

## THE COMPETITIVE ADVANTAGE OF CORPORATE SOCIAL RESPONSIBILITY

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*Această lucrare contribuie la îmbunătățirea înțelegerei conceptului de responsabilitate socială corporatistă prin examinarea rolului credibilității corporației în crearea de avantaje competitive. Principala contribuție a lucrării constă în identificarea existenței unei relații positive între avantajele competitive și responsabilitatea socială corporatistă. Gradul în care responsabilitatea socială are impact asupra credibilității unei firme influențează abilitatea acesteia de a atrage capital (avantaj competitiv). Prin urmare, rezultatele obținute sugerează faptul că se așteaptă ca firmele să se implice în inițiative sociale, ele fiind recompensate pentru efortul depus prin comportamente adecvate din partea clientilor lor.*

*This paper contributes to improvement the understanding of corporate social responsibility concept by examining the role of corporate credibility in setting up the competitive advantage. The main contribution of this paper is to find evidence of a significant positive relation between the competitive advantages, which a company can obtain, and the corporate social responsibility. The degree to which social responsibility is emphasized can also impact a firm's credibility, ultimately influencing the ability to raise capital (competitive advantage). Therefore, our results suggest that consumers expect firms to be involved in social initiatives and may reward them for their efforts through purchase behavior.*

**Keywords:** Corporate social responsibility, corporate social opportunity, socially responsible investment, certify, business ethics, competitive advantage,

### Introduction

Many formerly communist European countries have experienced dramatic economic change, ultimately affecting the manner in which companies in these areas are owned and managed. Romania in particular has benefited from this transition, and entrepreneurship/business development is further improving the country's economy.

Because of the recent economic restructuring in Romania, many smaller companies are flourishing. This business growth has enabled Romania to successfully move from the former communist way of government to greater

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privatization and economic progress. Despite these positive circumstances, Romanian business encounters a number of challenges. For instance, there are a number of ethical concerns facing Romanian business-persons. Corruption is a noteworthy challenge.

The manner in which Romanian companies negotiate social issues and develop a positive reputation could play a role in defining future institutional paradigms in the region. The Structural Funds provide significant financial support for the economic and social conversion of areas in structural difficulties, and for adapting and modernizing education, training and employment policies and systems, particularly in order to increase the adaptability and employability of workers. In this respect the European Social Fund could be used to promote CSR in management training and for other employees, as well as to develop teaching materials and courses in educational institutions, including those active in lifelong learning, in co-operation with enterprises.

The education system, at all levels, has a crucial role to play in the fostering of social responsibility in citizens, including those who are working – or will work – in the world of business or outside it. It can fulfil this role by enabling citizens to understand and appreciate social, environmental and ethical values and equipping them to take informed decisions. Education and training in the field of business administration have particular relevance to CSR in this context, and the encouragement of an effective dialogue between the worlds of business and education on this subject can contribute to the promotion of CSR principles and practices.

In this paper, we examine the relation between the corporate social responsibility and the competitive advantages. We find evidence of a significant positive relation between the competitive advantages, which a company can obtain, and the corporate social responsibility.

This paper is organized as follows. The next section provides further background and presents our hypotheses. The research design is then presented, followed by a discussion of our results. The last section contains a summary and presents the limitations and implications of our findings.

## **1. Conceptual background and hypotheses development**

Business may not be intentionally altruistic, but it provides the economic base that enables a self-sufficient livelihood, the creation of wealth, and the practice of philanthropy. Through taxes on income, wages, and capital gains, it is the ultimate source of all public funding. At the other end of the field, nonprofits may be dedicated to social goals, but they pursue contributions with the same intensity that businesses pursue profits. Most nonprofits have far fewer resources, but they are often able to

focus media attention on issues that mobilize a powerful response from consumers and governments.

### ***Corporate social responsibility – what is it and whose responsibility?***

Corporate social responsibility (CSR) involves companies voluntarily choosing to improve their social and environmental standards and so reduce their negative impacts on the environment. Corporate accountability can be defined as the ability of those affected by a corporation to control that corporation's operations. This concept demands fundamental changes to the legal framework in which companies operate.

