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How can CSR affect company performance?

A qualitative study of CSR and its effects

Business Administration
Master Thesis

Acknowledgements

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Abstract

In today's society, there is a growing interest in, and demand for Corporate Social Responsibility (CSR). Reasons for this can be multinational corporations' increasing influence on world economy as well as scandals revealing horrible working conditions in different industries. In spite of the fact that the demand for CSR is growing, there has always been critics. The most influential critic is Noble Prize winner Milton Friedman, who claims CSR to be a waste of stockholders' money. However, several articles claim, opposite Friedman, that CSR rather increases a company's financial performance in the long run. These claims have made us curious about in what way CSR is related to a company's performance. Moreover, it has led to us wanting to find out how CSR can influence customer perceptions on a product or service offering, and how these influenced perceptions affect company performance.

In order to concretize our problem we have chosen to use the clothing industry as a framework for our study. The choice of industry has its reasons in an increasing public interest in how clothes are manufactured, which is largely because of continuous scandals concerning poor working conditions in the clothing industry.

To find out how CSR can influence customer perceptions and company performance we have studied literature concerning the subject. Furthermore, these theoretical studies have led to us coming up with a model for how CSR can influence customer perceptions and ultimately affect company performance. This model is influenced by Heskett, Jones, Loveman, Sasser and Schlesinger's (1994) the Service-Profit Chain as well as by Carroll's (1991) Pyramid of CSR and Levitt's (1980) Total Product Concept. We call the model the Value Linking Chain and it depicts how different elements are put into an offer. Furthermore, how this offer is evaluated, both before and after the purchase, by customers and how those evaluations affect the company performance. In order for us to test this model empirically, we have interviewed representatives from companies, customers and non-government organizations.

The analysis indicates that customers are ready to boycott companies that do not behave socially responsible. This has lead to us widening our theoretical scope and revising the Value Linking Chain, which evolved into the CSR-Performance Chain.

In conclusion, CSR can influence customer perceptions on a product or service offering and in the end affect company performance through the links in the CSR-Performance Chain. Furthermore, we have found that companies' level of CSR must lie on or above customers' baseline (i.e. minimal acceptable level) in order for them to avoid boycotts, since boycotts affect company performance negatively.

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1 Introduction

This thesis seeks to explain how CSR can influence company performance. Furthermore, the introducing chapter describe the background to why we have found this particular subject interesting. Moreover, a research problem and a purpose are presented in order to paint a clear picture of what is to be researched.

1.1 Background

Even before Christ was born, people understood the importance of ethical behaviour. This can be demonstrated with Plato's (427-347 B.C.) saying:

> *Only people with the whole nations good in mind can be allowed to rule the just state (Plato through Larsson, 2003 p. 87).*

The multinational corporations' place and influence is growing in the international economy and with it higher demands on responsibility for the social and environmental effects that comes from the corporations' own operations. Therefore, there is a growing interest in Corporate Social Responsibility (CSR) (Forsberg, 2003). Figure 1 illustrates CSR reports from different known Swedish companies. None of these companies had a sustainability or a CSR report 10 years ago which seems to confirm that there indeed is a growing interest in CSR.
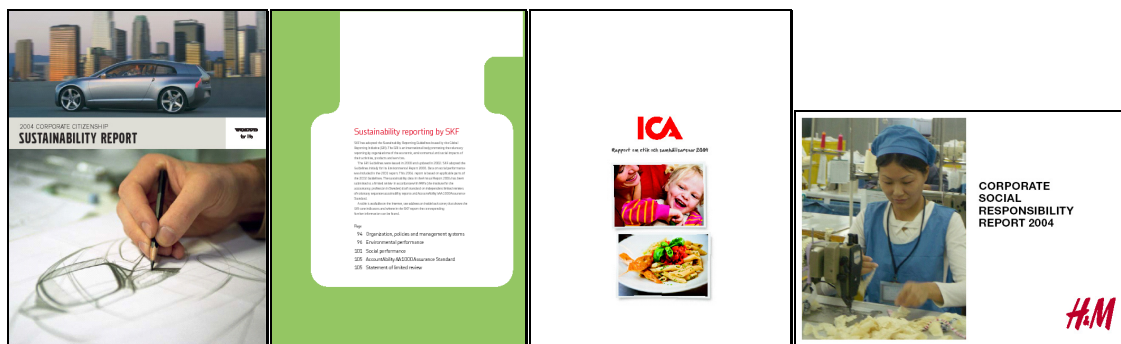
Figure 1 *CSR reports Volvo (2004), SKF (2004), ICA (2004), and H&M* **(2004)**

On the subject, Larsson (2003) claims that in a globalized and open world there is a growing need for clean brands and corporate identities. Enquist, Johnson and Camén (2005) state that after waves of production-oriented and later service-oriented perspectives on businesses, a third wave of sustainability and triple bottom line thinking is emerging. The Triple Bottom Line tries to encapsulate the three spheres of sustainability: the economic, the social and the environmental (Elkington, 1997). Furthermore, Enquist, Johnson and Skålén (2005) affirm this new wave by stating that:

> *Companies are paying attention to their core values and the development of a sense of corporate social responsibility, which can be used in marketing strategies and in customer-retention management (p. 1).*

The increasing number of tools for CSR, such as Social Accountability 8000, ISO 9000, Global Reporting Initiative (GRI) (see Appendix II), UN Global Compact (see Appendix I)

(Enquist, Johnson, & Skålén, 2005), and the new ISO 26000 (SIS Handbok 40, 2005) seems to confirm this trend.

Despite the fact that CSR as a perspective is growing there has always been critics. One of the most influential critics is Nobel Prize winner in economy Milton Friedman, who claims that companies' sole purpose is to maximize profit for their stockholders. Furthermore, he claims that CSR is a waste of the stockholders' money (Friedman, 1962). However, several relatively new articles and reports argue that CSR increases financial performance in the long run.

1.2 Problem

The fact that scholars view the relationship between CSR and financial performance differently makes the topic interesting, for instance, Ullmann (1985) does not see a relationship while Pava and Krausz (1996) do. Since everything a company does more or less influence a company's performance in some way, it can be established that CSR affects a company's performance in one way or another. Nevertheless, we have not found much research concerning *how* CSR affect company performance. Therefore, we aim to research in what way CSR is related to a company's performance, and we intend to study this by answering the question:

How can CSR influence customer perceptions on a product or service offering, and how do these influenced perceptions affect company performance?

1.3 Purpose

The purpose with this thesis is to find out how CSR can influence customer perceptions and in that way affect a company's performance.

2 Theoretical Framework

This chapter presents the different theories that serve as a foundation for the empirical study. It starts of by describing the phenomenon that is CSR, and later more specifically presents theories that show how CSR, through a chain of events, can affect company performance.

2.1 CSR as a phenomenon

Crawford and Scaletta (2005) states that CSR has been gathering momentum for the past 10 years. However, Ullmann stated as early as 1985 that CSR by no means is a new issue. This would indicate that corporations' taking social responsibility is not a new phenomenon. Nevertheless, CSR is more in the spotlight now than ever since multinational corporations' power over world economy is stronger than ever and with that society's demands on social and environmental responsibility (Forsberg, 2003). Martin (2002) claims that globalization heightens society's anxiety over corporate conduct.

McGuire, Sundgren and Schneeweis (1988) claim that companies need to satisfy not only stockholders but also those with less explicit or implicit claims. This is known as stakeholder theory and is further described by Enquist, Johnson and Skålén (2005) as a strategy that does not separate ethics from business, and argues that the needs and demands of all stakeholders must be balanced. CSR is a way for a company to take care of all the stakeholders in the organization. Sims (2003) defines CSR and that it requires:

> *The continuing commitment by business to behaving ethically and contributing to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large (p. 43).*

Furthermore, Sims (2003) argues that there is an expectation on business to be a good corporate citizen and with that to fulfil voluntary philanthropic (discretionary) responsibility. Further, to contribute financial and human resources to the community and to improve the quality of life. Moreover, Sims states that overall, social responsibility is an organization's obligation to engage in activities that guard and contribute to the welfare of society. Carroll (1979, through Meijer & Schuyt, 2005) defines CSR as:

> *Social responsibility of business encompasses the economic, legal, ethical, and discretionary (philanthropic) expectations that society has of organization at a given point in time (p. 444).*

However, Whitehouse (2006) claims that there exists no universally accepted definition of the term CSR. Marrewijk (2003) partially explain this fact by stating that vagueness and inconsistency of CSR is to some extent because of language problems. Andriof and McIntosh (2001) want to avoid the limited interpretation of the term Corporate *Social* Responsibility, and therefore introduce the term Corporate *Societal* Responsibility. Furthermore, the term includes all dimensions of a company's relationships with, impact on and responsibilities to society altogether. Marrewijk (2003) also present the view that the word responsibility should be replaced by accountability, because it causes problems in the same manner as social did. Marrewijk (2003) continues by stating that this would make Corporate Societal Accountability (CSA) the new term for CSR. However, Marrewijk himself believe it would be hard to make involved people accept a new generic term.

Turning back to Sims (2003), he presents four different aspects of CSR. Sims states that the term Corporate Citizenship is gaining in popularity and further that it collectively embraces the host of concepts related to CSR. Carroll (1998) claims that some observers call businesses social responsibility CSR, whilst others call it corporate ethics. However, more recently the term of Corporate Citizenship has emerged. Furthermore, according to Sims (2003) Corporate Citizenship includes CSR, which emphasizes action and activity; Corporate Social Responsiveness, which emphasizes activity and action; and Corporate Social Performance (CSP), which emphasizes results and outcomes. Wood (1991) defines 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).*

This view stands relatively well in line with both Sims (2003) and Carroll and Buchholtz's (2003) views, who state that CSP is more of a focus intended to suggest that what really matters is what companies are able to accomplish. Furthermore, CSP is meant to be the result of the companies' acceptance of social responsibility and adoption of a responsiveness philosophy.

As we stated earlier there is no one definition for CSR. Marrewijk (2003) elaborates on the subject and states that the thought of a "one solution fits all" definition for CSR should be abandoned. However, the key-terms in the different definitions presented are responsibility and sustainability.

One term closely related to CSR is the Triple Bottom Line. The term Triple Bottom Line, coined by Elkington (1997), basically tries to encapsulate the three spheres of sustainability: the economic, the social and the environmental (Elkington, 1997; Edvardsson, Enquist, & Hay, 2005). The three spheres are illustrated in
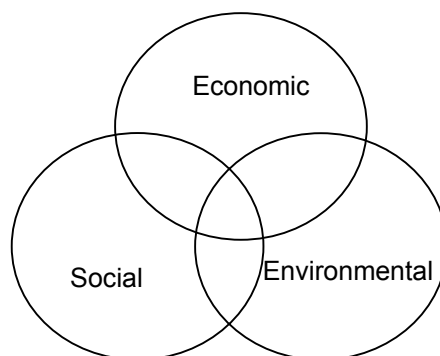Figure 2.

