

Beyond CSR: Evaluation of the concept of Corporate Social Innovation as an alternative to CSR

by

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AUTHOR'S DECLARATION

I hereby declare that I am the sole author of this thesis. This is a true copy of the thesis, including any required final revisions, as accepted by my examiners.

I understand that my thesis may be made electronically available to the public.

ABSTRACT

Traditionally, businesses respond to social and environmental risks through CSR activities and programs. In the process, businesses go beyond compliance with law and engage in actions that produce social values or societal benefits. However, the notion that there is a trade-off between business and social value persists. A new model of value creation known as Corporate Social Innovation (CSI) brings business leaders, impact investors, non-governmental organizations and local communities together to co-create new business models and implement social innovations that create both business and social values.

This study adopted a mixed method approach to examine the influence of social innovations on the Corporate Social Performance (CSP) and Corporate Financial Performance (CFP) of a select group of companies engaging in CSI. A sample of eight companies from different sectors was selected drawn mainly from the existing studies on the concept of Corporate Social Innovation.

The results of the evaluation of the performance of the eight samples based on ESG performance indicators show that corporate social innovation has greater positive effect on corporate social performance relative to CSR. On the other hand, the results of the trend analysis show that the selected financial performance indicators of the eight samples improved over the study period. However, when compared to peers or competitors in the same industry, the annual growth income rates of the eight samples were lower. Therefore, corporate social innovation does not have positive effect on corporate financial performance relative to CSR.

This thesis contributes to the emerging literature on the concept of corporate social innovation in three ways. First, it proposes a basis of distinction between CSI and CSR and thereby presents evidence to support the proposition that CSI is a distinct corporate practice. Second, it proves the proposition that CSI has a positive effect on social performance and disproves the proposition that CSI has a positive effect on financial performance. Finally, it presents evidence to support the proposition that CSI could drive corporate social and environmental performance towards sustainable business and sustainable growth.

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DEDICATION

This thesis is dedicated to my lovely wife, Olori Adeyinka Owolabi-Odunlade who was tremendously supportive during the period of my studies at the University of Waterloo.

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LIST OF ABBREVIATIONS

CSR – Corporate Social Responsibility

CSI – Corporate Social Innovation

CSP – Corporate Social Performance

CFP – Corporate Financial Performance

ESG – Economic, Social and Governance

NGO – Non-Governmental Organization

SiG – Social Innovation Generation

BoP – Base of the pyramid

MVA – Market Value-Added

KLD – Kinder, Lydenburg, Domini

ROA – Return on Assets

ROE – Return on Equity

EPS – Earnings Per Share

CHAPTER ONE

INTRODUCTION

Corporate Social Responsibility (CSR) has become a widely accepted management tool through which businesses go beyond compliance with the law and engage in actions that further social good and in the process, gain improved reputation and sometimes competitive advantage (Popa & Salanta, 2014; Lydenberg, 2005; and McWilliams & Siegel, 2001). Businesses use CSR to balance their social, economic and environmental responsibilities. However, critics of CSR argue that the primary responsibility of the firm is towards its shareholders and that the exercise of social responsibility is not in the best interest of shareholders (Maignan et al., 2004; and Friedman, 1970).

Those who support CSR use a normative view and performance driven standpoint to argue that by engaging in CSR, firms could achieve improved social, environmental and financial performance (Lee, 2008; and Lemon et al., 2011). The drawback of this line of argument is that “CSR programs are not primarily designed to produce profits or directly improve business performance” (Rangan et al., 2015, p. 1-2). Moreover, in business and society literature, the evidence that supports a positive relationship between CSR and financial performance has been mixed. Van Beurden & Gössling, (2008); and Orlitzky Schmidt, & Rynes, (2003) found a positive relationship while Lima, Freire, & Vasconcellos, (2011), and Smith et al., (2007), found a negative or neutral relationship.

The new trend in social responsibility is a shift to Corporate Social Innovations (CSI). Some group of companies now use core business strategies and activities to address social and environmental problems. These companies are moving away from just being “good” corporate citizens and going beyond the traditional CSR programs to address societal problems in a way that create social and business values (Mirvis, et al., 2016; Davidsen, 2016; Herrera, 2015; and Birchall et al., 2014).

This study traced the evolution of CSI, distinguished the concept of CSI as a distinct corporate practice from CSR and evaluated the effects of CSI on corporate social and financial performance.

The overarching argument in this study is that CSI as a distinct corporate practice could become a viable alternative to CSR in view of the criticisms of CSR and the gap between stakeholders' expectations and the social performance of the business. Business stakeholders especially customers, investors, now expect a greater role for business in solving societal and environmental problems. In 2011, Kramer & Porter challenged businesses to develop a new model of value creation that will enhance their long term performance without ignoring the broader societal and environmental influences that determine their long-term success.

Kramer & Porter (2011) argue that this new model of value creation will enhance profitability, increase social impacts, drive innovation and productivity growth. They proposed the concept of shared value. By creating shared values, companies could regain public trust and legitimacy which have been eroded over the years. Thus, some group of companies seeking to grow and address the challenges businesses face today are using the tools of social innovations to create both social and economic values. These companies use "social innovation tools to enhance their supply chains, reach socially-conscious and green consumers, and tap markets at the base of the pyramid" (Mirvis et al., 2016, p. 5014).

Birchall et al., (2014) argue that ethical, social and environmental concerns will shape the way stakeholders relate and engage with businesses over time. These concerns will gradually influence stakeholders' decisions such as investment, purchase and other business decisions. There is a gap between stakeholders' expectations and the social performance of the business (Mirvis et al., 2016). This is driving social innovations beyond the traditional social enterprise model. Early commentators on CSI argue that it is the latest along the CSR continuum and may not be different

from CSR. However, CSI has become a distinct corporate practice or strategy that businesses use to achieve economic and social values (Mirvis et al., 201; and Herrera, 2015).

1.1 Research Objectives

The proposition that CSI as a distinct corporate practice could help businesses create social and economic values is yet to be empirically proven. The objective of this study is to contribute to the emerging and growing literature on the concept of CSI by assessing the empirical evidence that supports the proposition that CSI could have greater positive influence on corporate social and financial performance relative to the traditional CSR.

Specifically, this study seeks to analyze the corporate social performance (CSP) and corporate financial performance (CFP) of a sample of companies that have adopted CSI drawn mainly from the existing studies.

1.2 Research Questions and Hypotheses

1. Does corporate social innovation have a greater positive effect on the firm's corporate social performance relative to CSR?
2. Does corporate social innovation have a greater positive effect on the firm's corporate financial performance relative to CSR?

The hypotheses of this study were:

H1 - Corporate social innovation has a greater positive effect on the firm's corporate social performance relative to CSR.

H2 - Corporate social innovation has a greater positive effect on firm's financial performance relative to CSR.

CHAPTER TWO

LITERATURE REVIEW

2.0 The Social Responsibility of the Firm

Historically, firms adopt actions that support social responsibility in response to societal pressures. The conversation around the social responsibility of business became prominent in the 1950s when researchers, business leaders, economic and legal commentators began to argue that the moral obligations of business to the society should be considered in firm's decision making (Bansal & Song, 2017). Early commentators such as Bowen (1953) and Frederick (1960), draw on a normative view or standpoint to argue that there is a moral obligation to engage in social responsibility and support activities that create societal impacts.

According to Bowen (1953) companies have a moral obligation "to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society" (p. 6). In his book "Social Responsibility of the Businessman", Bowen argues that corporate firms should acknowledge business ethics to attain high financial performance. Businesses have social obligation to take actions that are in line with social values because a firm is not only responsible to its shareholders but also to the society in which it operates.

Weisenfeld (2012) argues that the responsibilities of the business could be described along the triple bottom line of sustainability (social, environmental and economic responsibilities). According to Davis & Blomstrom (1966) Corporate Social Responsibility (CSR) is applied by business when "they consider the needs and the interest of others who may be affected by business actions and in doing so look beyond the narrow economic interest" (p. 12). In the 1970s, there was widespread opposition towards corporations as regards the suitability of their actions. This was

because most businesses did not embrace the idea of social responsibility of the firm because of its negative effects on the financial performance (Ackerman, 1973).

In the past, top level managers used CSR as mere public relations strategy to defend their corporations rather than to engage in social responsibility. The legitimacy of corporations was continually questioned. This drew wide criticisms among business stakeholders (Ackerman, 1973). Concerned stakeholders and civil society organizations also began to draw attention to the use of limited natural resources in the late 1980s and began to advocate for sustainable development (Bansal & Song, 2017).

The main argument was that businesses should consider the effects of their decisions on the external social systems while seeking economic gains (Davis, 1973). Managers should consider the effects of the firms' decisions on the host communities, labor, and other stakeholders (Preston & Sapienza, 1990). The implication is that if the society deteriorate and the natural resources depleted, businesses lose the crucial support structure and customer base that the society and the environment provide. Therefore, CSR became an important management tool that firms use to achieve a balance among their social, economic and environmental responsibilities (Popa & Salanta, 2014; Freeman & Hasnaoui, 2011; and Gossling & Vocht, 2007).

However, opponents of CSR argue that roles of firms, governments and the civil society should be segregated. They argue that social issues are the responsibility of government and its political actors while the foremost responsibility of the firm is to maximize the wealth of the shareholders (Levitt, 1958). The most prominent opponent of CSR was Milton Friedman who argued that the exercise of social responsibility is a cost to the shareholders and that when business leaders engage in social responsibility, they impose taxes on the shareholders (Freidman, 1970). He focused on the potential agency problem in the exercise of social responsibility by business leaders. Rather

than serving the interest of the shareholders, business leaders engage in CSR, thereby imposing agency costs on the shareholders or business owners (Lee, 2008).

A counter argument by Mulligan (1986) is that “the exercise of social responsibility in business suffers no diminishment in meaning or merit if the managers and the employers (shareholders) both understand their mutual interest to include a proactive social role and cooperate in undertaking that role” (p.266). Others have also disagreed with Milton Friedman on the ground that CSR is good for both the society and the business. Through CSR, businesses can improve reputation and consumer loyalty (Kanter, 1999; and Kotler and Lee, 2005), attract consumers who are socially conscious (Laszlo 2003), gain or retain employees that demand meaning in their work (Turban and Greening, 1997) and improve their market value (Mackey et al., 2007).