Managers of companies today understand that CSR forms an indestructible part of their reputations and brand identities. They know that a critical source of difference between firms is the resources and capabilities that they possess and contribute to their potential competitive advantage, but CSR represents a very valuable strategic asset. They spend ever-increasing amounts of corporate resources on improving the social, human, and environmental conditions under which companies operate. CSR activities contribute to social progress and are intended to enhance corporate images.

Corporate social opportunity (Prahalad, 2004) is about creating sustainable products or service for very low-income people in developing countries while respecting the norms of good citizenship. It also includes investing in small-scale sustainable ventures in those countries and thereby promotes entrepreneurship.

There are numerous studies on corporate social responsibility, corporate ethics, and social sponsorship that suggest a link between social initiatives and improved financial performance, as well as studies that demonstrate the link between social initiatives and positive affective, cognitive, and behavioral responses by consumers (Ellen, 2000). The correlation between CSR and financial performance is particularly close in the case of corporate governance.

*Socially Responsible Investment* (SRI) contributes to the promotion of CSR, the development by rating organizations of criteria and indicators which identify the factors of competitive advantage and business success of socially responsible enterprises is essential. Socially responsible investment (SRI) has grown in the past decade. For example, in the United States \$178.8 billion is now invested in SRI mutual funds versus \$12 million in 1995.

Corporate governance is concerned with the process by which organizations are direct, controlled and held accountable. It deals with the rights and responsibilities of an organization's board, its management, shareholders and other stakeholders, and requires balancing their interests with the economic goals of the organization as well as the interests of society as a whole.

Global governance and the interrelation between trade, investment and sustainable development are key issues in the CSR debate. Indeed, awareness of CSR issues and concerns will contribute to promote more sustainable investments, more effective development co-operation and technology transfers.

Both processes of trade and financial markets liberalization should be matched by appropriate progress towards an effective system of global governance including its social and environmental dimensions. Globalization has also increasingly exposed enterprises to transboundary economic criminality, requiring an international response.

By abiding by internationally accepted standards, multinational enterprises can contribute to ensure that international trade markets function in a more sustainable way and it is therefore important that the promotion of CSR at international level takes as its basis international standards and agreed instruments.

Based on the assumption that consumers will reward firms for their support of social programs, many organizations have adopted social causes (Levy, 1999). In fact, research suggests consumers will punish firms that are perceived as insincere in their social involvement.

One aspect of good citizenship is the adoption of high standards of ethical behavior. The ethical standards would ideally reflect the concerns of these stakeholders and be captured and communicated in the organizational mission statement. Corporate ethics is a concern that an organization should reflect the values of its stakeholders, accept the rules and regulations of society within which it operates both in practice and in spirit, and develop a broader consciousness beyond simple delivery of returns to its shareholders.

### ***CSR implications and opportunities for companies***

Socially responsible initiatives by entrepreneurs have a long tradition in Europe. What distinguishes today's understanding of CSR from the initiatives of the past is the attempt to manage it strategically and to develop instruments for this. It means a business approach, which puts stakeholder expectations and the principle of continuous improvement and innovation at the heart of business strategies. What constitutes CSR depends on the particular situation of individual enterprises and on the specific context in which they operate, be it in Europe or elsewhere. In view of the EU enlargement it is however important to enhance common understanding both in Member States and candidate countries.

In general, various stakeholders in a company have different ideas and opinions as to whether CSR values and practices should be incorporated in binding instruments. While companies themselves are often rather reluctant to do

so, the trade unions are more enthusiastic. For investors and consumers, the most important element of CSR is the provision of reliable information regarding companies' products and behavior in this regard.

We have identified, in our research, some advantages for companies which are concerned to improve their performance on the domestic's market. These are obtained from different sources:

a) *CSR has several strategic implications.* The first is that CSR can be an integral element of a firm's business and corporate – level differentiation strategies. Therefore, it should be considered as a form of strategic investment. Even when it is not directly tied to a product feature or production process, CSR can be viewed as a form of reputation building or maintenance. A second strategic implication is that it is possible to generate a set of predictions regarding patterns of investment in CSR across firms and industries. For example, we expect to observe a positive correlation between CSR and R&D and advertising (Siegel, 2000).