Figure 2 *Elements of the Triple Bottom Line* **(Edvardsson, Enquist, & Hay, 2005 p. 5)**

However, Triple Bottom Line is also known as People, Planet and Profit, or the three P's (Marrewijk, 2003).
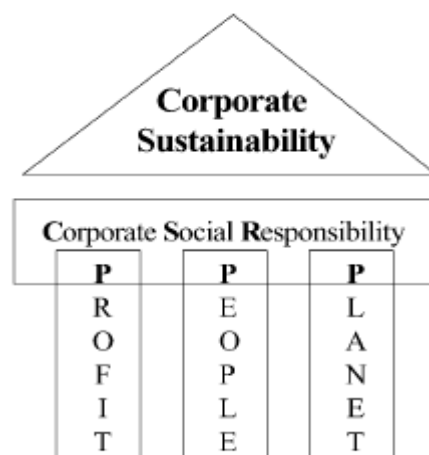
Figure 3 *Corporate Sustainability, CSR and the three P's* **(Marrewijk, 2003 p. 101)**

Figure 3 depicts the relationship of the three P's, CSR and Corporate Sustainability. Marrewijk (2003) further argues that Corporate Sustainability is the ultimate goal; meeting the needs of the present without compromising the ability of future generations. Moreover, Marrewijk claims that CSR is an intermediate stage where corporations try to balance the three P's.

In spite of Triple Bottom Line's popularity, there are also critics. Norman and MacDonald (2004) refer to Triple Bottom Line as being nothing but a smokescreen behind which companies can avoid truly effective social and environmental reporting and performance. Furthermore, they define Triple Bottom Line as:

> *Good old-fashioned Single Bottom Line plus Vague Commitments to Social and Environmental Concerns (Norman & MacDonald, 2004 p. 256).*

Moreover, Norman and MacDonald refer to the Triple Bottom Line as:

> *An unhelpful addition to current discussions of Corporate Social Responsibility (p. 243)*

An advantage with the Triple Bottom Line, according to the concept's supporters, in relation to CSR is that Triple Bottom Line is measurable and can be used for comparison between companies. However, according to Norman and MacDonald (2004) and Meijer and Schuyt (2005) this is not the case since different scores for different areas cannot be added together to a net sum that is relevant. Therefore, according to Normann and MacDonald, the Triple Bottom Line without the Bottom Line cannot be seen as anything but regular CSR.

In spite of all the different views and concepts related to CSR, we have chosen to use Carroll's (2003) views on total corporate social responsibility as our definition of CSR. Carroll sees Total Corporate Social Responsibility as:

Economic Responsibilities
+ Legal Responsibilities
+ Ethical Responsibilities
+ <u>Philanthropic Responsibilities</u>
= Total Corporate Social Responsibility

We feel that Carroll's views are taking in all aspects of CSR in a way that suits today's society.

2.2 Previous Research on the relationship between CSR and Financial Performance

This section presents different approaches to CSR and its potential relationship to financial performance. Some research has clearly been made on the subject. However, there is not much new research on the area. Nevertheless, several authors of books, such as Sims (2003), Kotler and Lee (2005) and Horn af Rantzien (2003), state that CSR leads to profitability in the long run. However, in our eyes the authors often have little, if any, empirical foundation for these claims.

Ullmann (1985) reviewed 13 studies, of US firms, on the relationship between CSR and financial performance. The reviewed studies used different social performance scales. For example, one study used *Council of Economic Priorities (CEP)* pollution performance whilst another one used reputational scales from *Business and Society Review*. He found that no clear tendency could be detected. Ullmann based this arguing on three factors, namely; a lack of theory, inappropriate definitions of key-terms, and deficiencies in the empirical databases currently available. Pava and Krausz (1996) disagree with Ullmann (1985), and claim that a clear tendency indeed can be found between CSR and financial performance. Pava and Krausz bases this arguing on a review of 21 studies, where 12 reported a positive association between CSR and financial performance, 1 reported a negative association, and 8 reported no measurable association. Of these studies, 9 used a measure of environmental performance, 6 used reputational indexes, 2 used CSR disclosure, 2 used South African criteria and 1 each used CEO attitudes and multiple criteria. However, Aupperle, Carroll and Hatfield (1985), like Ullmann, did not find any relationship between social responsibility and financial performance. Aupperle, Carroll and Hatfield used an elaborate forced choice instrument administered to corporate CEOs.

McGuire, Sundgren and Schneeweis (1988) used data from the *Fortune* reputational and social responsibility index to examine aspects of the relationship between CSR and company financial performance. They found that a company's previous financial performance is generally a better predictor of CSR than following performance. However, Waddock and Graves (1997) assert that CSP and financial performance are interrelated. They argue that CSP is positively associated with future financial performance. However, they also believe that CSP is positively associated with prior financial performance. Waddock and Graves further exemplify the interrelation between CSP and financial performance in a study they carried out in 2000. The study is based on Collins and Porras (1994) presentation of companies "Built to Last". Collins and Porras show that companies with a clear vision and

long-term goals are more successful. Waddock and Graves (2000) find that these companies not only serve the shareholders financial goals better but also all of the organization's stakeholders.

None of the examined studies on the relationship between CSR and profitability show *how* this relationship works. Since we aim to research in what way CSR is related to a company's performance, we have constructed a model, which describes how CSR is related to company performance, namely the Value Linking Chain.

2.3 The Value Linking Chain

The Value Linking Chain, Figure 4, is influenced by Heskett, Jones, Loveman, Sasser and Schlesinger's (1994) the Service-Profit Chain (Figure 5) as well as by Carroll's (1991) Pyramid of CSR (Figure 6) and Levitt's (1980) Total Product Concept (Figure 9).
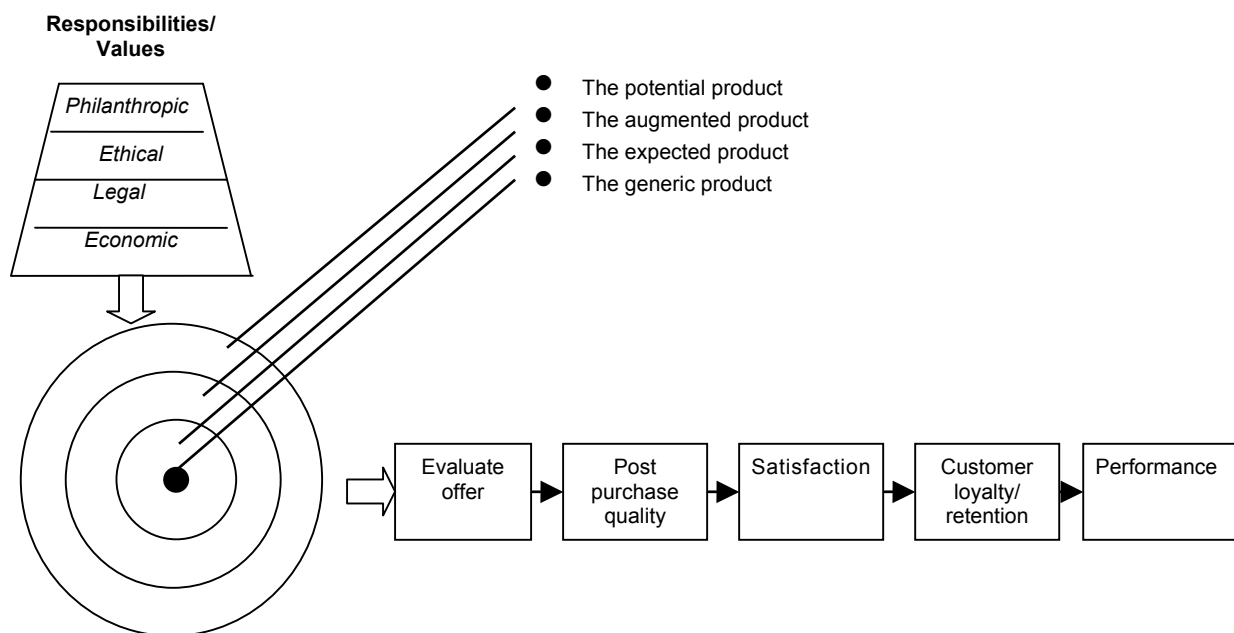
Figure 4 *The Value Linking Chain*

The Value Linking Chain depicts how different values are put into an offer. Furthermore, how this offer is evaluated, both before and after the purchase, by customers and how those evaluations affect the company performance. There are multiple elements that are put into the offer, for example availability and price (Levitt, 1984). However, we choose to focus on Carroll's (1991) four components of CSR, illustrated in his Pyramid of CSR, Figure 6. We see CSR as a part of the offering, however at which level is impossible to say since according to Corey (1976 in Levitt, 1984) the product has different meanings for different customers. The customer then evaluates the offer before the purchase of the product. This evaluation can lead to the customer accepting the offer and buying the product or service. If the customer buys the product, he or she enters a post-purchase state of evaluation where if the product or service is perceived as good quality, the customer is satisfied and stays loyal to the company. Loyal customers, in turn, are more profitable and helps heighten the company's performance according to the Service-Profit Chain (Heskett et al., 1994).

In the following parts the different items of the Value Linking Chain, the Service-Profit Chain, the Pyramid of Corporate Social Responsibility, level of CSR, the Total Product Concept and the evaluation of the offer and quality, will be described further.