2.1 Hierarchy of Firm’s Responsibilities

In spite of the empirical evidence that social responsibility is good for both the society and the business, the debate about whether social responsibility is consistent with the responsibilities of the firm to its shareholders persists. Carroll (1991) presents the pyramid of the firm’s responsibility in which the economic responsibility of the firm is ranked above legal, ethical, and discretionary responsibilities. This implies that the first and foremost responsibility of the firm is to maximize economic returns for its shareholders. In contrast, Handy (2002) argues that the primary responsibility of business is not just to make profit but to make such profit to enable it carry out other responsibilities towards its stakeholders which include the society and the environment in which it operates.

However, norms, ethics and rules are dictating what is considered acceptable corporate behavior. Werther & Chandler (2006) argue that the responsibilities that were considered as ethical or discretionary in Carroll’s pyramid are becoming expedient in view of increasing changes in the environment in which firm operates. Gillis & Spring (2001) argue that other responsibilities of the firm include compliance with legal standard, respect for host communities and the environment. Hatcher (2002)

concludes that the roles and responsibilities of business are changing in today's world. The notion that economic and social responsibilities of the firms are trade-offs has also been addressed with the business case for CSR. Several empirical studies have linked CSR activities with improved social and economic performance.

Husted and Allen (2007) argue that commitment to the society and the environment is crucial for the continued existence and survival of business in the long-term. The implication is that the concept of CSR has become widely accepted as a tool to engage in social responsibility and to build business' reputation and improve competitive advantage (Popa & Salanta, 2014; and Lydenberg, 2005). Therefore, the social responsibility debate has shifted from the early normative standpoint to a performance driven standpoint. There has been a shift from "the discussion of the macro-social effects of CSR to organizational-level analysis of CSR's effect on profit" (Lee, 2008, p. 53).

The recent debate on CSR centers on the dilution of CSR activities and its "greenwashing" effects. More recently, critics of CSR argue that CSR is sometimes used to cover up the negative effects of business activities on the environment. Most CSR activities are mainly an avenue to promote the image of the business, sell more products or manipulate other stakeholders for business benefits (Devinney, 2009; Prior et al., 2008; and Doane and Abasta-Vilaplana, 2005). There are others who argue that the scope of CSR is limited and cannot address the enormous social problems in the society (Saatci & Urper, 2013). The increasing threats to the natural environment, accelerated climate change and its effects, resource scarcity, population growth, poverty, and pollution are used to support this argument (Seelos & Mair, 2005).

2.2 Evolution of Corporate Social Innovation

Kramer & Porter (2011) challenged the notion that there must always be a trade-off between economic efficiency and social progress and proposed a new model that could change the “social responsibility mind-set in which societal issues are at the periphery, not the core” (p. 65). They proposed the principle of shared value which involves “creating economic value in a way that also creates value for society by addressing its needs and challenges” (p. 65). They argue that it is in the best interest of companies to broaden the scope of CSR and be more strategic in CSR spending because it has the potential of creating both economic and social values. They challenged businesses to change the outdated approach to value creation that focused on optimizing short-term financial performance which has affected business legitimacy.

Kramer & Porter (2011) asked the fundamental question: “How else could companies overlook the wellbeing of their customers, the depletion of natural resources vital to their businesses, the viability of key suppliers, or the economic distress of the communities in which they produce and sell?” (p. 65). They proposed a new model of value creation which could trigger innovations and change the social responsibility mindset. Innovations for the “greater good” had always come from social entrepreneurs and innovators in non-business sectors (Seelos & Mair, 2005). However, Kramer & Porter’s model of value creation has triggered social innovations in businesses. According to Mirvis et al., (2016), businesses seeking to grow and meet stakeholders’ expectations are turning to Corporate Social Innovation (CSI).

“Shared sense of purpose”

Also in recent times, business leaders are strongly advocating for a “shared sense of purpose” as capable of helping them meet the changing expectations of their stakeholders and address the challenges businesses face today. These challenges include low level of trust in companies (which

affects business' legitimacy), employees' quest for work with meaning and the unending debates on the role of business in the society. In a report by the Harvard Business Analytic Services and EY Beacon Institute, the results of a global survey show that most business leaders support and believe in purpose. They agreed that companies with a strong sense of purpose are able to innovate and achieve business growth. Both shared sense of purpose and value are driving social innovations in business.

According to Mumford (2002) and Simms (2006), the driving forces of social innovation are the values and attributes of social actors which propel them to identify opportunities to innovate. Social innovations are created when individuals, businesses and other social actors seek solutions to social problems which are not being addressed by the existing social systems (Cajaiba-Santana, 2014). The growing awareness that companies do not exist solely to maximize the shareholder value is shaping the purpose of businesses and fostering social innovations among public corporations (Pfitzer et al., 2013).

Through social purpose, business leaders now recognize opportunities for social innovation and lead their organizations to pursue social goals as parts of the overall corporate goals. By integrating social purpose into corporate culture and overall business strategy, publicly listed corporations channel their resources to social innovations in order to solve specific social problems (Strandberg, 2015). The implication is that social and environmental problems are no longer seen as risks that companies mitigate but opportunities to innovate (Rexhepi et al., 2013). For example, food and beverages companies such as Danone, Unilever and Nestle developed social missions and engage in specific social programs aimed at improving nutrition and living conditions in different developing counties.

Intel and IBM are financing educational programs and supporting social innovation research. Vehicle manufactures are now focusing on production of low-emissions vehicles by re-defining their missions and engaging in eco-friendly innovations (Pfitzer et al., 2013). In addition to redefined corporate missions, big corporations such as Coca-Cola have enshrined the principle of shared value as part of their CSR strategy. This involves creatively innovating sustainable solutions to social problems and thereby improving business and social performance (Fedotova, 2010). However, the challenge lies in defining what is social and its boundaries in view of the different sustainable solutions that results from redefined corporate social missions (Seelos and Mair 2005).

Cahill (2010) simply defines social innovation as new ideas that address unmet societal problems such as poverty, homelessness, hunger, diseases and pollution. Social Innovation Generation (SiG); a Canadian collaborative initiative that offers advisory services to social entrepreneurs and develops social innovation policies, defines social innovation as an “initiative, product, process or program that profoundly changes the basic routines, resource and authority flows or beliefs of any social system (e.g. individuals, organizations, neighborhoods, communities, whole societies)”. It could be inferred that existing social systems and barriers influenced the process of idea generation and led to the emergence of social entrepreneurs and enterprises (Lettice & Parekh, 2010).

Initially, social business resides within the sphere of social enterprises and other not-for-profit organizations. According to Yinus (2007), the “social business model does not strive to maximize profits but rather to serve humanity’s most pressing needs. They focus on solving social problems with products and services at affordable prices, or giving the poor and marginalized people ownership in a business and therefore allows them to share in its profits” (p. 14). The main motive of a social enterprises is not to maximize profit because they do not pay dividends to investors.

Historically, social business began with the Grameen bank in the 1970s. The idea was to give the low income earners the opportunity to solve prevalent social problems in their communities by becoming entrepreneurs thereby creating employment (Saatci & Urper, 2013). The social enterprises model has witnessed dramatic development. The recent being the Benefit Corporations known as B Corp. The B Corps certification has become popular and the social enterprise model has become attractive to institutional investors who are interested in impact investments that yield both economic and social returns. B Corps are companies with a profit motive but have subjected themselves to meeting certain standards of social and environmental performance (B Lab, 2017).

In the context of publicly listed corporations other than B Corps, social innovation is “when companies re-engineer their business models, products, services, structures, systems, processes or relationships to generate profits and new value propositions in tandem with social outcomes” (Strandberg, 2015, p. 4). These companies recognize the constraints that social problems pose to businesses and seek innovations to address these problems through core business strategies. This phenomenon is described as Corporate Social Innovation (CSI).

Mirvis et al., (2012) defines CSI as “a strategy that combines a unique set of corporate assets (innovation capacities, marketing skills, managerial acumen, employee engagement, and scale) in collaboration with the assets of other sectors and firms to co-create breakthrough solutions to complex economic, social, and environmental issues that impact the sustainability of both business and society” (p.3). Through CSI, select companies address social and environmental problems as parts of core businesses. To integrate social purpose in core businesses, they invest in platforms that support collaborations and stimulate social innovations, integrate social goals in their corporate plans and develop social value strategies (Birchall, et al., 2014).

According to Strandberg (2015), corporate social innovation is “shift in perspective in how a company contributes to community and social well-being” (p. 4). It is a shift from charitable contributions through the traditional CSR to strategic and systemic investments. Social innovations have become investments which companies manage like other business investments (Mirvis et al., 2016). Through CSI, companies deploy resources to innovate and redesign business models that focused on creating social and business benefits.

2.3 Why do companies engage in Corporate Social Innovation?

In this study, CSI is defined as a business idea, initiative or model that leads to co-creation of sustainable solutions to specific social and environmental problems and is usually a result of collaborative effort of firm’s stakeholders. This study draws on the Edward Freedman’s stakeholder theory to argue that CSI enables companies to better meet stakeholders’ expectations that center on the social and environmental responsibilities of the business. Stakeholder theory “explains and predicts how an organization functions with respect to the relationships and influences existing in its environment’ (Rowley, 1997).

The stakeholder theory emphasizes the relationships among the firm’s stakeholders based on the normative view that the interests of other stakeholders, not just the interest of the shareholders, are equally important (Donaldson and Preston, 1995). A firm’s survival depends on its stakeholders such as employees, customers, society, government, suppliers, and the environment in which it draws resources for operations (Hannan and Freeman, 1984). According to Clarkson (1995) “Stakeholders are persons or groups that have, or claim, ownership, rights, or interests in a corporation and its activities, past, present, or future” (p.106).

In this study, it is argued that social innovations help businesses meet stakeholders' expectations more proactively towards a more sustainable pattern of business growth and sustainable development relative to CSR. This is in line with the views of Mirvis et al., (2016), Birchall et al., (2014); and Seelos & Mair, (2005) who argue that stakeholders' expectations are shaping how corporations approach social responsibilities. Stakeholder pressure for a greater role for businesses in addressing social and environmental problems will shape organizational behavior and decision making towards an improved scope of social responsibility programs.

Mirvis et al., (2016) attribute the shift from the traditional CSR to the social innovation model to two challenges facing corporate firms today; insignificant growth and increasing stakeholders' expectations. Corporate firms are exploring new innovation sources to achieve growth and to meet stakeholder expectations. For examples, Iyer & Soberman (2015) found that consumers' taste and preferences for socially and environmentally friendly products are driving product innovations. Eisenhardt & Brown (1998) and Grossman & Helpman (1994) argue that innovation improves firms' capacity to better respond to environmental risks.