The propensity of firms to engage in strategic CSR depends on two factors: the intensity of competition in the market and the extent to which consumers are willing to pay a premium for social responsibility. There is an inverse relation between intensity of competition and provision of CSR. That is, in more competitive markets, less of the public good will be provided through strategic CSR. Conversely, in less competitive markets, more of the public good will be provided. This is easy to understand, since more competition results in lower margins and, therefore less ability to provide additional (social) attributes or activity. Conversely, less competition leads to the potential for higher margins and more ability to provide additional attributes or activity. For example, a particular shampoo may have the CSR attribute that it is "not tested on animals", or for the car, in this case social characteristics of less pollution is "valuable".

We know that the capability denotes a capacity to integrate, combine, and deploy tangible and intangible resources through distinctive organizational processes in order to achieve desirable objectives. Dynamic capability measures the incumbent's capacity to modify existing capabilities. When a firm seeks to avoid imitation by erecting barriers, it might actually encourage innovation by the original innovation prompting the firm to develop a new innovative to regain its competitive advantage.

b) *Marketing implications.* Markets are constructs, not natural entities, and their rules can be framed in a variety of ways (taxes, regulation and law). The problem is that markets currently reward "bad" behavior – business that maximize short-term profits by externalizing environmental and social costs on the society as a whole – as much as it rewards "good" behavior.

The relationship between CSR and advertising is an interesting one. We expect that levels of investment in case CSR to be higher for established firms in more mature industries, since the extent of production differentiation will be greater in such sectors and consumers will, in general, have more sophisticated tastes and knowledge regarding products and firms. It is clear that such companies are likely to derive greater benefits from the use of CSR for reputation enhancement/position. It is very important to distinguish between persuasive CSR advertising and informative CSR advertising.

Persuasive advertising attempt to positively influence consumer testes for products with CSR attributes. Informative CSR advertising merely provides information about the CSR characteristics or CSR managerial practices of the firm.

c) *Technological impact.* Increasing concern regarding the environmental effects associated with a product's life cycle has propelled the end-of-life disassembly to prominence. The end-of-life disassembly is a process that could be effectively used to transform products, at the end of their useful life from the fully assembly assembled state to the part and sub-assembly states required for various reuse and recycling processes.

Design for disassembly is a powerful approach for improving the product's end-of-life "disassemblability" by appropriate design of the product itself rather than improvement restricted to optimizing the disassembly processes and tasks for a given product.

Modular product architectures allow the decoupling of individual component development processes, allowing those processes to become concurrent, autonomous, and distributed – in short, modular. Thus, modularity in product designs is essential to achieving the strategic flexibility of modular organization designs.

Firms often engage in social initiatives as a reaction to natural disasters, consumer boycotts, NGO pressures, or a number of other corporate crises. It seems intuitive that consumers' responses to reactive CSR initiatives (for example, McDonalds used the recyclable packaging material) will be different than responses to proactive initiatives.

The role of enterprise policy is to help create a business environment, which supports the Lisbon objective of becoming the world's most dynamic knowledge-driven economy, supports entrepreneurship and a sustainable economic growth. Its objective is to ensure a balanced approach to sustainable development, which maximizes synergies between its economic, social and environmental dimensions.

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***Companies must switch from defense to offense in their approach of CRS***

Our research suggests that corporations could indeed do far more for society at less cost – and in so doing enhance their corporate reputation and brand names in ways that have a lasting effect. For example, avian flu is not only a Romanian issue, it is a worldwide problem, but possibility to solve this issue must change it by proactive actions (offensive role). Companies that have adopted this approach have been able to create social impact on a substantial scale, rapidly developing and implementing sustainable or systemic solutions that do not depend on ongoing charitable contributions.