2.3.1 The Service-Profit Chain

The Service-Profit Chain is a model, which links internal service and employee satisfaction to customer value and ultimately to profits (Zeithaml & Bitner, 2003), and serves as an explanation to how investment in people drives profitability. Heskett et al. (1994) state that:

> *The Service-Profit Chain establishes relationships between profitability, customer loyalty, and employee satisfaction, loyalty and productivity (p.164).*
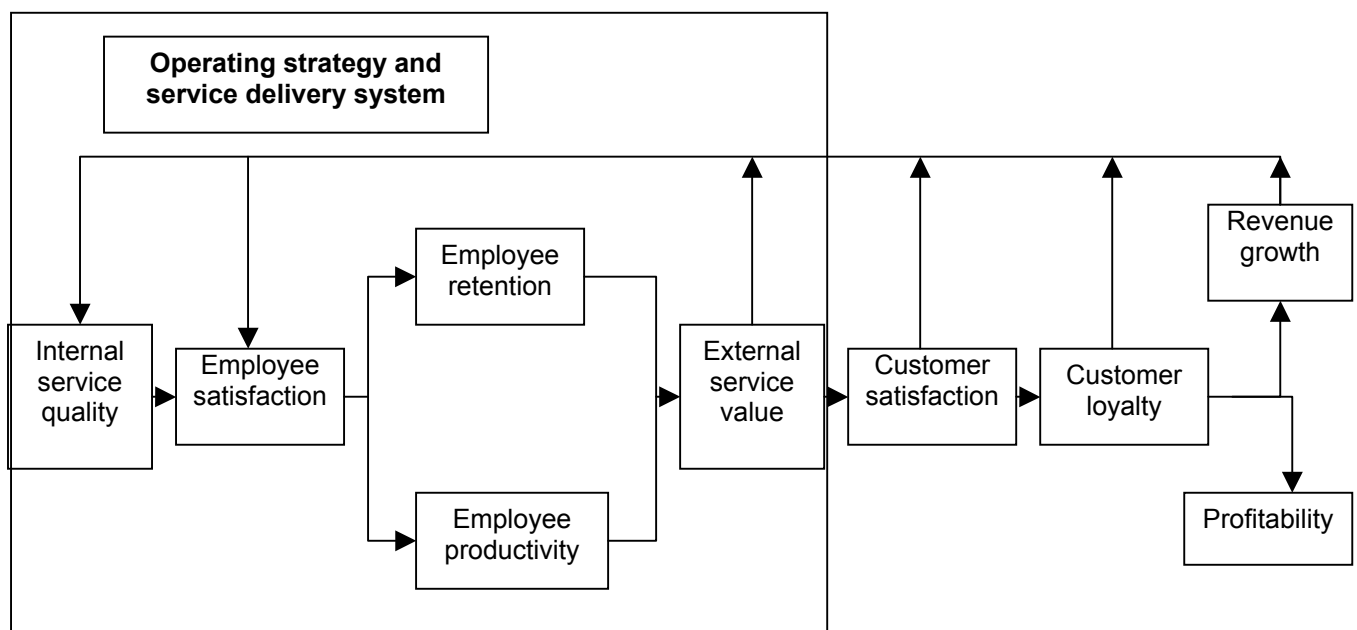
Figure 5 *The Service-Profit Chain* **(Heskett et al., 1994 p. 166)**

Both Heskett et al. (1994) and Hallowell and Schlesinger (2000) state that customer loyalty drives profitability. Hallowell and Schlesinger explains this by claiming that loyal customers: reduce a company's marketing costs through repeat purchase and word of mouth advertising, reduce operating costs by being familiar with the company's operating system, and increase revenue by being less price sensitive.

Some of the ideas behind the Service-Profit Chain have been implemented in the Value Linking Chain. However, whereas the Service-Profit Chain emphasizes investment in employees, the Value Linking Chain focuses on elements included in the offering in order to make it more attractive. However, even if the Value Linking Chain does not emphasize investment in employees by illustrating it in the actual model, investment in employees is still important. The two models' final parts are similar though. Both of them emphasize how loyal customers are more profitable and helps heighten the company's performance. The Service-Profit Chain is an important model, which explains a lot of the fundamental thinking that

imbues the Value Linking Chain. However, the Value Linking Chain is founded on other concepts as well. One is Carroll's (1991) Pyramid of CSR, which we will discuss in the next section.

2.3.2 The Pyramid of Corporate Social Responsibility

Carroll's (1991) Pyramid of Corporate Social Responsibility, Figure 6, illustrates his four components of CSR. The responsibilities in the pyramid are put into the Value Linking Chain, in the form of economic, legal, ethical and philanthropic values. Furthermore, to uphold its legal responsibilities can be seen as a baseline for what is expected from a company.

Figure 6 *Pyramid of CSR* (Carroll, 1991 p. 42)

As we stated earlier, Carroll (2003) describes the relationship between the components by stating that all of his social responsibilities added together equals Total Corporate Social Responsibility.

2.3.3 CSR, at which level?

The steps in the Value Linking Chain have been presented, and we have described how the Service-Profit Chain is linked to, as well as how the Pyramid of CSR is put into, the Value Linking Chain. However, there is still the matter of deciding at which level CSR should lie. In this part, two models visualize the problem. One strategic model,
Figure 7, *A Convergence of Interest*, which states that a company should use charitable efforts in order to achieve economic benefits. In addition, Figure 8 *The Virtue Matrix* presents a more objective model. Both of the models can be helpful for a company in determining the level of CSR that is to be put into the offer in the Value Linking Chain.

Porter and Kramer (2002) discuss strategic philanthropy. They state that the common belief that the social and economic objectives are separated is a misconception. Instead, they believe that companies can use their charitable efforts in order to achieve economic benefits. This is shown in
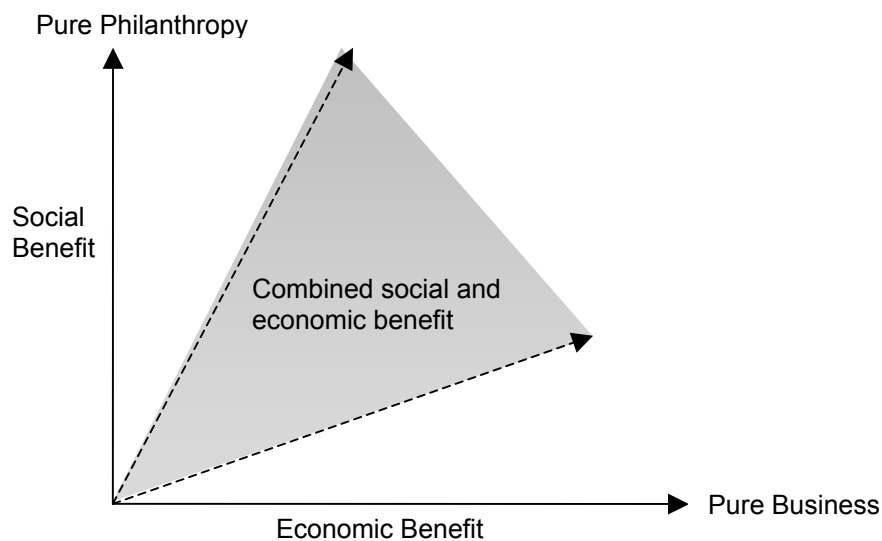
Figure 7.

Figure 7 *A Convergence of Interest* **(Porter & Kramer, 2002 p. 59)**

Martin's (2002) Virtue Matrix, Figure 8, depicts the forces that generate CSR. The two bottom quadrants, which consist of norms, customs, and laws that govern corporate practice, are called the civil foundation.
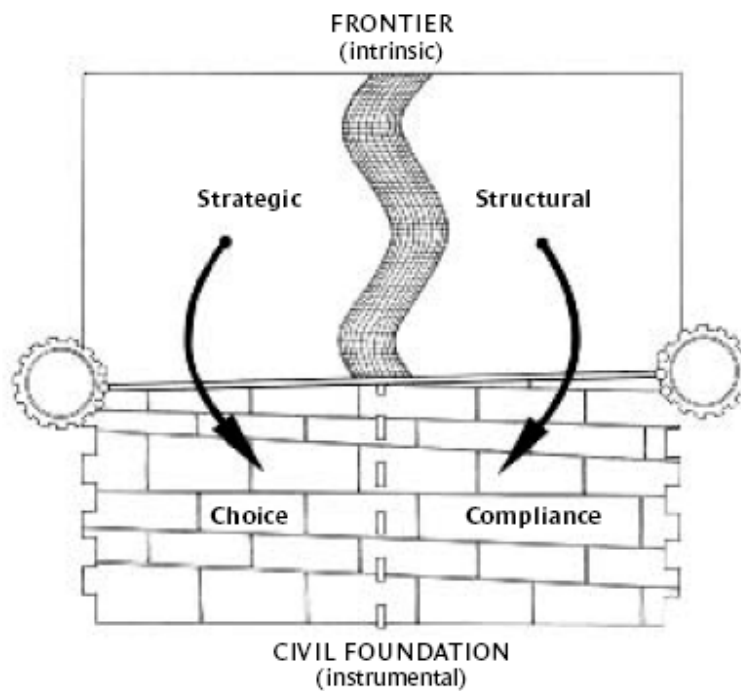

Figure 8 *The Virtue Matrix* **(Martin, 2002 p. 9)**

Companies engage in these practises either in compliance (forced by law) or by choice. Society has baseline expectations, and behaviour in the civil foundation does no more than meet those expectations. Martin (2002) describes behaviour in the civil foundation as instrumental, since it explicitly serves the cause of maintaining shareholder value. The two upper quadrants are called the frontier, and are where corporate innovations in socially responsible behaviour occur. Corporate managers tend to engage in such conduct for their own sake, rather than to please shareholders. This means that the motivation for such innovative practises is intrinsic rather than instrumental. Actions that benefit society but not shareholders, creating a structural barrier to corporate action, take place in the structural frontier. However, behaviour, which both adds to the supply of social responsibility and benefits shareholders, falls into the strategic frontier. Intrinsically motivated behaviour coincidentally advances the corporation's strategy. The downward-pointing arrows in the matrix suggest that behaviour in both frontiers can drift to the civil foundation.

After deciding the level of CSR that is to be put into the offer, CSR is integrated in the offer in the form of values.

2.3.4 The Total Product Concept

The offer in the Value Linking Chain is built on Levitt's model (1980, 1984) the Total Product Concept. The model presents four different levels of the product offered to customers; the generic, the expected, the augmented and the potential product.

- *The generic product* is the core product, if concerning clothes the actual garment.

- *The expected product* includes the generic product and also customers' minimal purchase conditions. For example, what does a clothing retailer find essential in the selling of garments? Probably things like getting the garments delivered in a quick and timely fashion, or perhaps specific prices for specific quantities of garments.

- What a customer expects may be augmented by things he or she has never thought about before, hence *the augmented product*. Because of this differentiation is not limited to giving the customer what he expects.

- *The potential product* is everything that might be done to attract and hold customers. A potential product is therefore an unused opportunity.

Figure 9 *The Total Product Concept* **(Levitt, 1980, 1984)**

Edvardsson, Enquist and Hay (2005) describe values as norms and ethics, which create meaning and thus contribute to value beyond the traditional value for money assessment. Values are put into the offer in order to create such value that Edvardsson, Enquist and Hay describes. As we stated earlier Corey (1976 in Levitt 1984), claimed that the product has different meanings for different customers. This together with Vargo and Lusch's (2004) claim that value is co-produced with customers might lead to the conclusion that CSR in the form of values is seen differently by different customers. Perhaps as part of *the expected product*, *the augmented product*, or *the potential product*, all depending on the specific customer. To exemplify, a customer buys coffee and expects it to be fair-trade coffee. If it is

not, you get one out of two scenarios. Either the customer knows the coffee is not fair-trade and refuses to buy it, or the customer finds out that the coffee is not fair-trade post-purchase and gets disappointed. Both of the scenarios describe *the expected product*. Another customer may buy coffee and not expect it to be fair-trade. However, if the customer finds out that it is fair-trade he or she gets happy, and the product is *augmented* in the customer's eyes. Finally, if customers' are not aware of the concept of CSR, to make them aware might be to create an opportunity to attract and hold customers. To not use this *potential product* is therefore an unused opportunity.

After the company has determined what, or at least what they want the customer to perceive is to be a part of the offer, it is presented to the customer. It is then up to the customer to evaluate the offer.