Social innovation could be used as a strategic business tool to enhance supply chain, gain entry into untapped or the underserved "base of the pyramid" (BoP) markets, and sell to green consumers (Auriac, 2010). Through social innovations, companies address social problems such as poverty, hunger, malnutrition, crime, unemployment and environmental problems such as pollution and waste through core businesses. For example, Novo Nordisk, a Danish pharmaceutical company introduced the "access to care" strategy to improve access to health care in developing countries. The aim is to reach the "bottom of the pyramid" and build healthcare capacity in collaboration with partners.

CSI can be described as a model through which companies integrate sustainability into business. It differs from the CSR approach in that the intent is to generate both social and economic benefits. Companies engage in CSI as an investment and seek strategic partnerships to produce sustainable solutions to social problems and gain economic benefits. For example, Novartis, developed a-for-profit sustainable health initiative known as Arogya Parivar (healthy family) to improve access to medical services and products in rural India. Through this initiative, the company provides affordable products, patient education and build local capacity in a way that contribute to its business success (Birchall et al., 2014).

In other words, “by using the tools of social innovation and collaboration a company can create new business opportunities and advance social progress” at the same time (Strandberg, 2015:4). According to a report by KPMG international, in the next 20 years, businesses will be exposed to social and environmental changes that will create both risks and opportunities for sustainable growth (KPMG International, 2012). These risks require innovative responses while the opportunities could be harnessed towards sustainable growth. Birchall et al., (2014) identify factors which are driving social innovations in business. These include the growing movement of business leaders who are focusing on sustainable market development, changing models for corporate sustainability reporting and the demand for careers with purpose by potential employees.

2.4 What distinguishes CSI from CSR?

According to Mirvis, P., et al (2016), “many corporate social responsibility (CSR) programs emphasize philanthropic funding and programmatic activities and a significant gap remains between stakeholder expectations and corporate social performance” (p. 5014). Unlike the traditional CSR, corporate social innovation is shift from charitable donations to strategic and systemic investments (Strandberg, 2015). CSI is an investment in socially and environmentally relevant research which is managed like every other business investment (Mirvis, et al., 2016).

Sprinkle & Maines (2010) argue that “the costs associated with CSR can be measured by identifying the activities associated with CSR as well as the activities the company was unable to undertake due to CSR activities (i.e., opportunity costs). These costs represent increased outlays of cash” (p. 488). Business expenditures on CSR activities are usually classified as costs which reduce the profit attributable to the shareholders and the level of retained earnings that could be invested back into the business for expansion and growth.

On the other hand, social and eco-friendly research costs incurred when CSI is adopted, are usually capitalized in line with relevant financial reporting standards and accounting rules. Such capitalization further improves the net worth of the company. Apart from the cost and investments basis of distinction between CSR and CSI, both concepts could also be differentiated on the bases of their underlying framework, the nature of activities involved and the degree of engagement with external stakeholders. The differences are discussed in the table below.

Table 2.1 Differences between CSR and CSI

Basis of comparison	CSR	CSI
Underlying Framework	<p>CSR is based on the normative orientation that suggests that companies have a social obligation towards the society. CSR is required as part of business ethics to engage in social responsibility (Bowen, 1953).</p>	<p>CSI is issue-based; a strategic management approach premised on the view that social and environmental issues are opportunities for firms to innovate and not risks to be mitigated (Rexhepi et al., 2013).</p>
Activities involved	<p>CSR entails activities that are consistent with moral, cultural, philosophical, or religious attitudes and beliefs of managers and shareholders (Dunfee & Donaldson, 2002).</p>	<p>CSI involves creative activities of both the internal and external stakeholders of the firm which results in sustainable solutions that address specific social and environmental issues (Fedotova, 2010).</p>
Degree of Engagement	<p>CSR programs often focus on giving back to the society; a top-down and end-of-pipe approach to societal and environmental issues. (Dahlsrud, 2008).</p>	<p>CSI involves greater engagement and collaboration with stakeholders that lead to initiation and implementation of new ideas through identification of specific social issues (Bhatt & Altinay, 2013).</p>

In addition to the above bases of distinction between CSR and CSI, differences between the two concepts could also be described based on the following:

1. **Social responsibility intent vs strategic investment intent:** Most CSR programs are premised on the need to engage in social responsibility. They are driven by companies' strategy to manage stakeholders' expectations and minimize public pressure. In North America, CSR is still largely seen as philanthropic rather than investment. Unlike CSR, social innovations are generated as parts of strategic investments with the intent of creating business benefits while creating social impacts. Businesses engage in CSI as investments with expected social and economic benefits.
2. **Contribution vs Engagement:** CSR activities often entails setting funds aside for activities that are outside the core operation of the business and providing human resources through volunteering activities of companies' employees. With CSI, businesses engage relevant stakeholders to co-create business models, innovate and develop solutions to social problems. The level of engagement is greater when compared with CSR. Companies devote entire corporate assets in the process because it is part of their core business activities.
3. **Contract vs Collaboration:** CSR programs could be carried out through award of contracts to non-governmental organization (NGO) or community groups. Once contracted, companies focus on its core businesses while playing a monitoring role. The execution of CSR initiatives may or may not involve representatives of the companies because they are not core to business. CSI involves active collaborations among business leaders, partners, host community groups or representatives and other relevant stakeholders who jointly implement social innovations programs.

4. **Goodwill vs Revenue:** CSR activities are not primarily designed to generate revenue. Through CSR, businesses could gain reputation that translates to goodwill over time. New business models create sources of revenue and in most cases new markets for companies. This increases revenue and leads to market penetration beyond what CSR activities could generate. The competitive advantage gained in the process of CSI could also translate to customers' loyalty and make such companies attractive to potential customers who seek socially and environmentally friendly products.

2.5 Corporate social innovation criteria

The concept of CSI is relatively new. Early writers on the concept such Davidsen (2016) and Birchall et al., (2014) described the concept as the latest along the CSR continuum. In the existing studies, common themes often used to describe CSI include societally relevant research and development, consultation with consumer on new product development, membership of eco-friendly research network, stakeholders' collaborations to co-create new products, and innovation with social sector partners. (Strandberg, 2015; Herrera, 2015; and Mirvis et al., 2016). In this study, these common themes or principles were synthesized to propose sets of criteria for corporate social innovation. These criteria are not considered exhaustive. However, the objective is to build a theoretical framework for identifying CSI in corporate a context.

This study proposes that the starting point of CSI is the integration of social-eco innovation in the overall corporate strategy. This will usually be followed by strategic plans to achieve this strategy. The plan could entail seeking strategic partnerships and collaborations with external stakeholders to gain understanding of social problems that could be addressed through core businesses. The outputs of such collaborations will be inputs for research and development which will eventually lead to development of new or redesigned products that focused on solving specific social

problems. Therefore, for a company to engage in CSI, the processes of social innovation should involve redefined corporate goals, collaboration, societally and environmentally focused research and co-creation of a new business model. The following criteria aptly described the social innovation processes and outcomes in corporate context.

- 1. Integration of social and eco-innovation into corporate goals and strategies.** The social innovation model entails integration of innovation with social benefits into overall corporate goals. For example, Intel incorporates social and environmental performance goals into its operations and thereby promotes a culture of “social-eco” innovation within the company (Herrera, 2015). Unilever’s goal to double its growth and halve its environmental footprint led to the development of a “Sustainable Living Plan” which became the company’s core strategy that influences its entire business operations (Birchall et al., 2014). Although the “social” in corporate social innovation suggests that such innovations are restricted to social issues, evidence from the existing studies on CSI proves that CSI strategies also focus on minimizing companies’ negative environmental impacts and negative environmental footprint of their products (Herrera, 2015).
- 2. Partnerships or collaborations with external stakeholders.** Existing studies and early commentators on CSI emphasized the important role of collaborations in the process of corporate social innovation. A wider stakeholder engagement is one of the central ideas of CSI. It involves “deeper collaboration across functions within a firm and with external parties to co-create something new that provides a sustainable solution to social ills.” (Mirvis et al., 2016, p. 5015). For example, IBM collaborated with KickStart to explore new technologies focused on fighting poverty in Africa through e-training courses. Danone, the French food company worked in partnership with Grameen Bank and co-

created Grameen Danone Foods Limited to fight malnutrition in Bangladesh. This collaboration also entails consultation with consumers on product development.

3. **Investment in socially and environmentally relevant research & development.** The outcomes of collaborations and consultations on social issues constitute inputs for research. Companies usually seek solutions to problems through investments in innovation processes. This explains why CSI is mostly described in the context of big corporations who are able to channel enormous resources to research and development. When a company engages in CSI, it channels the full corporate resources to invest in efforts that focus on addressing specific social and environmental problems (Mirvis et al., 2016).
4. **A business idea or model that solves specific social and environmental issues.** When a company integrates social and eco-innovation into its core business strategy, engages in innovation networks with external stakeholders, new business models are often generated. This could result in product redesign or design of new products. CSI provides a new model of value that entails sustainable business that creates social and economic benefits. A ‘CSI company’ re-engineers its business model to generate profit with social and environmental benefits (Strandberg, 2015). In the process, the company achieves supply chain efficiency, creates new sources of revenue and gain access into new or previously untapped markets in way a that could improve its overall social performance.

2.6 CSI and Corporate Social Performance

Davis & White (2015) while exploring what makes some companies more fertile for social innovation describe social innovation as “ongoing (rather than one-off) initiatives that have positive social impact while promoting the core mission of a business” (p.1). In business and society literature, the social and environmental performance of the business are integrated into its overall social performance. Wood (1991) built on the work of Wartick and Cochran's (1985) to define Corporate Social Performance (CSP) as “a business organization's configuration of principles of social responsibility, processes of social responsiveness, and policies, programs, and observable outcomes as they relate to the firm's societal relationships” (p. 693).

Wood (1991) argues that in order to assess the social performance of a company, the extent to which *the principles of social responsibility motivate organizational actions*, how a company uses *socially responsive processes*, the existence and nature of *policies and programs* with which it manages its societal relationships, and *the social impacts or observable outcomes* of such actions, programs, and policies should be considered. Thus, a company will normally develop the following programs and policies and carry out the following activities when it engages in corporate social innovation which could be used to measure its social performance:

- i. **Involvement of external stakeholders in the social innovation process:** Novo Nordisk, a Danish pharmaceutical company seeks to innovate and produce therapies that treat diabetes especially in Africa and Asia where low income earners have limited access to treatment of the disease. The company launched the “changing diabetes” program with aims to improve the health and quality of life of people with diabetes. It collaborates with its competitors, United Nations and works with local hospitals in Africa and Asia to train their staff on how to use diabetes care infrastructure. The company staff spend time with

patients, caregivers, and health professionals to gain understanding of how best to treat the disease and then propose innovations based on such interactions (Mirvis et al., 2012).