***Companies in a defensive role***

Companies today understand that CSR contributes to social progress and are intended to enhance corporate images. They may be trying to build goodwill or preserve their operations, but they don't honestly expect that their contributions will solve major social problems like hunger, poverty, floods or earth slides. Companies must be also be willing to explicit their full capabilities to find and implement solutions to social problems, even if the company had nothing to do with creating the problem.

On those social issues where companies have reasons to be involved, whether they are motivated by reputation or profit. Therefore, companies view CSR as vulnerability – an external risk to be managed with the least possible investment – rather than an opportunity for valuable social impact or competitive differentiation.

***Corporations must take over an offensive role***

According to our study we found that consumers consider the timing (proactive versus reactive) of the social initiative as an informational cue, and only the high-fit, proactive initiatives led to an improvement in consumer beliefs, attitudes, and intentions.

Instead of playing defense, companies may play offensive. For example, Romanian's refineries would reduce carbon emissions from their operations by at least 10% below the 1990 baseline, a more aggressive goal than the international standards.

Today, in the world many billions of dollars are spent every year on philanthropy and CSR initiatives. Billions more are spent on the defensive advertising, lobbying, and PR with which companies attempt to shirk from the social concerns for which they are blamed. These resources, already committed,

could be spent far more effectively without detracting from the company's overall purpose. Companies that choose the new path will reap disproportionate rewards by building sustainable reputations that far outdistance their competitors, whether the goal is social progress or reputation benefit, playing to win will deliver more powerful results at a lower cost.

Companies are not in business to save the world. Their resources exit to generate profits and reward shareholders. Offensive CSR can distinguish a company's reputation but cannot protect it; defensive CSR can protect a reputation but cannot distinguish it. Both are necessary to succeed in today's business climate. Fig. 1 shows that CSR requires a focused commitment to reaching a social goal that exceeds societal expectations.

According to our study we propose that defensive role must change in offensive role. In figure we observe that a company can make many uncoordinated, incremental social investments and see little benefit to their reputation or competitive context (A). However a focused investment can create a significant impact as the company differentiates itself from its peer group (B).

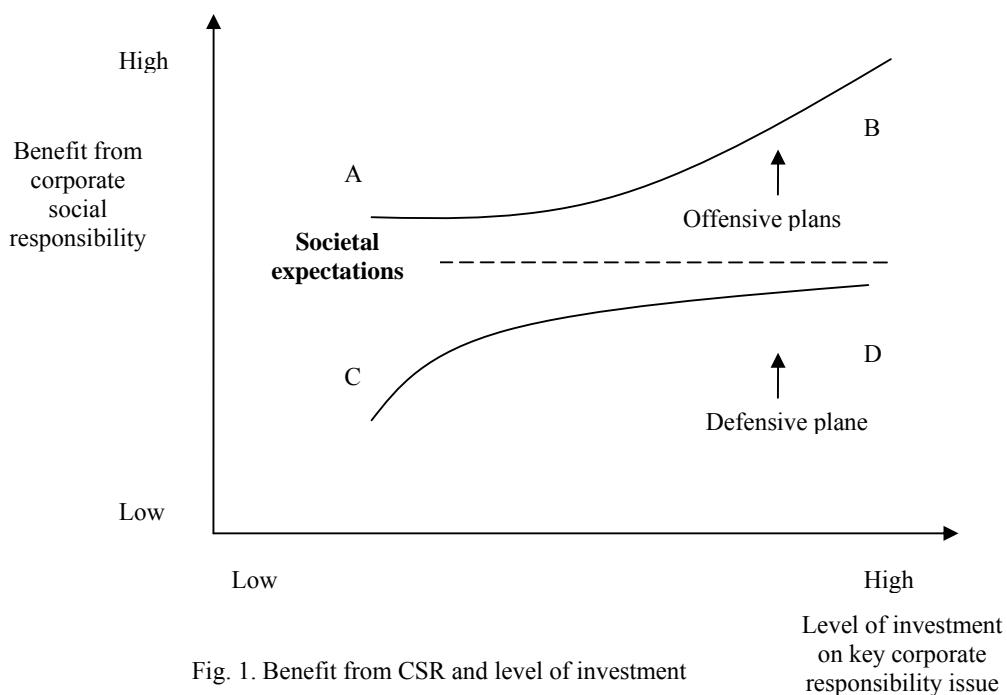


Fig. 1. Benefit from CSR and level of investment

Level of investment  
on key corporate  
responsibility issue

In defensive case, a company can make significantly short-term gains by showing they can take the issue seriously (C), but those gains once the company near social expectations (D).