2.3.5 Evaluation of the Offer and Quality

When customers are evaluating offers, they tend to choose an offer that maximizes their utility. However, customers perceive utility in different ways (Dickinson & Carsky, 2005). According to Dickinson and Carksy (2005), customers should consider the consequences to others as part of their purchase decision process.

Good CSP motivates customers to buy the product (Meijer & Schuyt, 2005). This is supported by Mohr and Webb (2005) who claims that a high level of CSR results in customers' intent of buying increasing, and by Auger, Burke, Devinney, and Louviere (2003) who declare that consumers are prepared to pay a significant percentage of the value of the product for specific ethical features. However, Mohr and Webb (2001, 2005) argue that customers react more strongly to negative than to positive CSR. In addition, Mohr and Webb (2001, 2005) claim that when no information on CSR is given to customers, either they do not think about CSR or they assume that the company is behaving responsibly. Further, Auger et al. (2003) state that, if relevant information is given to consumers in an adequate and effective way it is obvious that they can be convinced to change their purchase patterns. Nevertheless, Whitehouse (2006) argues that companies do not supply sufficient information about their CSR to stakeholders.

Whether or not customers' care about conditions in factories or not can be partially explained by Bergenheims (2005) Level of Involvement Model, Figure 10. The model shows how things that occur presently to people themselves in their immediate surroundings tend to make them care, and thus have a high level of involvement. However, things that happened a long time ago, to people they do not know, in another part of the world tend to lead to a low level of involvement. The media, who has the power to involve people and make the subject interesting to society, can control the level of involvement.
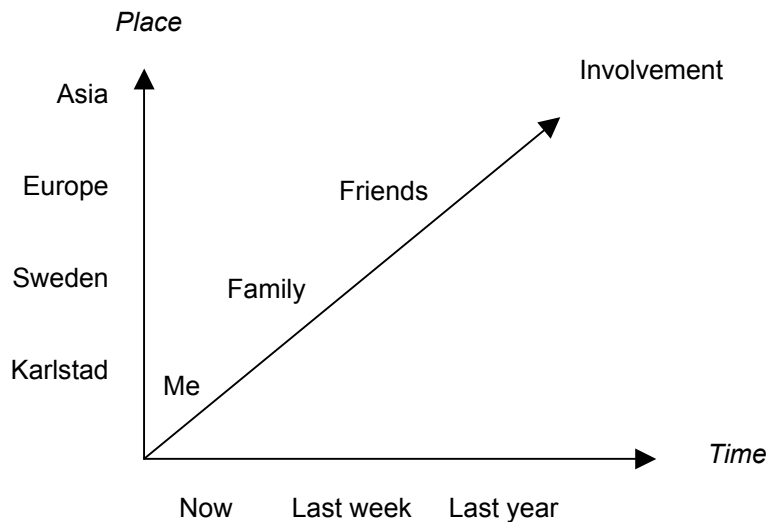

Figure 10 *Level of Involvement* **(Bergenheim, 2005)**

This aspect might affect people's evaluation of an offer, however it is only one factor. Another factor that influences how people evaluate an offer is quality. Some aspects of quality are hard to fully evaluate before the purchase of the product. Examples might be how a garment responds to being washed, or how long a car will function. The consumer can have an expectation, built on experience or company promises, on aspects like these (Mowen & Minor, 1998). However, it is impossible to fully evaluate these aspects of quality pre-purchase. On the other hand, some aspects of quality can easily be evaluated pre-purchase, for example design, how well a garment fits, or how fast a car runs. CSR is a quality aspect that can be evaluated pre-purchase, if information is available. The perceived quality, pre-purchase, is taken into account in the evaluation process and affects if the customer chooses to accept or reject the offer.

Quality is often a measure of how good something is in relation to something else. People talk about good or bad quality. However, quality is subjective and therefore differs among people. (Lund, Thomsen, & Broby, 1990) Because of the difficulty in defining quality, we have chosen to use two different definitions. The first one is product-based quality and is described specifications, such as strength, power, and speed. While the first one is measuring *what* the customer is getting, the second one, called total experienced quality, is measuring *what* the customer gets as well as *how* the customer gets it (Ljungberg, 1994).

3 Method

In the methodological part, we intend to describe the theoretical and practical procedures we have used when collecting and analysing information in order to answer our research question. Furthermore, we try to motivate the choices we have made.

3.1 Choice of method

We have chosen to use a qualitative method, which primarily focuses on the entirety and the researched context. The primary reason for us choosing a qualitative method is that it is appropriate for understanding the problem rather than quantifying it. This is suiting for our thesis since our purpose is to find out *how* CSR can influence customer perceptions and in that way affect a company's performance.

In order to do this, we have to try to gain knowledge in order to understand CSR and its effects. With the purpose in mind, we have found it appropriate to collect and analyse information parallel during the process. The reason for this is that we want to use our newfound knowledge to further develop the thesis. An example is that we have used knowledge regarding CSR, gained in the beginning of our research, to develop the thesis further. According to Christensen, Engdahl, Grääs and Haglund (2001) our method is therefore qualitative. They describe how the qualitative method in the beginning holds a focus on the collection of data. However, with time this focus shifts to the analysis of the data, and furthermore that the analysis sometimes even control the collection process, which has been the case for us.

3.2 Empirical data collection

In order to concretise our problem we have chosen to use the clothing industry as a framework for our study. The reason for us choosing the clothing industry is that there has been a public interest in how clothes are produced lately. Several scandals, concerning high profile corporations like H&M and Nike, have raised public interest in the clothing industry. The Swedish newspaper Aftonbladet (Carlström & Peruzzi, 2001) revealed in 2001 how H&M workers in Cambodia were forced to work under slave-like conditions. Furthermore, Klein (2001) reported in Aftonbladet how 800 workers had gone into strike in one of Nike's factories in Mexico. The reasons for the strike were that the factory in question had kicked the worker's union out and fired five of its members. Moreover, during the strike it was revealed how workers in the factory were paid lousy salaries, constantly hungry and forced to work while ill. A book that further sheds light on this subject is Klein's (2000) *No Logo*, in which she criticizes how large corporations are more interested in investing in marketing than in labour.

In order to get the whole picture of how CSR can influence customer perceptions and in that way affect a company's performance, we have chosen to research from a customer, company and Non Government Organization (NGO) side. To combine sources of data in a single study is, according to Taylor and Bogdan (1998), called *triangulation*. Furthermore, triangulation is often seen as a way of inspecting insights collected from different informants or different sources of data. Taylor and Bogdan also describe how triangulation allows observers to gain a deeper and clearer understanding of the setting and people being studied.

3.2.1 Company study

The purpose with the company study is to get a general idea of clothing companies' views on a how CSR can affect a company's performance. We selected companies in the clothing industry based on a set of criterions. The criterions where, that the companies' should be diversified in turnover, size and target groups. Furthermore, the companies should have their own brand. Based on these criterions we selected 15 clothing companies with the help of the Market Manager (which is an economic marketing information database). The chosen companies range from 5 employees and a turnover of SEK 17 million to 3 700 employees and a turnover of SEK 5 000 million. The companies are listed with their brands below.

- Acne Jeans AB (Acne)
- Bondelid Försäljnings AB (Bondelid)
- Haléns Holding AB (Haléns and Cellbes)
- Hennes & Mauritz AB (H&M)
- Indiska Magasinet AB (Indiska)
- J Lindeberg AB (J Lindeberg)
- JC AB (JC, Brothers, and Sisters)
- KappAhl AB (KappAhl)
- Lindex AB (Lindex and Twilfit)
- Nudie Jeans AB (Nudie)
- Redcats Nordic AB (Ellos and La Redoute)
- Svea Brudar AB (Svea)
- Varner Group AS (Dressmann, Carlings, and Bik Bok)
- Worldwide Brand Management AB (Björn Borg)
- Åhléns AB (Åhlens)

After the selection was made, we tried to establish which person(s) to contact at the different companies. We decided to try to establish contact with the CSR managers at those companies that had one. At the companies that did not have an appointed CSR manager, we decided to simply contact their information department and let them help us with getting in contact with the right people. After we had established whom to contact, we sent e-mails to the different companies containing one question: Do you believe that CSR is a driver of financial performance? The reason for us asking about financial performance rather than performance was that we were afraid of being perceived as unclear. Furthermore, we believe that if we had asked simply about performance, we would have received much vaguer answers. We received answers from 8 of the 15 companies. Furthermore, we stayed in contact with the 8 respondents, asking them further questions about how they view CSR and its impact on society. The companies that did not answer our mails were continuously contacted again. However, we could not get them to reply. Whereas the interviews are seen as primary data, we have also used some secondary data. We have chosen to use this form of data in order to elucidate the empirical data as well as deepen our knowledge on different areas where the primary data was not enough. We have gathered the secondary data from reports and homepages. H&M's CSR-report is an example of a published source that has helped us concretize their CSR efforts.

When it comes to the credibility of the individuals interviewed at the researched companies, it is hard for us to evaluate. We feel that we have gotten hold of the people involved in CSR, and they seem knowledgeable. However, after brief contacts via mail with these individuals it is hard to evaluate their credibility. Furthermore, we can only evaluate their answers, which

seem to represent their company's views. Nevertheless, it can be argued that company representatives provide skewed information, since they have the company's best in interest. Even so, we were primarily seeking the general company view on certain subjects, and therefore do not care about this potential skewness.

3.2.2 Customer study

In the customer study, the purpose is to research how much customers' know about CSR and if CSR influence their perceptions in any way. For the study, we chose to use two different focus groups. According to Jacobsen (2002), a focus group is a collective interview carried out in a group rather than with individuals, and a way of collecting primary data. Furthermore, a focus group is a suitable form of interview when the researcher wants to develop new knowledge about a phenomenon or obtain group members personal experiences. Moreover, Jacobsen (2002) states that in a focus group the members can help each other to develop thoughts concerning a certain subject, and therefore take the interview one step further than an individual interview. We feel that a focus group is a suiting means for us to achieve our purpose, since we indeed want to develop our knowledge on customer perceptions and how they may be tied to CSR, as well as obtain our group members personal experiences.

Jacobsen (2002) mentions two main problems with focus groups. The first one is the interviewer's effect on the group, where the interviewer creates different results by his or her presence. The second one is contextual effect, and is described as when the place where the interview is conducted as well as when different relationships within the group create different results. We feel that we have avoided these problems quite well by trying to act as neutral as possible throughout the interviews. Furthermore, we have conducted the interviews in a neutral place, namely the library at Karlstad University. In addition, we do not feel that there arose certain relationships within the group that affected the results. Though, there is no sure way of knowing.