- ii. **Product innovation with social impacts:** Krishna & Rajan (2009) and Arora & Henderson (2007), argue that companies engage in CSR on the assumption that consumers are willing to pay more for products that are associated with social cause. Consumers' taste and preferences are driving product innovation (Iyer & Soberman, 2016). Product innovation results from consultation with consumers at the different stages of product development. Through its health care initiative in India, Novartis developed over 80 affordable products that are tailored to the healthcare needs of local communities in the country (Birchall et al., 2014). These products are sold to low income earners at prices that are affordable while at the same time increase the revenue of the company.
- iii. **Entry into previously unserved “bottom of the pyramid” markets:** Product innovations enable businesses to gain entry into new markets and obtain license to operate. Danone partnered with Bangladesh's Grameen Bank to jointly obtained a license to operate Grameen Danone Foods Ltd. The company was established to address child malnutrition in Bangladesh (Birchall et al., 2014; and Auriac, 2010).

When a company engages in CSI, it could also engage in eco-innovations aimed at reducing its negative environmental impacts and effectively manage its climate change risks. This argument is central in the discussions on social innovation. Innovation for “social good” will often improve the environmental performance of the business as well. For instance, companies that engage in CSI; Intel and 3M embedded social-eco innovations in their corporate goals and strategies (Herrera, 2015).

A company that engages in CSI will typically:

- a. Invests in clean tech:** Through Investment in socially and environmentally relevant research & development, CSI companies use production techniques or technologies that reduce toxic emissions and thus have low carbon footprint. 3M uses production techniques that would enable the company to achieve reduction in its air emissions to 15% and solid waste to 10% (Herrera, 2015). This indicator will assess the overall investments in low-carbon technologies by CSI companies.
- b. Develops product carbon footprint reduction programs:** Through consultation with consumers at product development stages, companies such as 3M and Intel manufacture products with low carbon footprint. For instance, Intel produces microprocessors with minimal environmental impact. As a result, consumer environmental footprint is also reduced and natural resources are conserved (Herrera, 2015; and Birchall et al., 2014). This indicator could be used to evaluate the overall product carbon efficiency of CSI companies.
- c. Manages climate change risks:** Through environmental management strategies, a company that engages in CSI could effectively manage its climate change risk exposure. These strategies will normally include waste management programs, resource conservation programs, energy efficiency programs and insuring climate change risks that the business is exposed to.

Although the above indicators are not considered exhaustive, they sum up programs, policies, actions and the observable outcomes of the process of social innovations as described in the few existing studies on the concept of social innovation.

2.7 CSI and Corporate Financial Performance

Several studies on the relationship between CSR and financial performances have produced mixed results (Saeidi et al, 2015). While some authors found a positive relationship between CSR and financial performance (Oeyono, Samy, & Bampton, 2011; Van Beurden & Gössling, 2008; & Orlitzky, Schmidt, & Rynes, 2003), others such as Lima, Freire, & Vasconcellos, (2011), Smith, Khadijah, & Ahmad Marzuki, (2007), & Aupperle, Carroll, & Hatfield, (1985), found a negative or a neutral relationship. Kotler & Lee (2005) and Orlitzky *et al.* (2003) found that CSR activities could give positive signal to potential investors. However, the market outcomes of CSR are not clear. It is not clear whether a firm's social and environmental performance influences market's reaction.

Jacobs et al. (2010) analyzed the shareholder value effects of environmental performance and found that the market does not react significantly to the announcement of firms' environmental performance. Thus the value of shareholders is not significantly improved by CSR. According to Konar & Cohen (2001), an "attempt to relate firm environmental performance to financial performance often leads to conflicting results due to the subjective nature of environmental performance criteria" (p. 281). On the other hand, CSR helps business to design innovative products, attract and retain employees, enjoy customers' loyalty, reduce manufacturing costs, and improve its reputation (Luo & Bhattacharya, 2002; Peloza, 2006; and Harjoto & Jo, 2007). Firms sometimes innovate to improve their CSR performance.

Wagner (2010) examines the relationship between innovation with high social benefits and corporate social performance and found that such innovation improves product development and enhances competitive advantage. Such innovation also creates social benefits such as pollution control, reduced environmental externalities and provision of products or services for low income

population but with little or no influence on firm financial performance. Pelozo & Yachnin (2008) argue that the disconnection between the CSR and financial performance could make managers hold back from engaging in considerable CSR or investing in sustainability because of the likelihood that it could undermine shareholder value and financial performance. The implication is that social and environmental problems may not be significantly addressed and businesses will be unable to meet the expectations of stakeholders in relation to the society and the environment (Lee, 2008). This further supports the social innovation trend as an alternative to CSR. While the excessive focus on the business outcomes of CSR affect organizational behavior from the broader societal perspective, social innovation enables businesses to specifically focus on social outcomes and in the process achieve improved performance (Saatci & Urper, 2013; and Seelos & Mair, 2005).

Although there are few existing studies on the concept of corporate social innovation, the most recent academic studies on CSI focus on its influences on organizational learning and competitive advantage (Mirvis et. al., 2016; and Herrera, 2015). Mirvis et al., (2016) used a case study method and sought to theorize how firms learn and produce social innovation through knowledge exchange in CSI collaborations. They found that considerable tacit knowledge is exchanged among CSI partners in the process of corporate social innovation. Herrera (2015) develops a preliminary theory that describes the factors for successful corporate social innovation. Through a case study analysis of a sample of companies that have integrated CSI into their corporate strategy, the study found that deliberate, systemic approach to social innovation creates competitive advantages and social value.

In other words, social innovators gain enhanced competitive advantage through corporate social innovation. This enhanced competitive advantage could also help these companies to achieve

improved financial performance. However, this has not been proven empirically. It is not clear whether corporate social innovation which generates high social benefits also translates to high business performance. This research seeks to fill this gap through empirical analysis of the financial performance of social innovators and non-social innovators.

Financial Performance Indicators

Managers and researchers have used different metrics to conceptualized corporate social performance (CSP) and assign financial value to firm social investments. These metrics are classified based on the stages of valuation. According Pelozo, (2009), these could be categorized into three. There are those that measure the outcome of CSP which eventually create business value known as intermediate metrics and those metrics that capture the variables that mediate CSP and business value. The third set of metrics are those that measure the end state financial results of CSP known as End of state metrics. For example, an investment that reduces the energy consumption (mediating variable) could reduce operating costs (intermediate outcome) which could improve profitability (end-state outcome).

Most of the past studies on CSP-CFP used the end of state outcome metrics. These metrics are further categorized into three:

- Market-based metrics: These measure the market outcomes of CSP such as movement in share price and shareholder value created often operationalized as market value-added (MVA).
- Accounting-based metrics: These measure how efficiently the business uses its assets to generate value. The common metrics often used are return on assets and return on equity.

- Perceptual metrics: These are commonly used ranking by recognized external bodies such as the Kinder, Lydenburg, and Domini (KLD) index which measures firms' corporate social performance, Fortune magazine's Change the World List and Business Week rankings.

When compared with market-based metrics, accounting-based metrics "rely on managers' discretionary allocation of resources. Hence, they tend to represent managerial performance rather than external market responses to organizational actions and suffer from managerial manipulation and differences in accounting procedures" (Guney & Schilke, 2010:17). According to Rappaport (1992) and Hillman & Keim (2001), market-based metrics are often preferred because they capture the future value of income streams more appropriately. However, Pelozo (2009) reviewed a total of 159 studies on the business case for CSP, out of which 128 were drawn from academic sources, and found that 39 different metrics were used to measure the influence of CSP on financial performance.

According to Pelozo (2009), although market-based metrics, especially share price, were the most common metrics in use, accounting -based metrics were also widely used. One disadvantage of market based metrics such as share price is that its value "is influenced by many other factors than the earnings, cost or assets of a company" Weber et al., (2008:242). Other psychological factors such as perception of the future value of the firm and the overall economic conditions of a country could influence the movement in share price. Other market based metrics such as Tobin's Q which shows the stock market's estimation of net present value of the firm also has its disadvantage. Tobin's Q is given as firm's market value divided by its asset replacement costs. However, the value of asset replacement costs is influenced by difficulty in valuing intangible assets such as goodwill (Hillman and Keim, 2001).

Hillman and Keim (2001) note that accounting measures of performance are most suitable when measuring the utilization of the tangible assets of the firm. Previous research such as Margolis et al., (2008); and Orlitzky, Schmidt, & Rynes (2003) also indicate that accounting measures tend to show a larger correlation between social investments or initiatives and firm financial performance. Moreover, end of state metric such as financial ratios, are more appealing because they show the overall financial position of the business (Peloza, 2009). This study therefore adopted the accounting metrics or ratios as measures of firm's financial performance.

In conclusion, in CSP-CFP studies, some researchers argue that there is a reciprocal relationship between CSP and CFP (Margolis and Walsh, 2003). In other words, corporate social performance could positively influence the corporate financial performance of the firm and vice versa. However, this study focuses on the causal effect of corporate social innovation on both the corporate social and financial performance. Most managers are interested in the effect of sustainability programs, policies and actions on the firm's financial performance. When there is a disconnect between sustainability and performance, managers may limit investments in programs and policies that support social purpose on the ground that they could undermine performance and negatively affect the shareholder value (Peloza & Yachnin, 2008).

CHAPTER THREE

METHODS

3.1 Introduction

To achieve the objectives of this study, a mixed method approach was adopted in this study. The mixed method approach combines elements of quantitative and qualitative approaches under the assumption that such approach will provide a more detailed understanding of the research problem (Newman & Benz, 1998; and Creswell, 2013). This section presents the underlying fundamentals of this study such as sample selection, peer-company identification and selection, determination of the period covered by the study, analysis of samples' social and environmental performance ratings, selection and definition of financial ratios as well as data collation and analysis.

3.2 Sample Selection

To select the samples for this study, companies who are often cited in the existing studies on corporate social innovation were identified. These companies were further evaluated to ensure that they meet CSI criteria proposed in this study. As discussed in chapter two of this study, a company engages in corporate social innovation when it:

1. integrates social and eco-innovation into its overall corporate goals and strategies and
2. engages in strategic collaboration or partnership with stakeholders to co-create something new towards sustainable solutions to social and environmental problems.
3. invests in socially and environmentally relevant research and development (R&D); and
4. develops a business idea, model or program that solves specific social and/or environmental problems.

Eight companies that met the above criteria are the Intel Corporation, 3M Company, Novo Nordisk, International Business Machine Corporation (IBM), Abbott Laboratories, Novartis AG, Danone SA, and Unilever Plc. These companies were selected as the samples for this study. Although the list might be in-exhaustive, they have been carefully selected based on in-depth review of the few existing studies on CSI. This explains why purpose sampling technique is most suitable and therefore, adopted in this study. The rationale being lack of generally accepted method of identifying the companies that are currently engaging in CSI.