***The main factors which influence the implication of companies in CSR field***

a) *Corporate visibility* helps to reduce the degree of information asymmetry between managers and stakeholders. The aim of increasing corporate social sensitivity through increased media visibility of both the issue of social responsibility and the corporations involved presupposes the existence of links between issue and organizational visibility and social responsiveness.

Hillman & Keim (2001) argue that corporate social performance can play a key role in establishing and developing value-creating relationships with primary stakeholders, while Waddock & Graves (1997) propose that a firm's social values and actions can contribute positively to its strategy.

Organizational size is an unsatisfactory measure of organizational visibility because it captures much more than an organization's visibility. Mezner & Nigh (1995) argue that organizational size is a good measure of organizational power and that powerful organizations are better able to resist external pressure.

Saiia (2000) developed a multidimensional measure of business exposure and found that firms with higher exposure are more inclined to make larger philanthropic gifts and more likely to be strategically motivated in doing so.

Mitchell (1997) argues that corporate sensitivity to stakeholder pressure is a function of three attributes of stakeholders: their legitimacy, power and urgency. Visibility may therefore generate a general propensity for organizations to be more highly sensitive to social and political stakeholders.

b) *Corporate credibility* may be impacted since communications that are perceived as reactive may decrease corporate legitimacy, increase feelings of corporate self-interest, and decrease feelings of honesty and trust (Kernisky, 1997), all of which are likely to increase skepticism and decrease are attitudes and beliefs towards firms.

In our research, we have found that firms with the desire to be perceived as "doing good" within their target markets may be able to do so through promotion of carefully selected social initiatives. But, companies cannot use social initiatives in place of strong brand management and high-quality products to obtain high performance. When the firm is viewed as motivated by profit, there is not a reduction in perceived corporate credibility.

c) *Organizational citizenship behaviors*. Corporate philanthropy and social initiatives are the heart and soul of business. The social endeavors must be consistent with firms' operating objectives (heart) and must be an expression of their values (soul). When social initiatives are not aligned with corporate objectives, CSR can actually become a liability and diminish previously held beliefs about firms. Managers must ensure that their communication make the connection between the social domain and the firm so that consumers perceive initiatives as proactive and socially motivated.

Fig. 2 presents the main factors which determine the organizational citizenship behaviors. Job satisfaction and organizational commitment are proposed as a direct predictor and leadership support, professional development and empowerment as indirect predictors of organizational citizenship behaviors and direct predictors of job attitudes.