When we conducted the focus groups, we used a discussion guide (Appendix III). According to Jacobsen (2002) an open interview should not be too structured and contain a determined sequence of questions with a reply form. However, Jacobsen also acknowledges that an open interview can not entirely lack structure. Furthermore, he argues that a guide can be helpful. Where individual interviews often use an interview guide we believed that a discussion guide would better suit our study, since we want to start a discussion rather than simply asking questions. The topics for the discussion guide were founded in the theoretical framework. The theoretically founded topics were used in the interviews in order to se how well the chosen theories match reality. The discussion guide consists of a number of open discussion topics, which have no determined order. The reason for us not having a more structured guide was that we wanted an open discussion, rather than a group question time. All we tried to do, except for providing topics for discussion, was to subtly guide the discussions.

Concerning the selection of members for focus groups Jacobsen (2002) claims that there are three different forms; homogenous, relatively heterogeneous and heterogeneous. We have not actively chosen to pursue a certain composition, since we do not want to research a specific group of customers' views on the subject but a sample of all customers' views. Therefore, we have chosen our members randomly. However, naturally some traits were similar between the members whilst others were different. In the actual recruiting of members for the focus groups, we basically went out and asked the first people we met if they were interested in participating. If they said no, we simply asked another one. One obvious weakness was made clear after the recruitment process. The focus group members consisted only of men. This was

not a conscious choice by us but merely coincidence. Furthermore, we chose only to approach people at the university.

The reason for choosing two rather than one focus group was that we had two different purposes with them. In the first focus group we wanted to find out what the members knew about CSR, whilst in the second group we wanted to find out what the members thought about CSR and how that may affect their perceptions and purchase intentions. The first group consisted of six members and the second one of five members. This stands in line with Jacobsen's (2002) views on how many members there should be in a focus group. Jacobsen recommends five to eight people and argues that a smaller group might limit the number of opinions while a larger group makes it easier for people to hide. Furthermore, a group with too many members might lead to two parallel discussions.

We do not feel that the credibility of the focus group members can be questioned, since they were not chosen because of some special knowledge of the clothing industry or CSR. The group members where, as we stated earlier, randomly picked and not expected to hold any special characteristics, views or knowledge about the researched subject.

3.2.3 NGO study

The goal with this study is to get objective sources' perspectives on CSR and how it might affect peoples' perceptions as well as company performance. For the NGO study, we went to the Karlstad Conference held at Karlstad University on the 7-8th of February 2006. On the conference, we heard amongst others Joel Lindefors, the Clean Clothes Campaign, Björn Gillberg, the Miljöcentrum (Environment Centre), and Bo Enquist, associate professor at Karlstad University talk about sustainability.

The study also consists of an interview with Lindefors, the Clean Clothes Campaign, as well as reports and homepages from Amnesty, the Fair Trade Center, Swedewatch and Forum Syd. The Clean Clothes Campaign is an international network of organizations, which purpose is to improve the conditions for the people working at factories producing clothes and shoes (The Clean Clothes Campaign, 2006). Lindefors spoke about CSR and sustainability at the Karlstad Conference. After the conference, we met Lindefors for a brief meeting were we asked questions concerning CSR.

We feel that NGOs are credible sources, since they do not have any obligations toward specific organizations but is objective. Therefore, we feel this information is credible and contribute a valuable objective aspect to our study.

3.3 Process and analysis

The conducted focus groups were recorded, in order for us to easier process the information without leaving anything relevant out. The recordings were later listened to and the information categorized into general views and potential quotes and sorted in under specific theoretically driven subjects. The information received from the questioned companies was also processed and the information categorized in the same way as the focus groups. The same process was repeated with the information gathered from NGOs. The gathered secondary data was processed and categorized in the same way as the interviews. After processing and categorizing all of our empirical data, we constructed an empirical part.

In the analysis, we have tried to connect theories with empirical facts. In order to do this we have connected empirical information from the company, customer and NGO studies to theories according to the steps of the Value Linking Chain.

3.4 Reliability and validity

Reliability means in which degree a research result can be repeated if the study is carried out under similar or identical conditions (Christensen et al., 2001). Our study reflects the conditions in today's society. These conditions will surely change in the future, which will make it virtually impossible to collect identical information at a later point in time. It should also be noted that our presence during the focus groups might have influenced the discussion.

Research looses its purpose if there is not a connection between theories and empirical information. This means that it is important to measure what was intended to be measured, which Christensen et al. (2001) calls validity. Furthermore, we are aware that our study only represents the researched group. Moreover, our study was carried out with interviewees with similar characteristics, which would make it even less represenatble for the entire population. However, since theories that support the analysis and research problem exists, conclusions can be made that represents more than the researched group.

We have tried to criticize our sources continuously through the thesis, since we have found that easier and more appropriate than to have one extensive credibility discussion.

4 Empirical Study

The empirical study contains information collected from interviews and document research. Furthermore, the chapter presents information from three different sources, namely companies, customers and NGOs.

4.1 Company Study

As we stated in the method chapter we questioned 15 companies on the relationship between CSR and company performance. The companies that wanted to participate were further questioned on their perceptions on CSR and its impact on society. This section presents the information gathered from the researched companies.

Ann-Marie Heinonen at KappAhl states that:

> *According to our experience, it [CSR] has been good for the cooperation with our suppliers, and among other things led to a higher quality and delivery accuracy. This because the work with our Code of Conduct has led to an increased attendance rate in our factories.*

One of Frank Exner's, Åhlens, views stands in line with Heinonen's. He states that Åhlens demands that their suppliers follow their Code of Conduct. Furthermore, because the suppliers follow Åhlens' Code of Conduct their products are of a higher quality, which leads to satisfied and loyal customers and in the end a higher profitability. According to H&M's CSR Report from 2004 H&M believe that if their suppliers embrace their Code of Conduct it is an investment in the future. Furthermore, H&M believe that their suppliers can benefit from Code of Conduct-related improvements such as better working conditions and a decrease in overtime. According to H&M Code of Conduct-related improvements can result in increased productivity, lower staff turnover, and higher quality. H&M believe that fair working conditions and a healthy working environment are good for business. However, they also acknowledge the fact that not all of their suppliers today might follow their Code of Conduct. H&M state that this might be because they have not been able to convince these suppliers that it is good for business to follow the Code of Conduct. Of the 15 researched companies in our study, only 6 publicize a whole Code of Conduct on their homepage.

Niklas Odequist, at JC says that CSR can be a responsibility that companies like JC has to take in order to make things better for the third world. Furthermore, Maja Riise at Lindex states that CSR is a necessity in today's society, while Karolina Dubowicz claims that it is necessary for H&M to take responsibility for how human beings and the environment is affected by their operations. Camilla Stang, Varner Group, claims that they view CSR as a pyramid, which is illustrated in Figure 11 *The Varner Group view on CSR*. Legal responsibility lies in the bottom of the pyramid, and means that the company should follow the current legalizations in the markets they operate in. Ethical responsibilities can be found in the middle of the pyramid and is together with the legal responsibilities what the Varner Group call CSR. To take ethical responsibility means doing more than the law demands because of moral standards. Philanthropy is at the top of the pyramid, but legal and ethical responsibilities are a prerequisite for its justification. Stang claims that philanthropy is not a part of CSR.

Philanthropic Responsibility

Ethical Responsibilities

Do more than the law demands because you find it morally right

Legal Responsibilities

Follow the current legislation in the market you operate

CSR

Figure 11 *The Varner Group view on CSR*

One example of a company taking social responsibility is H&M. When they detect child labour, they do not simply allow the factory to fire the child but sees to it that the child gets to go to school. Furthermore, the factory is forced to both pay salary and for the child's education. Indiska has a similar system and makes sure that the child is taken care of. H&M also participates in charity projects such as *the Pink Ribbon breast cancer awareness campaign* and *the World Childhood Foundation* (H&M, 2004). Nudie, just like H&M, supports non-profit organizations. For example, Nudie works with Amnesty International (2006), and sells t-shirts with Amnesty's logo. For every t-shirt sold Amnesty receives 50 SEK (or 5,5 Euro) (Nudie, 2006).

KappAhl states that their view on social responsibility is that their clothes shall be produced in an ethically defendable way (KappAhl, 2006). On the other hand, Åhlens asserts that minimal wages and working hours shall follow national, regional and industrial laws for the industry in question (Åhlens, 2006). Sara Winroth at Lindex states that Lindex tries to do more for the society than what is absolutely necessary. Furthermore, she asserts that Lindex holds workshops and seminars for workers in factories that produce their clothes. In those workshops and seminars, Lindex, amongst other things, tries to educate the workers on their rights. According to Winroth one reason for this is that the workers in the factories could survive unharmed the day Lindex chooses to produce elsewhere.

Karolina Dubowicz claims that, when it comes to values, they have to act in a way they can stand for. Furthermore, in a way that their customers, investors, associates and other stakeholders acknowledge as credible and feel confidence for. Heinonen asserts that KappAhl take social responsibility because they believe that their customers' appreciate it. Moreover, KappAhl has a responsibility for the people producing their clothes. Heinonen also states:

> *Not everything is about money, but other values that can lead to higher profitability.*

On the subject of quality, Karolina Dubowicz states that quality for them is not only about keeping the customers' satisfied with the company's products, but also about keeping the customers satisfied with H&M as a company.

Regarding boycotts, Varner Group's Code of Conduct states that they are willing to support boycotts in certain situations.

4.2 Customer Study

For the customer study, we used two focus groups, one consisting of six people and one of five people. The views of these two focus groups are presented below.

The focus group members all agree on the fact that the one thing major clothing companies have in common is that they produce their clothes in developing countries. One opinion, shared throughout the groups, is that the reason for the companies producing in these countries is to make as much profit as possible. However, one person states that he believe that one reason for producing clothes in developing countries is that it creates job opportunities in those countries. This is supported by some but criticized by others:

> *I do not believe that companies whom produce in developing countries*
> *contemplates on the fact that they create job opportunities there. Instead, they*
> *think about what they can earn by not having the factories in their own countries.*

When discussing production of clothes in developing countries the focus group members all believe that there generally are bad working conditions. According to one focus group member:

> *There are poor working conditions and lousy salaries*

Furthermore, they believe that it lies in companies' interest that their workers feel good. This is exemplified with one focus group member saying:

> *Workers that feel good are effective.*

When discussing the clothing companies social responsibilities within the focus groups, the opinions differ. One focus group member stresses the fact that the clothing companies do not own the factories, and therefore is not sure whether they have a responsibility for the conditions in these factories. Furthermore, one focus group member raises the question if clothing companies really are aware of the working conditions in these factories. However, the general opinion is that the clothing companies indeed have a responsibility for the conditions within the factories. One group member asserts that companies' need to stay legal in a marketing purpose, since if they do not it will outrage the public and hit hard on the companies. Furthermore, one group member states on company responsibility:

> *It is the clothing companies' responsibility to make sure that there are reasonable*
> *working conditions, and that the workforce is not harmed within the factories.*

When it comes to companies' ethical responsibility, the majority of the focus group members believe that it do not stop when a factory move from a country. They believe that when factories start to come to a certain country, that country can take a step forward in its

development. However, when the factories start moving, the country takes two steps backwards.