Herrera (2015) conducted a case study on CSI at Intel and 3M Company and found that the social innovation approach creates both competitive advantage and social value. Mirvis et al., (2016) conducted a case study analysis of companies known for their leadership in CSR and CSI space which include Intel, Unilever and Danone. Birchall et al., (2014) profiled Novartis, Danone, Unilever, and cited CSI at Intel while presenting how CSI creates business opportunities among corporations today. Standberg (2015) also profiled Danone and Unilever in her “Social Value Business Guide” which provides an overview of the opportunities that could create strong social value and business benefits. Coro Standberg’s paper titled “Corporate Social Innovation” is one of the early publications on the concept of CSI.

3.3 Measure of Performance

Social Performance

To measure the corporate social performance of the selected companies, the Kinder, Lydenburg, Domini (KLD) social index now called MSCI ESG was used. MSCI ESG, an independent rating body, uses a proprietary methodology to evaluate the environmental, social and governance performance of thousands of companies worldwide. According to Mattingly & Berman (2006),

KLD social ratings data is considered a reliable standard for the quantitative measurement of corporate social and environmental performance. KLD has been used in related studies (Hillman & Keim, 2011; McWilliams & Siegel, 2000; and Waddock & Graves, 1997).

Specifically, KLD uses social and environmental performance indicators on which companies' ESG performance is based. It assigns scores to both positive ESG performance and negative ESG performance. If a company meets the assessment criteria established for an indicator, it is assigned a score of "1". If a company does not meet the assessment criteria established for an indicator, it is assigned a score of "0" (MSCI ESG 2014). Although, KLD has been criticized based on issues with its construction and aggregation (Hillman & Keim, 2011), it is used in this study because its social and environmental performance indicators are most suitable to measure the policies, programs and actions of the companies engaging in corporate social innovation. These indicators capture the relevant performance measurement variables and the CSI criteria proposed in this study.

Financial Performance

In line with most past CSR studies, both the accounting-based and the market based indicators or metrics were considered in this study. However, end of state accounting metrics such as financial ratios were adopted because they were considered most suitable in view of the focus of this study on profitability as a measure of firm's financial performance. "Measures of a company's *profitability* are of interest to equity investors and management and are drawn primarily from the income statement. These include gross profit rates, operating income, net income as a percentage of sales, earnings per share, return on assets, and return on equity" (Williams et al., 2012:632).

When compared with historical data or with other companies in the same industry, profitability ratios influence the investment decisions of potential investors and managers' decision making. The table below shows the profitability ratios selected for this study in line with several related existing studies.

Table 3.1 Selected profitability ratios

S/n	Selected ratios	Definitions	Past studies
1.	Operating income	This “measures the profitability of a company’s basic or core business operations and leaves out other types of revenue and expenses” (Williams et al., 2012:635).	Selected for this study.
2.	Earnings per share	This is net income, expressed on a per-share basis. The trend in EPS affects the market value of the shares of a company (Williams et al., 2012).	Selected for this study.
3.	EBITDA margin	Given as Earnings Before Interest, Taxes, Depreciation and Amortization divided by total revenue. It measures the extent to which the cash operating expenses use up revenue.	Weber et al., (2008).
4.	Return on assets	A measure of a company’s profitability, is equal to total earnings divided by total assets, expressed as percentage.	Crisóstomo, Freire, & Vasconcellos, (2011); and Malcolm, Khadijah, & Ahmad Marzuki (2007).
5.	Return on equity	It is given as after-tax income divided by the book value of equity and expressed as a percentage. The ROE measures how much profit a company is able to generate, given the resources provided by its stockholders.	McWilliams and Siegel (2000); and Malcolm, Khadijah, & Ahmad Marzuki (2007).

3.4 Standards for Comparison

Financial analysts often use two criteria to determine the reasonableness of a financial ratio. They use the *trend* in the ratio over a period of years. This enables them to determine whether a company's performance or financial position is improving or not. Financial analysts also compare a company's financial ratios with those of similar companies or with industrywide averages. This enables them to evaluate a particular company's financial performance given the prevailing operating environment of that company at any given time (Williams et al., 2012).

In this study, trend analysis also known as horizontal analysis was adopted. It entails the comparison of the financial ratios over time. The aim is to determine whether following the adoption of CSI, the performance of the companies improved or not. Although, a horizontal analysis does not afford any basis for evaluation of performance in absolute terms, this limitation was addressed by also comparing the performance of the selected companies to respective peers using the compound annual net income growth.

Compound Annual Growth Rate (CAGR) is used to determine a constant rate of return of financial performance indicators such as total revenue, net income, and investments. It has wide range of applications (Chan, 2009) and has been used in CSP-CFP studies such as Simpson et al., (2013), Laffer et al., (2004), and Kang et al., (2010). It was considered suitable for this study because it eliminates volatility in growth rates when financial performance is evaluated over a period of time which is common in trend analysis. Moreover, it is useful when comparing growth rate of companies in the same industry (Chan, 2009).

3.5 Peer-company identification and selection

To identify companies that are similar in size with the eight samples in this study, a peer selection process was carried out. This involved selection of companies with similar market capitalization

and total assets as peers of the eight samples. Market capitalization and total assets were operationalized as firm size in Guney and Schilke (2010). Both market capitalization and total assets are commonly used as control variables for firm size (Aupperle *et al.*, 1985; Pava & Krausz, 1996; and Waddock & Graves, 1997). The peer selection process was carried out using data available online from the CSI Market Database (CSI market, 2017).

CSI market uses the most recent financial statements of companies from different industries to determine their competitors. The market cap for the second quarter of 2017 Q2 and the total assets of the eight selected companies as at the end of 2016 financial year, drawn from Yahoo Finance's website, CNN money's website, and Morningstar investors' database were used to select companies that are similar to the companies selected as samples. The list companies and their peers is in Appendix A.

3.6 The Reference Period

The CSP and CFP of the eight samples were examined over a five-year period from 2012 to 2016. This period was adopted to evaluate the performance of the eight companies after the publication of Kramer & Porter on creating shared value which is largely attributed to the evolution of CSI (Birchall *et al.*, 2014 and Davidsen, 2016). KLD social index data and the companies' financial data from January 1, 2012 to December 31, 2016 represents the secondary data used in this study. The reference period was adopted to include both lagging and concurrent time periods. This was in line with the argument of Orlitzky *et al.* (2003) that the relationships between CSP and CFP are often likely to be concurrent, lagging or leading at the same time.

CHAPTER FOUR

RESULTS

4.1 Evaluation of Corporate Social Performance (CSP)

To evaluate the corporate social performance of the eight selected companies, three level of analyses were carried out. First, the net scores of the companies selected for this study and rated by KLD, were compared with that of their peers to determine whether they obtained higher net scores or not. Second, certain relevant variables were identified, selected and used to further evaluate the performance of the companies selected in this study relative to their peers. Third, for companies that were not rated by KLD, their corporate social performance was evaluated by inclusion on the Fortune's Change the World list available at Fortune.com.

KLD data Analysis

The Kinder, Lydenburg, Domini (KLD) social index now called the MSCI ESG rates companies especially in North America, based on certain ESG performance indicators. If a company meets the assessment criteria established for an indicator, it is assigned a score of "1". If a company does not meet the assessment criteria established for an indicator, it is assigned a score of "0" (MSCI ESG 2014). The net score of the companies selected for this study and rated by KLD were analyzed and compared with those of their peers from the same industries (See Appendix A for the list of the companies and their respective peers). The results of the analysis are presented and interpreted as follows:

Table 4.1 KLD ratings of Intel and Cisco

Descriptions	Company name	Ticker	Net scores				
			2012	2013	2014	2015	2016
Sample	Intel Corp	INTC	20	16	11	3	NA
Peer	Cisco Systems, Inc.	CSCO	10	11	5	3	NA

From the above table, Intel Corp had net scores that were higher than its peer from 2012 to 2014 except in 2015 when both companies had the same net KLD scores. The implication is that across all ESG performance indicators, Intel Corp consistently obtained higher net scores compared to Cisco Systems Inc.

Table 4.2 KLD ratings of 3M and Honeywell

Descriptions	Company name	Ticker	Net scores				
			2012	2013	2014	2015	2016
Sample	3m Company	MMM	9	6	4	4	NA
Peer	Honeywell International Inc.	HON	3	0	-5	0	NA

From the table above, 3M Company consistently had net scores which were higher than its competitor in the same industry.

Table 4.3 KLD ratings of IBM and HP

Descriptions	Company name	Ticker	Net scores				
			2012	2013	2014	2015	2016
Sample	International Business Machine Corp	IBM	8	13	4	2	NA
Peer	Hewlett-Packard Company	HPQ	13	12	4	-1	NA

KLD's ratings for IBM and HP were similar across the four-year period. Except in 2012 when HP obtained a higher net score compared to IBM.

Table 4.4 KLD ratings of Abbott Laboratories and Medtronic

Descriptions	Company name	Ticker	Net scores				
			2012	2013	2014	2015	2016
Sample	Abbott Laboratories	ABT	5	10	5	4	NA
Peer	Medtronic plc	MDT	6	9	1	1	NA

In the table above, Abbott Laboratories obtained higher net scores than its peer from 2013 to 2015. However, its net score was lower than that of Medtronic Plc in 2012.

In summary, four out of the eight samples were rated by KLD from 2012 to 2015. The net scores obtained by Intel, 3M Company, IBM, Abbott Laboratories during in those years were generally higher than those of their peers in the same industry. In order to a draw conclusion based on the above evaluation, another level of analysis used in this study was to identify the specific KLD variables that are relevant to corporate social innovations. Mattingly & Berman (2006) argue that KLD's variables (strengths and concerns) are non-convergent and that they do not represent opposing sides. This implies that concerns are not direct opposite of strengths. The implication is that the net scores obtained by a company, which includes scores from both positive and negative performance indicators may not represent actual performance of the company if the company obtains unfavorable scores on indicators that were not directly related to its social responsibility.

Therefore, in this study, relevant positive social and environmental performance indicators were further identified and evaluated. These indicators that were considered relevant to CSI criteria, are defined below:

1. COM-str-H: This is considered relevant to CSI criteria that requires a company to engage stakeholders in socio-eco innovation processes. It was defined as involvement of local communities and support for local social and economic development in the 2014 KLD's methodology.