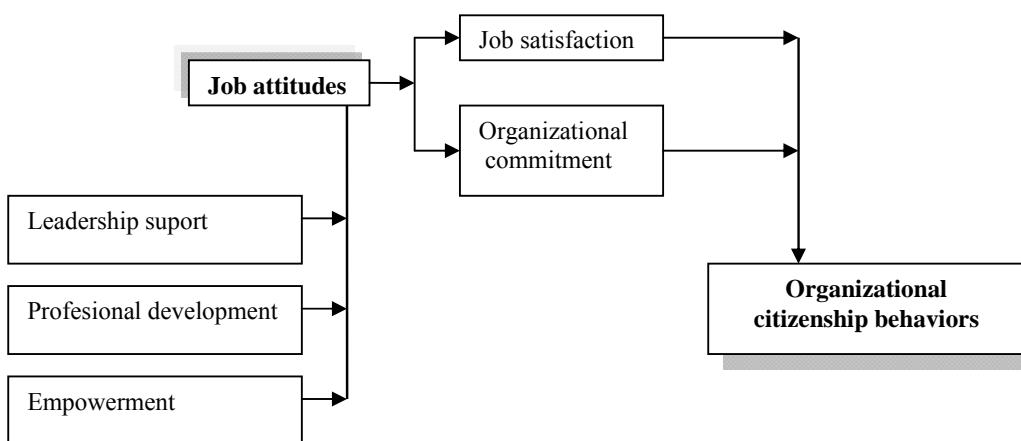


Fig. 2. Factors which determine the organizational citizenship behaviors

*Job satisfaction* is defined as an employee's overall affective state resulting from an appraisal of all aspects of his or her job. Satisfaction is the extent to which an employee feels pleased, happy, and rewarded, or displeased, unhappy, and exploited.

*Organizational commitment* refers to the belief that membership in the organization is important and worth working on to ensure that it endures indefinitely. Continuance commitment exists when employees face high switching costs because of a perceived lack of suitable alternative employers.

*Leadership support* is defined as the degree of support and consideration an employee receives from his or her supervisor. A supportive leader has a high

level of competence, treats employees fairly and with respect, and recognizes the contribution of individual employees.

Employees with supportive leaders are more likely to trust their supervisor, work effectively in teams, and subordinate their interests to the achievement of organizational goals. The literature supports a positive leadership support-job attitudes relationship.

*Professional development* exists when employers provide employees with opportunities to improve their work-related knowledge and skills (Hart, 1994). That is, the professional development is undertaken at the cost and initiative of an employer and not its employee.

Professional development is a crucial prerequisite for positive job attitudes because it enhances employees' opportunities for promotion and can strengthen the links between employees and their employers (a positive relationship is predicted).

*Empowerment* exists when supervisors give employees the discretion to make job-related decisions. Central to both concepts is the willingness of supervisors to give employees the authority to make decisions and use their initiative. Empowerment is especially important for retail and service workers. The literature suggests a positive empowerment – job attitudes relationship. Singh (2000) reports a correlation of 0.6 between task control and organizational commitment in his study of call center employees.

The degree to which social responsibility is emphasized can also impact a firm's credibility, ultimately influencing the ability to raise capital (competitive advantage). In light of these discussions we hypothesize as follows:

*Hypothesis 1:* The level of corporate social responsibility expenditure doesn't depend of types of companies;

*Hypothesis 2:* The level of corporate social responsibility is positively associate with corporate credibility;

## 2. Method

### *Data collection*

Data were collected predominately in 2006 as part of the fulfilled research at the Corporate Social Responsibility Centre from Polytechnic University, Management Department (RELANSIN program) located in Bucharest, Romania.

Sections and items covering the challenges associated with the competitive advantage, organizational citizenship behaviors, corporate visibility and corporate credibility were included in the questionnaire. A total of 24 completed questionnaires were collected for use in this research.

### *Sample*

The sample of organizations was drawn from different types of industries, product/service types, and occupational classifications. Approximately 10% of organizations in the sample were partnerships and 40% of the companies were limited partnerships, while 50% of the companies were organized as sole proprietorships.

The questionnaire consisted of 8 items and was administered to all 24 organizations. 7 items were seen to be independent variables, while one item was seen as a dependent variable with the following wording “corporate credibility is influenced by corporate social responsibility”. Items were rated with a scale containing “0” (not answer), “1” (not influence), “2” (minor influence), “3” (moderate influence), “4” (major influence), “5” (very strong influence), and responses indicating that a influence was not possible or the impact was very high.

*Validity.* Complete data were obtainable for organizations which constitute a sufficiently high proportion of the target population to ensure statistical power. The items in the questionnaire are partly theoretically based and have partly emerged through interviews with managers and consultants in business on corporate social responsibility issues.

*Testing hypothesis 1: The level of corporate social responsibility expenditure doesn't depend of types of companies.*

Under this hypothesis all respondents reported that corporate social responsibility expenditure doesn't depend of types of companies. The sample evidence may or may not be strong enough to reject this notion.