The members of the focus groups believe that the motive behind companies using CSR is to make money. One group member believes that companies use CSR for their own purposes but that customers like the fact that they take responsibility.

When discussing how companies deal with poor conditions in their suppliers factories one focus group member says that companies might choose to have their eyes closed as to what is going on in the factories. Furthermore, the group members assert that companies might protect themselves by not knowing. However, they also raise the possibility of the companies knowing and choosing not to do anything. The group members believe it is possible that companies chose to have poor conditions until they are revealed in the media. Moreover, the group members suggest that when this happens the companies have packages of measures to deal with the media.

The members of the focus groups assert that there is a need for certain clothes because of the climate. Nevertheless, this need is developed and complemented with other needs such as status. Concerning values one group member states that values affect what we wear. Another thing the group members agree on is that the reason for buying a certain brand is that you know what you get.

When evaluating an offer a customer makes a choice, to either buy or not buy. The focus group members have diversified views on what it is that controls that decision. To get to know how they evaluate offers we asked them about different brands and the values they send out.

The group members agree upon the fact that most clothing companies have something in common, namely that they want to be trendy, or the hottest and latest in fashion. Some claim that designer clothes stands for safety for the customer, whilst other contradict this by stating that by experience you can become aware that some brands do not keep what they promise. One person says that when it comes to brands:

> *They have painted a picture of themselves through marketing and attitudes. This affects people sub-consciously and you feel more safe buying products (that are of these brands).*

To get a picture of how the members in focus group one would evaluate different brands and the values they send out we asked them to comment on different clothing brands. The specific companies we asked them to comment on where the 15 mentioned in the method. We got many thoughts on what the different companies sent out. However, interesting is that none of the 15 companies' values was in any way associated with CSR. In focus group two, we asked if there are any companies that the members associate with CSR, either good or bad. Important to mention is that we did not mention the 15 companies because we did not want to inhibit their spontaneous reactions. The members in focus group two concluded that there where no companies that was better or worse than others.

Interestingly though, when we started to ask questions and guide the conversations towards topics like child labour, working conditions and social responsibility, they showed interest. Most group members believe that if conditions are too poor in the factories they should think twice before buying. They even state that, in certain situations, they are ready to consider

boycotting a company's products or services. One group member exemplifies with Nestlé, who he boycotts. Nestlé produces and sells breast-milk substitutes. During the 1990s, it was made public that Nestlé gave free breast-milk substitutes to African women while in hospital. Nestlé then charged high prices for the breast-milk substitutes after the women got out of the hospital, and since they could not produce own breast-milk, the women had no choice but to buy substitutes from Nestlé. They also needed to mix the breast-milk substitutes with contaminated water, which subsequently lead to many children dying (Nafia, 2006). One group member says regarding boycotting companies that does not act in a socially responsible manner:

> *I think you would think twice before purchasing something from a company you know have acted irresponsible.*

When it comes to the consumers' responsibility for an ethical and socially responsible world the general belief is that people care. Furthermore, they discussed the topic and agreed that the working conditions in the third world are awful. However, when out shopping people do not think about it.

> *I do not think that consumers really care, since the factories are so far away. That is what is tragic, we do not care. When it comes down to business, the price tag is what really matters.*

The members of the focus groups feel that the human being is responsible for an ethical and socially responsible world. However, they do not believe that an individual can do very much since he or she does not know very much. Furthermore, if they do not hear anything they assume that everything is ok. Therefore, according to the focus groups, the media has to enlighten people about the situation in order for something to happen. However, one group member claims that as long as the human beings do not change their behaviour, nothing will happen in terms of social and ethical responsibility.

One focus group member claims that not all people are obsessed with making a profit, but that there also is a social pathos inflicted in peoples minds. However, another group member asserts that he will buy ethically produced clothes as long as they are not too expensive. In spite of this, our focus group states that it is hard to evaluate companies' CSR efforts, since the large companies act alike. One group member claims:

> *You do not know which companies that do not act ethically and socially responsible.*

When it comes to quality, most of the focus group members think quality is the durability of the clothes. Furthermore, they agree that quality also is the looks and design of the clothes. All of the focus group members believe that quality is *what* you get rather than *how* you get it. However, one person touches the how area by stating the following on the production of clothes:

> *You get happy if you buy a pair of jeans where it says made in Italy on the tag. You tend to believe that they are a bit better, and it feels more exclusive.*

Another topic that was discussed was whether a higher price meant higher quality. One focus group member believes that this is not necessarily true, and further exemplifies this with H&M who sells high quality clothes to reasonable prices.

4.3 NGO Study

In the NGO study, we researched a few different NGOs views on CSR and its effects on society.

On the development of corporate responsibility, Joel Lindefors stated at the Karlstad Conference:

> *10 years ago, there was no responsibility, today no one dares saying so.*

Lindefors claims that often it is enough for companies to follow the laws of the countries to achieve decent working conditions. Furthermore, Lindefors state that a problem is that many companies choose not to follow country laws. Moreover, Lindfors claims, concerning company responsibility, that there is a transparency trend. With that, he means that society is going to be able to see through companies in order to evaluate their impact on society. According to Lindefors companies such as Nike and Reebok has started to publicize lists of the factories that produce their products. However, today none of the 15 researched companies in our study publicizes such lists.

Lindefors state, when it comes to the role of NGOs and the media, that they tend to focus on reviewing companies that tries to act socially and ethically instead of focusing on companies that do not. Moreover, Lindefors believe that this leads to companies being afraid to show their CSR efforts. Amnesty Business Group sees the need for a tool measuring companies work with human rights, since they feel that the debate in the media has been skew. They, as Lindefors, believe that the companies that try to do something get attention and criticism, whilst the ones that keeps silent gets away. The Amnesty Business Rating (ABR) is a yearly ranking over how high the risk is for companies violating human rights. Over 100 Swedish companies are included in the ranking, which is conducted by an objective research institute. The companies are guaranteed their anonymity, but have the possibility of giving up that right. H&M have chosen to go public with their ranking, which is illustrated in Figure 12 *Amnesty Business Rating* (2006).
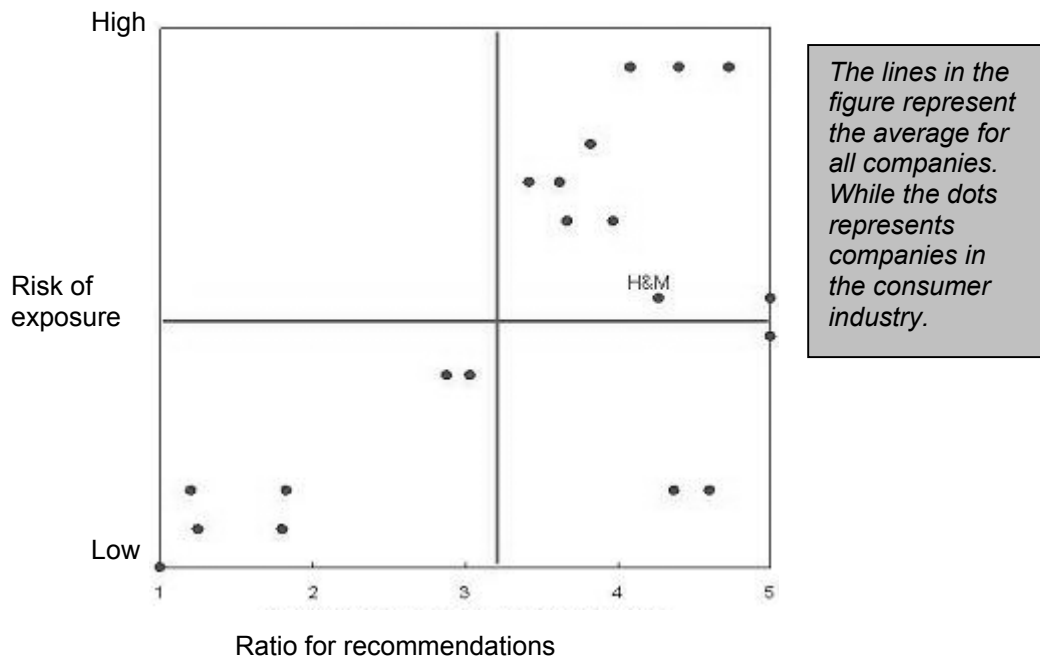
Figure 12 *Amnesty Business Rating* **(2006)**

Another interesting remark made by Lindefors, is that nowadays child labour in the production of clothes it is practically non-existing, which makes it a misconception.

Concerning values, Lindefors asserts that companies claim that their CSR efforts spawn from internal values. However, Lindefors claims that without external pressure nothing would happen when it comes to CSR. Bo Enquist, speaker at the Karlstad Conference stated that:

> *Off course it is about business. However, it is also about a company's vision, culture and image.*

When it comes to boycotts, Lindefors claims that he and his organization do not support the boycotting of a company's product. Instead, they try to find other ways for working conditions to improve, like creating public opinion. Lindefors and the Clean Clothes Campaign believe that boycotts make it worse for the workers in the factories, in the short run.

According to Wingborg (2006) Code of Conducts can mean companies seriously trying to improve conditions in the producing factories. However, in some cases a Code of Conduct is just cosmetics. Furthermore, Wingborg claims that Code of Conducts and ethical audits does not alone lead to improved conditions. In order to achieve real improvements the employees need to be made a part of the process.

Henrik Lindholm, Fair Trade Center, states regarding H&M's CSR Report from 2004:

> *The report does not describe the conditions under which H&M's products are produced. From the report, it is impossible to see to what extent H&M's Code of Conduct is followed.*

Furthermore, Lindholm claims that H&M should present information, since they hold a lot of it.

5 Analysis

In the analysis, the previously presented theories are connected to empirical information. The structure follows the logic of the Value Linking Chain, where we analyse the Service-Profit Chain, the Pyramid of CSR, level of CSR, the Total Product Concept, evaluation of the offer and quality step by step. The analysis results in a revised Value Linking Chain called the CSR-Performance Chain.

Dickinson and Carksy (2005) state that customers tend to choose an offer that maximizes their utility. Further, utility is often viewed to be financial. One reason for this might be that financial utility is easy to measure. Efforts to measure non-financial utility have been made, for example through the Triple Bottom Line. According to Norman and MacDonald (2004) the Triple Bottom Line has failed to measure such utility. In spite of this, the interviewed persons in this study assert that utility is not only financial but also about a social pathos.

In our theoretical framework, some studies on a potential relationship between CSR and financial performance were highlighted. As we mentioned earlier, none of those studies showed how this relationship works. We aim to find out how CSR can influence customer perceptions and in that way affect a company's performance. To do this we try to connect our theoretical model, the Value Linking Chain, with the presented empirical data.