2. PRO-str-A: This is considered relevant to the CSI criteria that requires a company to innovate products with social impact. It was defined as enhanced product quality due to innovation in the 2014 KLD's methodology.
3. PRO-str-E: This is considered relevant to the CSI criteria that requires a company to serve underserved or new markets. It was defined as entry into new market or previously underserved market through product innovation especially in the developing economies in the 2014 KLD's methodology.
4. PRO-str-F: This is considered relevant to the CSI criteria that requires a company to innovate products with social impact (e.g. improved health or access to health care by low income population). It was defined as product innovation that enhances or improved well-being of population or provision of access to healthier products to low income population in the 2014 KLD's methodology.

The above variables are referred to as positive social performance indicators in the KLD's methodology (KLD Methodology, 2014).

Furthermore, there are certain KLD's environmental performance indicators that were also considered relevant to CSI. These are described below: (KLD Methodology, 2014).

- a. ENV-STR-A: This was described as investments in products and services that address climate change issues in the 2014 KLD's methodology.
- b. ENV-STR-B: This was described as effective management of emission of toxic substances and specific programs towards reduction of toxic emissions in the 2014 KLD's methodology.

- c. ENV-STR-C: This was described as programs or investment that reduce the environmental impacts of packaging and material recycling in the 2014 KLD's methodology.
- d. ENV-STR-D: This was described as existence of carbon reduction targets and mitigation programs in the 2014 KLD's methodology.
- e. ENV-STR-P: This was described as programs aimed at reducing the company's carbon footprint in the 2014 KLD's methodology.

The above indicators were considered relevant to CSI because corporate social innovations could influence both social and environmental performance of a company.

KLD scores on selected social performance indicators

The following tables show the KLD scores obtained by Intel, 3M Company, IBM, Abbott Laboratories and their peers from 2012 to 2015 on the above selected social performance indicators. The peers are stated in italics in the tables below.

As earlier stated, Novo Nordisk, Novartis AG, Danone SA and Unilever Plc were not rated in the KLD social index and therefore were not included in the tables below.

Also, the 2016 KLD data are yet to be released by MSCI as at the time this study was conducted.

Table 4.5.1 Social performance indicators scores for 2012

Company name	Tickers	COM-str-H	PRO-con-A	PRO-con-E	PRO-con-F	Total score
Intel Corporation	INTC	0	0	1	0	1
<i>Cisco Systems, Inc.</i>	CSCO	0	0	0	0	0
3M Company	MMM	1	1	0	0	2
<i>Honeywell International Inc.</i>	HON	0	0	0	0	0
IBM	IBM	0	0	0	0	0
<i>Hewlett-Packard Company</i>	HPQ	0	0	0	0	0
Abbott Laboratories	ABT	1	1	1	1	4
<i>Medtronic, Inc.</i>	MDT	1	1	0	0	2

Intel, 3M Company, and Abbott Laboratories obtained 1,2 & 4 while their peers obtained 0, 0 & 2 respectively. Both IBM and HP obtained zero. This implies that based on the specific social performance indicators, three out of the four samples rated by KLD in 2012, obtained higher scores compared to their peers.

Table 4.5.2 Social performance indicators for 2013

Company name	Tickers	COM-str-H	PRO-con-A	PRO-con-C	PRO-con-E	PRO-con-E	Total score
Intel Corporation	INTC	1	0	0	0	0	1
<i>Cisco Systems, Inc.</i>	CSCO	0	0	0	0	0	0
3M Company	MMM	0	0	0	0	0	0
<i>Honeywell International Inc.</i>	HON	0	0	0	0	0	0
IBM	IBM	0	0	0	0	0	0
<i>Hewlett-Packard Company</i>	HPQ	0	0	0	0	0	0
Abbott Laboratories	ABT	0	1	0	0	0	1
<i>Medtronic, Inc.</i>	MDT	0	1	0	0	0	1

Intel, 3M Company, and Abbott Laboratories obtained 1,0 & 1 while their peers obtained 0, 0 & 1 respectively. Both IBM and HP obtained zero. This implies that the companies either discontinued the social programs in 2013 or the programs were concluded in 2012.

Table 4.5.3 Social performance indicators for 2014

Company name	Tickers	COM-str-H	PRO-con-A	PRO-con-C	PRO-con-E	PRO-con-E	Total score
Intel Corporation	INTC	1	0	0	0	0	1
<i>Cisco Systems, Inc.</i>	CSCO	0	0	0	0	0	0
3M Company	MMM	0	0	0	0	0	0
<i>Honeywell International Inc.</i>	HON	0	0	0	0	0	0
IBM	IBM	0	0	0	0	0	0
<i>Hewlett-Packard Company</i>	HPQ	0	0	0	0	0	0
Abbott Laboratories	ABT	0	0	0	0	0	0
<i>Medtronic, Inc.</i>	MDT	0	0	0	0	0	0

From the table above, Intel, 3M Company, IBM, and Abbott Laboratories and their peers did not perform well on the specific positive social performance indicators in 2014.

Table 4.5.4 Social performance indicators for 2015

Company name	Tickers	COM-str-H	PRO-con-A	PRO-con-C	PRO-con-E	PRO-con-E	Total score
Intel Corporation	INTC	0	0	0	0	0	0
<i>Cisco Systems, Inc.</i>	CSCO	0	0	0	0	0	0
3M Company	MMM	0	0	0	0	0	0
<i>Honeywell International Inc.</i>	HON	0	0	0	0	0	0
IBM	IBM	0	0	0	0	0	0
<i>Hewlett-Packard Company</i>	HPQ	0	0	0	0	0	0
Abbott Laboratories	ABT	0	0	0	0	0	0
<i>Medtronic, Inc.</i>	MDT	0	0	0	0	0	0

From the table above, Intel, 3M Company, IBM, and Abbott Laboratories and all their peers obtained zero and therefore did not perform well on the specific positive social performance indicators in 2015.

KLD scores on selected environmental performance indicators

The following tables show the KLD scores obtained by 3M Company, IBM, Abbott Laboratories and their peers from 2012 to 2015. The 2016 KLD data are yet to be released by MSCI.

Table 4.6.1 Environmental performance indicators scores for 2012

Company names	ENV-str-A	ENV-str-B	ENV-str-C	ENV-str-D	Total score
Intel Corporation	1	1	0	1	3
<i>Cisco Systems, Inc.</i>	1	1	0	0	2
3M Company	1	1	0	1	3
<i>Honeywell International Inc.</i>	1	0	0	0	1
IBM	1	0	0	1	2
<i>Hewlett-Packard Company</i>	1	1	0	1	3
Abbott Laboratories	0	1	0	1	2
<i>Medtronic, Inc.</i>	0	0	0	1	1

In 2012, Intel, 3M Company and IBM obtained higher scores compared to their peers. “ENV-STR-P” was not evaluated in 2012 because it was introduced in 2013.

Table 4.6.2 Environmental performance indicators for 2013

Company names	ENV-str-A	ENV-str-B	ENV-str-C	ENV-str-D	ENV-str-P	Total score
Intel Corporation	1	1	0	1	0	3
<i>Cisco Systems, Inc.</i>	1	0	0	0	0	1
3M Company	1	1	0	0	0	2
<i>Honeywell International Inc.</i>	1	0	0	0	0	1
IBM	1	0	0	1	0	2
<i>Hewlett-Packard Company</i>	1	0	0	0	0	1
Abbott Laboratories	0	1	0	1	0	2
<i>Medtronic, Inc.</i>	0	1	0	1	0	2

In 2013, the performance of all the companies was poor. However, Intel Corp, 3M, Intel and Abbott Laboratories obtained higher scores compared to their peers.

Table 4.6.3 Environmental performance indicators for 2014

Company name	Ticker	ENV-str-A	ENV-str-B	ENV-str-C	ENV-str-D	ENV-str-P	Total score
Intel Corporation	INTC	1	1	0	1	0	3
<i>Cisco Systems, Inc.</i>	CSCO	1	0	0	1	0	2
3M Company	MMM	1	1	0	0	0	2
<i>Honeywell International Inc.</i>	HON	0	0	0	0	0	0
IBM	IBM	1	1	0	1	0	3
<i>Hewlett-Packard Company</i>	HPQ	1	0	0	1	0	2
Abbott Laboratories	ABT	0	1	0	1	0	2
<i>Medtronic, Inc.</i>	MDT	0	1	0	0	0	1

In 2014 Intel Corp, 3M, Intel and Abbott Laboratories obtained higher scores compared to their peers.

Table 4.6.4 Environmental performance indicators for 2015

Company name	Ticker	ENV-str-A	ENV-str-B	ENV-str-C	ENV-str-D	ENV-str-P	Total score
Intel Corporation	INTC	0	0	0	0	0	0
<i>Cisco Systems, Inc.</i>	CSCO	0	0	0	1	0	1
3M Company	MMM	0	0	0	0	0	0
<i>Honeywell International Inc.</i>	HON	0	0	0	0	0	0
IBM	IBM	0	0	0	0	0	0
<i>Hewlett-Packard Company</i>	HPQ	0	0	0	0	0	0
Abbott Laboratories	ABT	0	0	0	1	0	1
<i>Medtronic, Inc.</i>	MDT	0	0	0	0	0	0

The KLD scores of Intel Corp, 3M, Intel, Laboratories and their peers were generally low in 2015.

In summary, there seems to be a downward trend in both the scores obtained for social and environmental performance indicators over the years. What could be inferred from the downward trend is lack of consistency in corporate social and environmental performance of the companies during the period covered in this study.

Fortune's Change the World List

As noted earlier, four out of the 8 companies selected for this study were not rated by KLD. Other sustainability rating bodies such as Dow Jones Sustainability Index, Sustainalytics, Walmart Sustainability Index, and CSRhub were considered to determine whether they could be used in addition to the KLD social index/ However, the Fortune's change the world list was considered most suitable for this study because of the methodology used.

Fortune Magazine in collaboration with FSG, a non-profit social impact consulting firm, Shared Value Initiative and Professor Michael E. Porter of the Harvard Business School to evaluate and rank companies with annual revenue of \$1 billion or more based on the following factors:

- Measurable social impact through solutions to specific societal problems
- Business results from the programs and activities that create social impacts and
- Degree of innovation relative to other companies in their industries.

(Fortune, 2017 and Leaf, 2017).

Since 2015, Fortune Magazine has consistently identified and recognized companies that create positive social impact through activities that are part of their core business strategies. The list for

the various years were reviewed to identify which of the eight companies selected for this study was listed on the Fortune change the world list. The companies listed from 2015 to 2017 are presented in the table below.

