of the ways for Lidl Finland to manage the rumours and allegations. The company learned from previous actions and mistakes and changed its attention towards CSR activities to avoid future dilemmas. Even though increasing profits can be seen also as a positive mote in case of Lidl, company strongly states that their operating values are much higher than just making profit. Another motive being a foreign subsidiary in Finland, was the operating legitimacy by the local market and even though Lidl is also actively working with NGO's and local authorities. They explains their motive behind that to be progressive towards the development of the society rather than just gaining operating legitimacy or permission to operate. The last motive in case of Lidl was the trust building and gaining the loyalty & respect of the consumers and stakeholders. Company's negative image was the reason that consumers considered Lidl to be irresponsible and that the company does not care about the consumers. To change that image and earn the loyalty and trust of the customers Lidl Finland had to change its approach towards CSR and invest heavily in CSR activities.

As far as the benefits of CSR engagement are concerned, Itella values the brand image the most and by engaging in CSR they have improved their Image very well. They have earned reputation and built a good brand image by working with their values over a long period of time. This commitment to CSR and values has also created trust and built good relationships among Itella and their stakeholders. Itella, explains that earning the trust of stakeholders, especially consumers is not easy as they are demanding more and more with changing business circumstances.

Another benefit of having CSR implemented in the organization is the human capital. The employees now a days choose the company's which are more responsible in their operations and active in CSR. Itella, states that being responsible and by engaging in CSR activities a positive image is built which is highly valued by employees. Thus, CSR is as great tool to attract potential employees and motivate the current employees to be loyal, resulting in better performance.

Lastly, for Itella CSR helps in preventing any accidents. The company's active involvement in CSR activities and especially in environmental and social aspects aids them to prevent accidents and crisis.

For Lidl, the biggest corporate benefit of all the enhanced image and reputation in the market. Lidl invested heavily in CSR to improve their image and gain the trust of the con-

sumers. Lidl believes that being sustainable and responsible is the way for them to make profit.

Another benefit is the boost in the recruitment and greater satisfaction of current employees. By engaging in CSR activities and especially in social and environment related issues, Lidl has started to become one of the best employers desired. Lidl's operations and workplace well-being was also approved and appreciated by PAM. According to the management Lidl is getting thousands and thousands of applications throughout the year. All this proves that by investing in CSR Lidl has for sure improved its working capital and image.

A final corporate benefit in case of Lidl, is the crisis handling. Lidl at the beginning of operations was faced with pressure and allegations. To avoid this from happening again they started to be more open and act accordingly. Being responsible and ethical has proved to be a real asset for the company, as even though rumours were around about wrong practices in other countries, Lidl Finland did not face any damage.

Financial correlation is the strongest factor contributing to this change to engage in CSR. Both organizations take their economic responsibility very seriously as at Lidl, increasing the shareholder value is very important for the company. For Itella, increased financial performance is also very important as it is the key for company's other development and sustainable projects.

In Case of Lidl Finland, a positive correlation has been observed by the author. The company just started operation in Finland over 12 years ago and had a very rough start. It was faced with a lot of criticism and allegations. Through learning, various practices were changed and strategies implemented. Company became heavily active in stakeholder communication and invested in other local projects. Currently, Lidl Finland is the 3<sup>rd</sup> largest retail company operating in Finland. Company holds more than 8.2% of the market share which was merely up to 2.0% in 2007. Sales are increasing dramatically throughout all the stores. Higher management is also very happy with operations and plans on opening 10 more stores this year in Finland.

Itella, has its operations in Finland from very long and the company has been through many organizational level changes till very recently. The performance of the company has been very good through the last 10 years. Even though the economic crisis hit the world, Itella was able to create profits and increased its operating businesses. Company acquired

many offshore subsidiaries and started operations even in Russia which is considered as a very big opportunity by the company as the possibilities are very high.

Reviewing all the information at hand, author has achieved the research objective which was to answer the question “**Why do companies engage in CSR and how does it affect financial performance?**”

Companies engage in CSR for many different reasons. There are some key influencing factors which are, stakeholder awareness & pressure, image & reputation, Crisis situations and moral obligation. Engagement in CSR has also increased due to the benefits associated with it which are, financial performance & improved profitability, increased sales, long term sustainability, trust and loyalty of stakeholders, improved reputation and brand image and competitive advantage. There are several more reasons and benefits that organizations seek to achieve through CSR engagement.

Financial performance being one of the key influencing factor in organizations operations gets somewhat more attention, as the basic purpose of the businesses is to make money. CSR engagement has helped to improve the financial performance of the companies by increasing sales and building customer loyalty. CSR is the requirement of the businesses, so as to increase the profitability of the businesses.

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## 8 Appendices

### 8.1 Interview questionnaire

- How do you define corporate social responsibility (CSR)?
- What does it mean to you? What does it mean to your company?
- Is CSR a separate division in your business or is it integrated throughout the whole organization? Why?
- Is your company being CSR? If yes, in what ways?
- When did the company engaged in Corporate Social Responsibility and why?
- What role does CSR play in your company strategies and activities?
- Do you believe that your stakeholders consider it important that a company actively work with CSR?
- Do your stakeholders know about the company's CSR engagement?
- How is CSR being communicated? Do you have any specific manuals and codes for your employees and suppliers to follow?
- Do you believe that your employees are affected by the company's CSR participation?
- How does the company work with CSR? Which CSR activities have been implemented recently?
- What kind of CSR Activities Company has?
- Does the company communicate the CSR activities to the public, customers and employees? Which methods are used to communicate the CSR activities?
- Why does the company communicate the CSR activities?

- What are the motives for having a CSR approach? (Enhanced reputation/image, sustainable development?)
- What are the effects on your company's image and reputation lacking a CSR approach?
- Do you believe that the company's CSR activities can affect the company's reputation? In what way?
- What are the main benefits with having a good CSR approach?
- Do you believe that companies working with CSR thereby can increase their sales?
- How does the future look for your company and your CSR engagements?
- What CSR activities does the company plan to implement in the near future?