As we stated earlier, we have chosen to gather empirical data from a customer, company and NGO side. This has allowed us to examine similarities and differences between the three sources, in order to gain a deeper and clearer understanding of the setting and problem being studied. The fact that we have used three different sources for our empirical study has for example helped our understanding of how boycotts work. The customers as well as the companies use boycotts in certain situations, which indicate that it is a possible course of action if dissatisfied. Another example of how it has been helpful with three different sources concerns Code of Conducts. Companies view Code of Conducts as a powerful instrument in taking CSR, and society perceive companies that have a Code of Conduct as responsible. However, according to NGOs, Code of Conducts are sometimes nothing but cosmetic, and does not have to mean that companies act in a responsible way. If the NGO study had not been a part of our empirical study, we would not have known this. With this knowledge, we have been able to maintain a critical view towards Code of Conducts, which might not have been possible otherwise. Similarly, it would have been hard to get companies views on CSR as well as costumer perceptions on CSR efforts if studies on them were not included in the empirical study. This might serve as an explanation to how important the three different sources have been to our thesis.

5.1 The Service-Profit Chain

Heskett et al. (1994) state, through the Service Profit Chain (Figure 5), that satisfied employees are more productive and produce a higher external service value, i.e. quality. This is supported empirically by Heinonen at KappAhl, who states that CSR (which is a form of investment in the employees since it means improved working conditions) has led to a higher attendance rate in the factories as well as higher quality and delivery accuracy. This indicates that CSR is not only about heightening company image but can also function as a way of improving the production process. Furthermore, it indicates that it lies in companies' interest to use CSR, since it indeed can increase their financial performance.

The Service-Profit Chain also describes how good quality leads to customer satisfaction, loyalty and in the end profitability (Heskett et al., 1994). The focus group members' state that you know what you get if you buy a certain brand, and therefore you buy more from that particular brand. Continuous purchasing from one particular brand will lead to that brand making more money and thus being profitable. Exner at Åhlens support the steps in the Service-Profit chain and states that because their suppliers follow Åhlens Code of Conduct their products are of a higher quality, which leads to satisfied and loyal customers and in the end a higher profitability. H&M's views also stand in line with the steps in the Service-Profit Chain. They state that improvements in working conditions and decreases in overtime can result in increased productivity, lower staff turnover, and higher quality. Furthermore, H&M believe that fair working conditions and a healthy working environment are good for business.

5.2 The Pyramid of Corporate Social Responsibility

According to Carroll's (1991) Pyramid of CSR (Figure 6), CSR contains economic, legal, ethical and philanthropic responsibilities. The focus group members are not sure of which responsibilities companies have. Although they agree that companies indeed have a responsibility towards society. Stang claim that the Varner Group view CSR as a pyramid (Figure 11), similar to Carroll's. However, one huge difference is that Stang and the Varner Group see philanthropic responsibility as not being a part CSR. Furthermore, they see philanthropy as "floating" above the pyramid rather than being a part of it. On the other hand, H&M do see philanthropy, as defined by Carroll (1991), as part of their responsibilities. One example is that H&M contributes resources to the community by participating in charity projects. The differences in viewing CSR described above seem to be significant for all of the companies, which have highly diversified definitions of CSR. These findings support Whitehouse's (2006) claim that there exists no universally accepted definition of the term CSR. Furthermore, our findings indicate that companies' indeed have a responsibility towards society. Lindefors corroborates this by stating that corporate responsibility is something that has grown substantially in the last ten years. However, what type of responsibility (legal, ethical and/or philanthropic) and how much of it to take is hard to say and differ highly between companies.

5.3 CSR, at which level?

Porter and Kramer's (2002) model, *A Convergence of Interest*,

Figure 7, discuss strategic philanthropy. Furthermore, the model shows how companies can use charitable efforts in order to achieve economic benefits. The focus group members believe that companies motives for using CSR is to make money supports Porter and Kramer's model.

Porter and Kramer's strategic philanthropy can be compared to the Virtue Matrix's (Figure 8 Martin, 2002) Strategic quadrant. Behaviour in that quadrant benefits both shareholders and stakeholders. The Structural quadrant in the Virtue Matrix represents behaviour, which benefits society but not shareholders. One example of a company taking social responsibility is when H&M detects child labour. Then they do not simply allow the factory to fire the child but sees to it that the child gets to go to school. (H&M, 2004). This is structural behaviour since it does not benefit the company financially but instead benefits society. Corporate managers engage in behaviour and actions in the frontier (the Strategic and Structural quadrants) for their own sake rather than to please shareholders.

As opposed to voluntary behaviour and actions in the frontier, behaviour and actions in the civil foundation is due to external pressure in the form of laws, norms and customs. The focus

group members exemplify such behaviour by stating that some companies choose to have poor conditions in factories until they are exposed in the media. Furthermore, the group members state that it is not until then companies act. Lindefors claims that all actions will take place in the civil foundation by stating that nothing will happen when it comes to CSR without external pressure. Lindefors view indicates that companies' only use CSR because it is good for business. Enquist, on the other hand, claims that there is more to it than business. He states that it is also about vision, culture and image, which would put his thoughts in the frontier.

Importantly, the results does not indicate on an exact level for CSR, only that the level should not be too high nor too low, since according to Porter and Kramer's (2002) model the level of CSR will be outside the combined social and economic benefit. However, our goal is not to determine an exact level of CSR, but merely to find out how CSR can influence customer perceptions and in that way affect a company's performance.

5.4 The Total Product Concept

Edvardsson, Enquist and Hay (2005) describe values as norms and ethics, which create meaning and thus contribute to value beyond the traditional for money assessment in the theoretical framework. Furthermore, values are put into the offer in order to create such value. Nudie and H&M try to do what Edvardsson, Enquist and Hay describe. However, they try to achieve it in different ways. Nudie works with Amnesty International, and sells t-shirts with the Amnesty logo in an effort to incorporate values in the actual product and strengthen their brand. H&M on the other hand takes a more subtle approach by supporting non-profit organizations, and in that way incorporate values in their brand.

None of the focus group members seem to have noticed that companies like H&M and Nudie support non-profit organizations, which means that they have never thought about this before. Hence, CSR in this form can be seen as an augmented product according to Levitt (1980, 1984). However, as we stated earlier value is co-produced with customers, and can therefore be seen differently by different customers. Some might value CSR whilst others do not.

5.5 Evaluation of the Offer and Quality

According to Mohr and Webb (2001, 2005) when no information on CSR is given to customers, either they do not think about CSR or they assume that the company is behaving responsibly. Further, Auger et al. (2003) state that, if relevant information is given to consumers in an adequate and effective way it is obvious that they can be convinced to change their purchase patterns. Nevertheless, Whitehouse (2006) argues that companies do not supply sufficient information about their CSR to stakeholders. The focus group members, who did not associate CSR with any of the 15 companies, support this empirically. This would indicate that companies indeed do not supply sufficient information on their CSR efforts. Furthermore, the focus group members showed interest in CSR, however not until we brought it up, which would indicate that there is a latent interest for CSR. Moreover, a need for customer education might be needed. A customer's expectations can be augmented by things he or she does not know, which would indicate that a latent interest for CSR means that it is part of Levitt's (1980, 1984) augmented product. However, if companies do not even take CSR it would mean, because of the latent interest, that CSR is an unused opportunity and therefore a part of Levitt's potential product.

According to the Level of Involvement model, Figure 10 *Level of Involvement* (Bergenheim, 2005), people are less involved and care less if something happens in another part of the

world to someone they do not know at an unspecified point in time. This is supported by the focus group members who state that people might not care about poor conditions because the factories are so far way. Furthermore, the focus group members assert that if they do not hear anything they assume that everything is ok. This point out the fact that the public must be made more aware of poor conditions, in order to avoid buying from companies that have them. As one group member said:

An individual cannot do very much since he or she does not know very much

This would make Mohr and Webb's (2005) statement that a high level of CSR results in customers' intent of buying increasing a bit off, since people that do not know cannot make a well founded choice of whether to buy or not to buy. However, as we showed earlier there seem to be a latent interest for CSR, which indicates that CSR might, if made aware to the public, influence customer perceptions on a product or service offering and in the end affect company performance. This further indicates that companies need to make people aware of their CSR efforts. However since, according to the level of involvement model, the media can control the public's level of involvement through the flow of information. In order for companies to make CSR a competitive advantage, they need to take control of the information that reaches customers.

When it comes to quality, the focus group members assert that they have what Ljungberg (1994) calls a product-based quality view, which measures *what* the customer gets. However, even if they do not know it, they do weigh in the *how* aspect as well, at least after they are made aware of poor conditions, and can therefore be said to use a total-experienced quality approach. Furthermore, H&M also view quality in a total experienced quality way, since they do not only care about keeping the customers' satisfied with the company's products, but also keeping the customers' satisfied with H&M as a company.5.6 The CSR-Performance Chain

Mohr and Webb (2001, 2005) state that customers react more strongly to negative than to positive CSR. Furthermore, Meijer and Schuyt (2005) states that CSP should be at a minimum acceptable level, in order to avoid boycotts. Meijer and Schuyt found that people more often boycott companies with a bad CSP reputation instead of paying a little more for products from companies with good CSP reputations. The customer study indicates that customers are ready to boycott companies that do not behave socially responsible. This has lead to us widening our theoretical scope and revising the Value Linking Chain, adding a boycott possibility where customers have the possibility of rejecting the offer. Rejecting customers are dissatisfied with the company's products or services, which in turn means that he or she will choose not to buy from the company. Hence, the company performance is influenced negatively. We call the revised Value Linking Chain, the CSR-Performance Chain, Figure 13
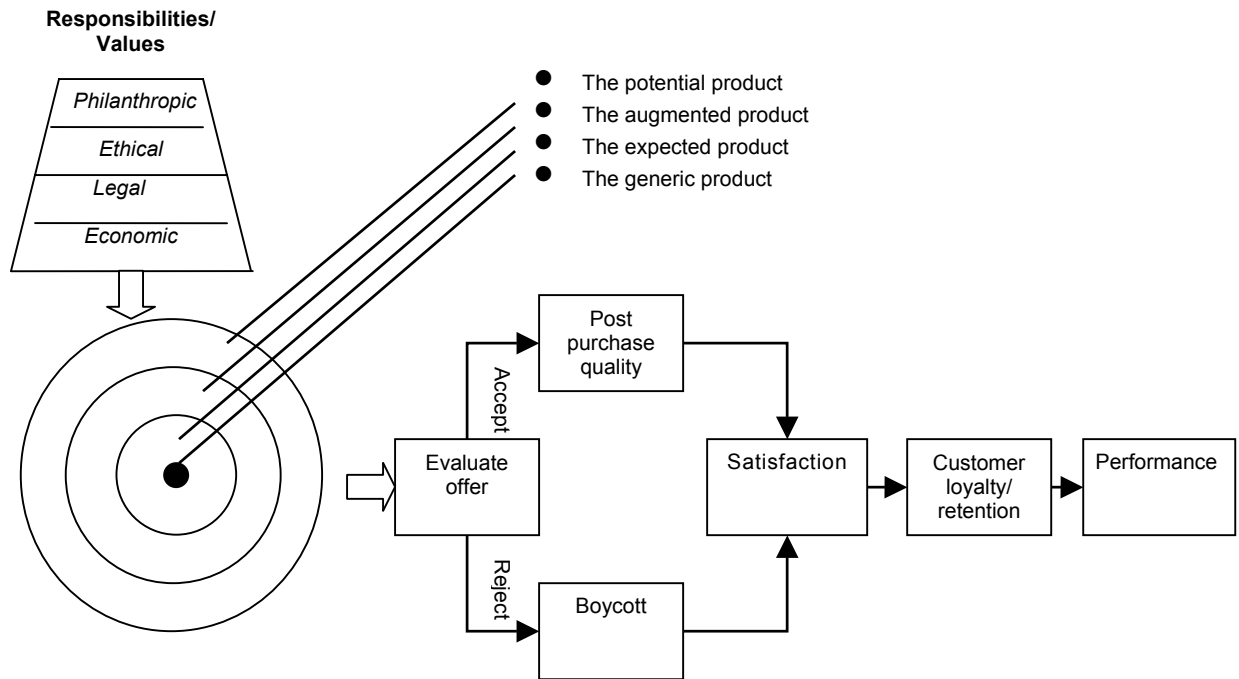
Responsibilities/ Values