Table 4.7 Summary of Fortune’s Change the World List

Sn	2015	2016	2017
1	Novartis	Unilever	Novartis
2	Danone	IBM	Unilever
3	Novo Nordisk	Intel	IBM
4	IBM		
5	Unilever		
6	Intel		

Source: Fortune.com

In 2015, only Cisco System, selected as a peer of Intel in this study, made the list. In 2016, none of the peers of Unilever, IBM and Intel selected for the purpose of this study, made the list. Finally, in 2017, there were 50 companies listed which include Novartis, Unilever and IBM selected as samples in this study. However, none of their peers selected for the purpose of this study, made the list.

In summary, the results of the evaluation of the corporate social performance of the companies selected in this study show that, in both the KLD social index and Fortune’s Change the world list, these companies have greater positive corporate social performance compared with their peers in the same industry. This supports hypothesis one which state that Corporate social innovation has a greater positive effect on the firm’s corporate social performance relative to CSR.

4.2 Evaluation of Corporate Financial Performance (CFP)

The financial performance of the eight companies selected for this study was evaluated over the five-year period using trend analysis. The objective was to obtain evidence to approve or disprove the hypothesis that corporate social innovation has a greater positive effect on firm's financial performance relative to CSR. Furthermore, in addition to the trend analysis, the percentage of the annual growth rate of these companies were also compared with that of their peers in the same industry. The results of these analyses are presented below. The trend analysis for each of the selected companies are presented first, followed by peer comparison.

Results of Trend Analysis

Table 4.8.1 Selected ratios of Intel Corporation

Financial performance indicators	2012	2013	2014	2015	2016
Operating Income USD Mil	14,638	12,291	15,347	14,002	12,874
Earnings Per Share USD	2.13	1.89	2.31	2.33	2.12
EBT Margin	27.88	23.93	28.28	25.67	21.78
Return on Assets %	14.16	10.89	12.7	11.71	9.53
Return on Equity %	22.66	17.58	20.51	19.53	16.21

Source: <http://financials.morningstar.com/ratios>

Intel Corporation's net KLD scores during the years under review were high indicating high corporate social performance. However, the company's financial results show that the company's key ratios were high only in 2012.

Table 4.8.2 Selected ratios of 3M Company

Financial performance indicators	2012	2013	2014	2015	2016
Operating Income USD Mil	6,483	6,666	7,135	6,946	7,223
Earnings Per Share USD	6.32	6.72	7.49	7.58	8.16
EBT Margin	21.24	21.26	22.08	22.54	23.42
Return on Assets %	13.57	13.82	15.29	15.11	15.39
Return on Equity %	26.94	26.56	32.38	38.95	45.9

Source: <http://financials.morningstar.com/ratios>

The key ratios of 3M company improved over the years as depicted in the table above. The 2016 performance is the highest which shows an improving trend over the previous years. There might be other factors that led to this improvement over time. However, the general assumption is that among other things, its social innovation programs may have positively influence its performance.

Table 4.8.3 Selected ratios of Novo Nordisk

Financial performance indicators	2012	2013	2014	2015	2016
Operating Income DKK Mil	29,474	31,493	34,492	49,444	48,432
Earnings Per Share DKK	7.77	9.35	10.07	13.52	14.96
EBT Margin	35.64	38.94	38.39	40.29	42.76
Return on Assets %	32.88	37.03	35.93	41.29	40.06
Return on Equity %	54.9	60.54	63.92	79.9	82.23

Source: <http://financials.morningstar.com/ratios>

Novo Nordisk's key ratios show improvement over the period of five years. The highest was in the 2015 financial year. The results align with several studies that indicated a positive relationship between CSP and CFP. The improvement in performance may be partly attributed to its social innovations programs.

Table 4.8.4 Selected ratios of IBM

Financial performance indicators	2012	2013	2014	2015	2016
Operating Income USD Mil	21,082	20,312	18,532	15,690	13,105
Earnings Per Share USD	14.37	14.94	11.9	13.42	12.38
EBT Margin	21.91	20.58	21.54	19.51	15.43
Return on Assets %	14.09	13.43	9.86	11.57	10.42
Return on Equity %	85.15	79.15	69.37	100.96	73.04

Source: <http://financials.morningstar.com/ratios>

The key ratios indicate a decline in performance from 2013 compared with the company's 2012 financial performance. The operating income and EPS declined consistently over the study period.

Table 4.8.5 Selected ratios of Abbott Laboratories

Financial performance indicators	2012	2013	2014	2015	2016
Operating Income USD Mil	1,360	2,133	2,599	2,867	3,185
Earnings Per Share USD	3.72	1.62	1.49	2.92	0.94
EBT Margin	-1.15	10.38	12.44	15.6	6.78
Return on Assets %	9.35	4.68	5.42	10.72	2.98
Return on Equity %	23.31	9.93	9.78	20.7	6.71

Source: <http://financials.morningstar.com/ratios>

The trend analysis for Abbott Laboratories shows that only the operating income grew over the years. The company's key ratios did not show consistent improvement over the years.

Table 4.8.6 Selected ratios of Novartis

Financial performance indicators	2012	2013	2014	2015	2016
Operating Income USD Mil	11,507	10,983	11,089	8,977	8,268
Earnings Per Share USD	3.79	3.7	4.13	7.29	2.8
EBT Margin	21.62	20.5	22.88	16.14	15.81
Return on Assets %	7.86	7.33	8.11	13.84	5.13
Return on Equity %	14.09	12.79	14.07	24.06	8.84

Source: <http://financials.morningstar.com/ratios>

The key ratios indicate a general decline in performance over the years.

Table 4.8.7 Selected ratios of Danone

Financial performance indicators	2012	2013	2014	2015	2016
Operating Income EUR Mil	2,747	2,128	2,151	2,210	2,923
Earnings Per Share EUR	0.55	0.48	0.38	0.42	0.56
EBT Margin	11.72	8.76	8.7	8.59	11.99
Return on Assets %	5.77	4.7	3.57	3.98	4.49
Return on Equity %	13.71	12.43	10	10.55	13.38

Source: <http://financials.morningstar.com/ratios>

Danone's key ratios show a general and consistent improvement over the years. Its net income grew insignificantly while its EBITDA margins show a moderate improvement.

Table 4.8.8 Selected ratios of Unilever Plc

Financial performance indicators	2012	2013	2014	2015	2016
Operating Income EUR Mil	6,977	7,517	7,980	7,515	7,801
Earnings Per Share EUR	1.5	1.66	1.79	1.72	1.82
EBT Margin	12.73	14.29	15.79	13.55	14.17
Return on Assets %	9.56	10.56	11.06	9.79	9.54
Return on Equity %	30.42	32.82	36.94	33.75	32.61

Source: <http://financials.morningstar.com/ratios>

All the selected key ratios for Unilever show moderate improvement over the years.

Summary of trend analysis

In financial analysis, a higher ratio compared with previous period, indicates an improvement in performance. These selected ratios in this study were evaluated in order to draw conclusion on whether they improved over the study period or not. They were not compared with industry average or any benchmarks. Therefore, there was a steady improvement in the selected ratios of 3M, Novo Nordisk and Danone. The improvement in the financial ratios of Intel, Abbott and Unilever were moderate while that of IBM and Novartis were low.

The conclusion that could be drawn from the results of the trend analysis is that six out of the eight samples had high and moderate performance during the years under review. One could infer that the improvement in the financial performance may have been influenced by the social performance of these companies in line with the argument of Margolis & Walsh (2003) that there is a reciprocal relationship between CSP and CFP. However, Saeidi et al., (2015) argue that the relationship between firm's corporate social performance and financial performance is often indirectly influenced by many factors. They found that the firm's reputation and competitive advantage often mediate the relationship between CSR and firm performance.

Furthermore, according to Williams et al., (2012), trend analysis does not afford any basis for evaluation of performance of a company in absolute terms. Therefore, another analysis often used by financial analysts to address the weaknesses of trend analysis is to compare the performance of a company with that of the performance of a similar company. This additional analysis was adopted in this study to address the limitation of trend analysis. Financial analysts and investors use the Compound Annual Growth Rate (CAGR) to determine a constant rate of return of financial performance indicators such as total revenue, net income, and investments.

CAGR has wide range of applications (Chan, 2009) and has been used in CSP-CFP studies such as Simpson et al., (2013), Laffer et al., (2004), and Kang et al., (2010). It eliminates volatility in growth rates when financial performance is evaluated over a period of time which is common in trend analysis and it is most suitable when comparing the growth rate of companies in the same industry (Chan, 2009). In this study, the compound annual net income growth was adopted.

Compound Annual Net Income Growth

Compound Annual Net Income Growth is given as ending value divided by beginning value multiplied by the number of years minus 1. The ending value in this study represents the net income of 2016, while beginning value represents the net income of 2012. The summary of the analyzes are presented in the table below.

Table 4.10 Beginning and ending net income

Samples	Net income		Competitors/peers	Net income	
	2012	2016		2012	2016
Intel Corp	11,005	10,316	Cisco Systems Inc.	8,041	10,739
3M Company	4,444	5,050	Honeywell International	2,926	4,809
Novo Nordisk	21,432	37,925	Eli Lilly and Co.	4,088	2,737
IBM	16,604	11,872	Wipro Ltd	55,730	89,075
Abbott Laboratories	5,963	1,400	Medtronic Plc.	3,617	3,538
Novartis AG	9,270	6,712	Pfizer Inc.	14,570	7,215
Danone SA	1,672	1,720	Kerry Group Plc.	260	533
Unilever Plc.	4,368	5,184	TreeHouse Foods Inc.	88	-229

Source: <http://financials.morningstar.com/ratios>

The net income values are in millions. When a company's financial data were stated in currency other than dollars, the financial data of its competitors or peer were also stated in the same currency in Morningstar financial database.

Table 4.11 Compound Annual Net Income Growth

Samples	CAGR	Competitors/peers	CAGR
Intel Corp	-1.28%	Cisco Systems Inc.	5.96%
3M Company	2.59%	Honeywell International Inc.	10.45%
Novo Nordisk	12.09%	Eli Lilly and Co.	-7.71%
IBM	-6.49%	Wipro Ltd	9.83%
Abbott Laboratories	-25.16%	Medtronic Plc.	-0.44%
Novartis AG	-6.25%	Pfizer Inc.	-13.11%
Danone SA	0.57%	Kerry Group Plc.	15.44%

As depicted in the table 4., during the period under review, the compound annual net income growth of the sampled companies was not better than their peers. Only Novo Nordisk outperformed its peer. The implication is that adoption of CSI may not have positively influenced the net income growth of the companies relative to that of their peers.