The sample was been drawn from the population of interest (business environment), and the categories into which these terms fall are observed. Table 1 presents descriptive statistic for the independent observations. Suppose the actual observations are arrayed with the frequencies expected if the null hypothesis was true.

Table 1

**Descriptive statistics – Null hypothesis true**

Types of organizations	Partnership	Limited partnerships	Sole proprietorships	Total
Actual observed	11	9	4	24
Theoretical expected	8	8	8	24

A statistic can be calculated from comparison of Table 1. It is known to follow the chi-square distribution. Equation 1 shows the computation.

$$\chi^2 = \sum (X_0 - X_e)^2 / X_e = 3.25, \quad (1)$$

where:  $X_0$  = observed frequency,  
 $X_e$  = expected frequency.

The computed chi-square value is now compared with the table value of chi-square from the chi-square table. If the calculated value is less than this table value, a good fit is indicated, and the hypothesis about the underlying population is not rejected. If the computed chi-square value is larger than the table value, a poor fit is indicated, and the null hypothesis is rejected.

To obtain a tabulated value from the chi-square table, it is necessary to know the number of degrees of freedom. In our case, one degree of freedom is lost since the expected frequencies must total 24, the number of frequencies to be observed. Thus  $df = k-1 = 3-1=2$  ( $k$  = number of categories). From the chi-square table,  $\chi^2_{0.05} = 5.99147$

Since the computed chi-square value is smaller than any of the tabulated values, even at the 0.05 significance level, it is not possible to reject the null hypothesis at these levels. As usual in statistical tests; it merely states that there is not enough sample evidence to reject it. It is concluded that the level of corporate social responsibility expenditure doesn't depend of types of companies.

*Testing hypothesis 2:* The level of corporate social responsibility is positively associate with corporate credibility;

Since the corporate social responsibility scale was used to collect information. A correlation analysis was then executed to determine the relationship between perceived the corporate credibility and corporate social responsibility. The results of the correlation analysis are presented in Table 2.

Table 2

**Descriptive statistics and correlations for CSR problems related to corporate credibility**

Specific problem	Mean	Standard deviations	The sample size	Correlation coefficient ( R )
Job satisfaction	1.83	0.97	24	- 0.2
Organizational commitment	1.89	1.22	24	- 0.12
Corporate visibility	3.27	1.34	24	0.14
Corporate size	1.45	1.4	24	- 0.03
Types of organizations	1.97	1.07	24	0.002
<i>Corporate social responsibility</i>	3.43	1.29	24	<b>0.2</b>
The corporate ethical values	2.67	1.45	24	0.108

The magnitudes of the correlation coefficients indicate that the level of corporate social responsibility is positively associate with corporate credibility ( $R= + 0.2$ ). The findings indicate that there is some significant industry variation in the corporate credibility- CSR relationship. Specifically, the results highlight a significantly weaker relationship between types of organizations and corporate credibility.

The impact of corporate visibility and size corporation on corporate credibility to vary simultaneously across industries. While larger and more profitable companies are still found to give more, the results now offer no support for a statistically significant direct relationship between corporate social responsibility and corporate credibility. Finally, the competitive advantage is created through corporate credibility.

### Conclusions

This paper has investigated the influence of organizational citizenship behaviors, corporate credibility, corporate visibility and corporate social responsibility on competitive advantage within a sample of over 24 organizations. The aim was to identify the items which can be used to enhance the competitive advantage.

At the same time, we find strong support for a positive relationship between competitive advantage and organizational citizenship behaviors. The study therefore provides powerful evidence that organizational citizenship behavior, a variable absent from most analyses of the competitive advantage, plays a significant role in shaping firm behavior.

According to our study we found that greater than 70% of respondents believed firms should engage in social initiatives and 55% felt those initiatives would benefit firms. We also asked respondents if they would boycott firms that acted irresponsibly (corporate visibility), and we found that 14% stated that they would boycott if reasonable alternatives were available. Thus, our results suggest

that consumers expect firms to be involved in social initiatives and may reward them for their efforts through purchase behavior.

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