Summary of results

Unlike the results of the Compound Annual Net Income Growth, the results of the trend analysis showed that six out of the eight companies selected as samples achieved high and moderate improvements in their financial performance from 2012 to 2016. When evaluated as a whole, the financial performance of the companies over a period of five years is summarized in the table below.

Table 4.12 Summary of five years' financial performance

High & Steady improvement	Moderate & Steady improvement	Low improvement
3M Company	Intel Corporation	IBM
Novo Nordisk	Abbott Laboratories	Novartis
Danone	Unilever Plc	

There were increases in the values of the operating income, EPS, EBITDA margin, ROA and ROE of the eight samples over the study period when evaluated on their own without comparison to peers. On the basis of trend analysis, the hypothesis two can be accepted. However, the research objective was to compare the performance of the sampled companies to peers in order to obtain evidence that CSI has greater positive effect on the financial performance of the sampled companies. There is no evidence to support hypothesis two and it is therefore rejected.

CHAPTER FIVE

CONCLUSION

Existing studies on CSI focused on the competitive advantage and the tacit knowledge gained by companies in the process of social innovation. Mirvis et al., (2016) found that there is a considerable knowledge exchange among a company and its stakeholders in the social innovation process. Their study aligns with the views of other early commentators and researchers on CSI that collaborations and partnerships are required in corporate social innovation. Strandberg (2015) concludes that collaboration is critical to social innovation because in order to address complex social problem, companies must work with the civil society organizations, competitors, governments, suppliers, customers and the host community where the social problems exist.

While defining CSI in this study, the importance of stakeholder engagement is emphasized. There are internal and external partners that are key to social innovations. Strandberg (2015) notes that the unique expertise of partners in the social innovation process leads to cross-pollination of different perspectives, insights, skills and competencies that stimulate business opportunities and solutions to social problems. Social innovations yield significant results when the expertise of multiple stakeholders are combined to consider the risks and opportunities that social and environmental problem pose. The contributions of partners outside the business could be pivotal in this process (Birchal et al., 2014).

In a separate study, Herrera (2015) found that deliberate and a systematic approach to social innovation helps companies to improve their competitive advantage while creating social value. The study aligns with existing studies such as Eccles & Serafeim, (2013) which concludes that social innovation enhances sustainable business, Fiorina (2004) and Hana (2013) which found that

social innovation improves competitive advantage and further describes how companies integrate social innovation into business strategies and operations. However, the findings of these studies do not support the proposition that CSI could improve corporate financial performance. The implication is that more empirical analyses are required to determine the direct influence of the competitive advantage gained through social innovation on financial performance.

In a recent study, Alonso-Martinez, Gonzalez-Alvarez, & Nieto (2017) investigate how the financial performance of a firm influences its investment in corporate social innovation. The research focus of Alonso-Martinez, Gonzalez-Alvarez, & Nieto (2017) differs from that of this study because the focus of this study was on the influence of CSI on financial performance and not on the reciprocal relationship between them. However, the study aligns with the criteria proposed in this study by describing corporate social innovation as investment and further supports the proposition that CSI is a distinct corporate practice that is different from CSR. The findings of Alonso-Martinez, Gonzalez-Alvarez, & Nieto (2017) show that leaders in social innovation reinvest profits in corporate social innovation but did not confirm whether CSI influenced how such profits were generated.

The scope of this study covered the evaluation of both the financial and the social performance of the samples. This bridges the gap in the existing studies by assessing the empirical evidence on the economic and social values created through investments in social innovations. The results of the analyses in this study showed that the social performance of the selected companies improved during the study period. In other words, companies that engage in corporate social innovation will achieve improved corporate social performance compared with those engaging in CSR.

In relations to financial performance, there was no sufficient evidence obtained that could support the hypothesis that CSI has greater positive influence on financial performance relative to CSR.

Although the financial performance of the samples selected for this study improved over the study period based on trend analysis, when the compound annual growth rates of these companies were compared to competitors' in the same industries, they were lower. Therefore, based on peer comparison, the second hypothesis in this study could not be accepted.

This study makes both theoretical and empirical contributions to the emerging literature on CSI. First, it aligns with the existing studies on CSI that CSI is a distinct corporate practice and differs from CSR. It proposes bases of distinction between the two concepts. It suggests that although both concepts are similar, they are different on the bases of the underlying framework, the nature of the activities involved and the degree of stakeholders' engagement in the process of social innovations. Both CSI and the traditional CSR drive innovations in business which could enhance development of societally and environmentally friendly products, improve firm's capacity to respond to social and environmental risks, enhance the firm's supply chain and increase market share through product offering to green consumers (Iyer & Soberman, 2015; Eisenhardt & Brown, 1998; Grossman & Helpman, 1994; and Auriac, 2010). However, while there is no intent to directly generate financial returns from CSR activities, there is a clear intent of profit making when a company engages in CSI.

CSI is also a strategic approach to social responsibility. Social and environmental issues are addressed through the core business strategy. Through the tools of social innovations, businesses could enhance supply chains, reduce the negative impacts of their activities on the society, and the environment. Finally, expenditures incurred on CSR activities are usually classified as costs which reduce the profit attributable to the shareholders and the level of retained earnings that could be invested back into the business for expansion and growth. Socio and eco-friendly research costs incurred when CSI is adopted, are usually capitalized in line with relevant financial reporting

standards and accounting rules. Such capitalization further improves the net worth of the company and does not constitute a direct or indirect costs to the shareholders.

Another contribution of this study to the CSI literature is that it proposes the theoretical framework for evaluating and measuring the impacts of corporate social innovation. It theorizes that a company engages in corporate social innovation when it:

1. integrates social and eco-innovation into its overall corporate goals and strategies
2. engages in strategic collaboration or partnership with stakeholders to co-create something new towards sustainable solutions to social and environmental problems.
3. invests in socially and environmentally relevant research and development (R&D);
4. develops a business idea, model or program that solves specific social and/or environmental problem.

This framework aligns with the conclusions drawn in the existing studies on CSI and provides bases for evaluation of the social and environmental performance of companies that engage on corporate social innovation. This aligns with the argument of Wood (1991) that in order to evaluate the social performance of a company, the existence and nature of policies and programs with which it manages its societal relationships, and the social impacts or observable outcomes of such actions, programs, and policies should be considered.

However, this study raises questions about the validity of the conceptual description of CSI. Based on the evidence from the existing studies and the conclusion drawn from this study, it argues that the concept used to describe what businesses do when they adopt the social innovation strategy remains ambiguous. For CSI proponents, the challenge centers on what is social and its boundaries in view of the sustainable solutions from social innovations that are also used to address

environmental problems (Seelos and Mair 2005). CSI is not limited to social problems but also entails innovative solutions that minimize or totally mitigate the negative impacts of the activities of the business on the environment. Therefore, there is need for more theoretical and empirical attention to define CSI.

5.1 Limitations of the Study

The nature and extent of analysis in this study was limited by a number of factors. First, the nature of analyses used for the evaluation of financial performance is limited. Existing studies on CSP and CFP usually introduce control variables to account for other factors which could influence financial performance. Ullmann (1985) argues that accounting-based measures, when used to measure firm's performance and compared with other firms, should be adjusted for risk and industry characteristics. Although no control variables were used in this study, trend analysis and peer comparison are widely used by financial analysts, investors and business leaders because they are simple to understand and do not require complex statistical analyses.

Second, the concept of CSI is still evolving and there are limited existing studies on it to draw guidance from. This study attempted to make both theoretical and empirical contributions to the sparse literature by presenting sets of criteria that could be used to distinguish CSI from CSR as well as relevant social, environmental and financial indicators of performance. Although these criteria and indicators are not considered exhaustive, they provide framework that could be used when evaluating corporate social innovation and its influence on the firm's corporate social performance.

Third, given the importance of this emerging concept, it could become a viable alternative to CSR. Although the evidence obtained through the analyses conducted in this study may not be sufficient to support this view, an in-depth case studies will generate additional evidence required. Lastly,

there are no specific CSI disclosures in the annual reports of companies. This study relied on the existing studies for sample selection. The implication is that the samples may not be full representation of the group of companies already engaging in CSI.

5.2 Future Research

The contributions of businesses are pivotal in sustainable growth and development. To this end, a model of value creation that creates both social and business values would become preferable at the long run. Therefore, there is need for more theoretical and empirical studies on the concept of CSI. More case studies analyses are required to determine the social, environmental and the financial impacts of CSI. Scholarly focus on this emerging concept will address the ambiguity in its description and conceptual framework.

The “social” in corporate social innovation suggest that the concept is limited to social responsibility. Further theoretical development will address this ambiguity and conceptual challenge. Also a wider corporate adoption of the social innovation approach to social responsibility will drive corporate social and environmental performance towards sustainable business and provide a catalyst for sustainable growth and development in different countries of the world and especially in developing economies. Future research will produce empirical evidence to support this conclusion.

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APPENDIX A
LIST OF SAMPLES AND SELECTED
COMPETITORS

Company name	Sector	Industry	Region	Ticker	Market cap	Total Assets
Intel Corp	Technology	Semiconductors	US	INTC	179,677,000	113,327,000
Cisco Systems, Inc.	Technology	Semiconductors	US	CSCO	170,168,000	129,818,000
3m Company	Conglomerates	Conglomerates	US	MMM	129,515,000	32,906,000
Honeywell International Inc				HON	108,561,000	54,146,000
Novo Nordisk	Health Technology	Pharmaceuticals: Major	US	NVO	96,800,000	13,363,000
Eli Lilly and Co	Health Technology	Pharmaceuticals: Major	US	LLY	92,400,000	38,805,900
IBM	Technology Services	Information Technology Services	US	IBM	135,300,000	117,470,000
Wipro Ltd	Technology Services	Information Technology Services	US	WIT	27,500,000	10,933,000
Abbott Laboratories	Healthcare	Medical Appliances & Equipment	US	ABT	91,820,000	52,666,000
Medtronic plc	Healthcare	Medical Appliances & Equipment	US	MDT	106,160,000	99,816,000
Novartis AG	Health Technology	Pharmaceuticals: Major	US	NVS	202,000,000	131,300,000
Pfizer Inc	Health Technology	Pharmaceuticals: Major		PFE	211,500,000	171,600,000
Danone SA	Consumer Non-Durables	Food: Major Diversified	EUR	DANOY	50,000,000	46,400,000
Kerry Group plc	Consumer Non-Durables	Food: Specialty/Candy	EUR	KRYAY	17,100,000	7,800,000
Unilever PLC	Consumer Goods	Personal Products	US	UL	72,300,000	59,519,000
TreeHouse Foods Inc		Food: Major Diversified		THS	3,800,000	6,545,822