- Philanthropic
- Ethical
- Legal
- Economic

- The potential product
- The augmented product
- The expected product
- The generic product

Accept → Post purchase quality

Evaluate offer

Reject → Boycott

Satisfaction → Customer loyalty/ retention → Performance

Figure 13 *The CSR-Performance Chain*

Like in the Nestlé case, companies' has to behold of boycotts. Boycotts are a very powerful instrument and can mean heavy losses for companies. The focus group members believe in and use boycotts, as well as companies, in certain extreme cases. The fact that Lindefors and the Clean Clothes Campaign do not support boycotts does not matter since our study shows that both customers and companies do it. At least having a minimum level of CSR indicates that it is profitable for companies to at least fulfil this minimum level of CSR. If they do not they will lose money, since customers will stop buying their products.

6 Conclusion

This chapter presents the conclusions drawn after analysing the theoretical and empirical information. Furthermore, we present our own reflections and thoughts on CSR and its link to performance as well as suggestions for further research.

We have found that CSR, if known, can influence customer perceptions on a product or service offering and in the end affect company performance through the links in the CSR-Performance Chain. In the CSR-Performance Chain, Figure 13 , CSR is put into the offering in the form of values and customers determine its importance. Our results indicate on two possible scenarios in the evaluation process:

> **Scenario I**
> If the level of CSR is not on or above the baseline, customers' will reject and boycott the offer. A boycott will lead to customers' obviously getting dissatisfied, which in turn means that they will not buy from the company in question. This chain of events will affect the company performance in a negative fashion.

> **Scenario II**
> If the level of CSR is perceived as on or above the baseline, customers' will accept and buy the offer. CSR will affect customers' to perceive the quality of the offer as high, which in turn will make them stay loyal to the company and buy again. As a result of this company performance is improved.

Our study indicates that these two scenarios explain how CSR influence customer perceptions and how those perceptions in turn affect company performance.

Waddock (2004) also describe a minimum acceptable level (baseline) for society's expectations on social responsibility and ethics. He states that global principles such as the Global Compact (Appendix II) or the Global Reporting Initiative (Appendix I) can function as such a baseline below which practises are ethically questionable.

How CSR affect customer perceptions are very much up to if companies take a level of CSR that lies on or above the customers baseline. Figure 14 illustrates how such a baseline for CSR might work.
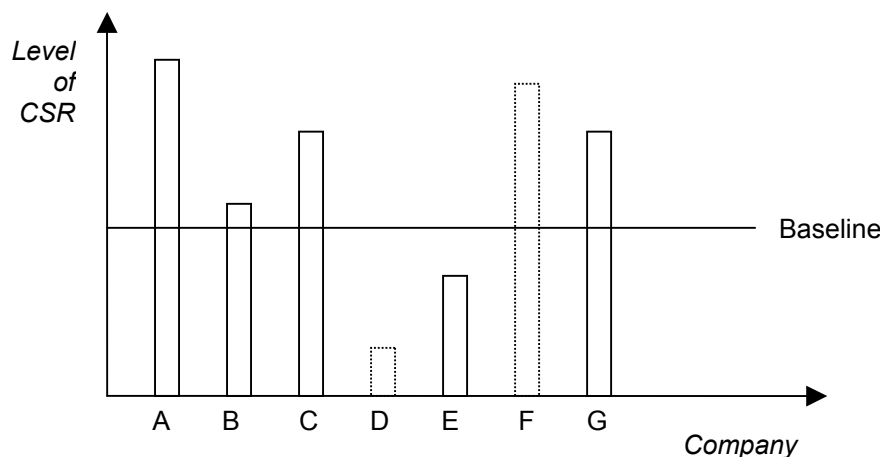

Figure 14 *The Baseline for CSR*

The companies' (Company A through G) level of CSR is shown in the figure. If their CSR efforts are not on or above the baseline the customers will boycott their offers. One problem is that there is no general way of measuring the level of CSR. Instead, different studies use different measures. Examples can be, as mentioned in the theoretical framework, reputational scales from the *Business and Society review* or *CEP* pollution performance. Another problem is that it is impossible to know some companies CSR levels, which is illustrated in the figure by company D and F. Those companies consist of a dashed line and their levels in the figure are merely illustrations of what could be their real levels. One reason for not knowing some companies CSR levels can be the lack of information, which in turn can depend on some companies refusing to share that information. Other reasons might be a lack of media attention or a lack of public interest.

6.1 Own Reflections

Previously, we presented Figure 14, the Baseline for CSR. We believe that companies, which take a higher level of CSR than the baseline requires, might want to shift the baseline upwards in order to eliminate competition and gain a larger share of the market. This is shown in Figure 15 *A Shifted Baseline for CSR*.
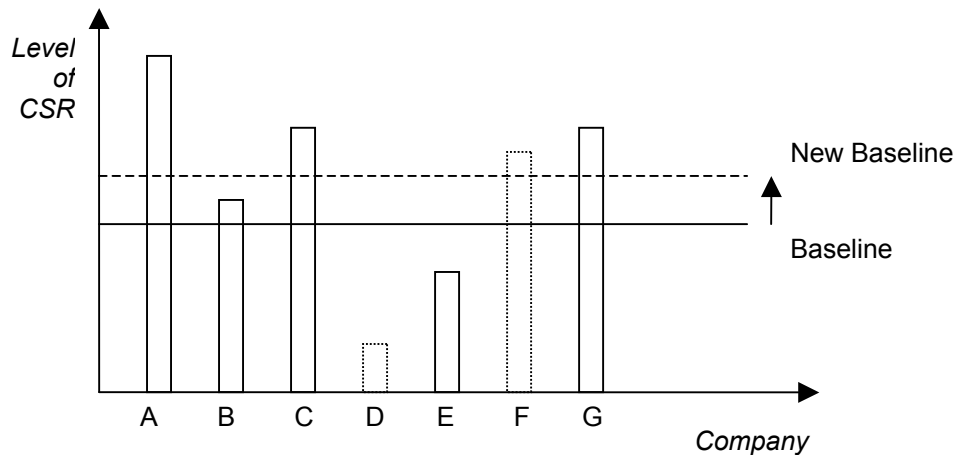

Figure 15 *A Shifted Baseline for CSR*

For example, in the figure company A, C, and G has incitement to make the baseline shift upward in order for company B's offerings to be boycotted. Company A, C, and G will then obtain a larger market share, which probably will lead to them making more money.

Company A, C, and G also has incitements to make the public aware of company D's level of CSR. As we mentioned earlier there is a transparency trend, where companies' voluntarily present all aspects of their organization in order for society to be able to evaluate their impact on society. Company A, C, and G are probably happy to present their impacts on society and environment, which will make the customers' more eager to find out about company D and F's impact, since it is unknown. Company F will not have any problems with presenting its impact on society, whereas company D is presented with a dilemma. If they choose to present their impact they will be boycotted, and if they do not it will raise suspicion. Of the 15 questioned companies for this study, 7 did not answer. Can it be that they in fact had something to hide?

We believe that companies might be able to obtain competitive advantages in the future by marketing the fact that they take CSR. Our study indicates that there is a latent desire among people to act ethically, and therefore companies need to open people up by enlightening them about CSR. One interview person state that values affect what we wear. This is very interesting since if people get CSR with its ethics and responsibility into their values they will not buy clothes produced unethically. If companies are able to make the unconscious desire for ethically produced clothes conscious, they might achieve a competitive advantage.

However, if what we discussed above is true, then why do not companies market their CSR efforts more extensively? We feel that marketing of CSR efforts gives the media incitement for reviewing companies and their CSR efforts. In today's society where people tend to react more strongly to negative than to positive CSR efforts, there lay a grave risk in marketing CSR efforts. If the marketing is revealed as false, companies has more to loose than they had to gain by marketing their CSR efforts. We believe that more companies would market their CSR efforts if the public interest for CSR were increased further. We also believe that it is somewhat up to the companies to control the image communicated of them. Like when companies try to be perceived by customers as trendy and the latest in fashion, they could try and communicate an image of them as really socially responsible.

Another interesting aspect is if CSR is made a bigger part of the offer it might be a way of making the offer unique. Like Enquist said at the Karlstad Conference about values, if CSR is made a bigger part of the brand, it will make the brand's offers close to unique since they will be very hard to duplicate.

6.2 Future Research

Our study results show that CSR can influence customer perceptions on a product or service offering and in the end affect company performance through the links in the CSR-Performance Chain. Furthermore, our research indicates that there exists a baseline for CSR. However, it would be interesting to research where this baseline generally lies, through some sort of index for CSR performance.

Another thing that might be interesting is to research if customers' perceptions in another industry differ from their perceptions on CSR in the clothing industry.

In the review of previous research on the relationship between CSR and financial performance, we claimed that the articles stating that there is no relationship between CSR and financial performance is as old as 20 years. It would be interesting to make a review over different studies and see how it looks today. Is it different? Furthermore, it would be interesting to see if the relationship differs in a Swedish setting.

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Appendix I – The UN Global Compact
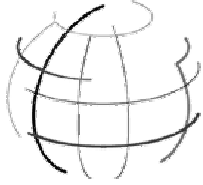
One CSR tool is the UN Global Compact, which is a voluntary initiative with two objectives: Catalyze actions in support of UN goals and mainstream ten principles in business activities around the world. The ten principles are about the subjects; human rights, labour standards, environment and anti-corruption.

Human Rights
Principle 1: Businesses should support and respect the protection of internationally proclaimed human rights; and
Principle 2: make sure that they are not complicit in human rights abuses.

Labour Standards
Principle 3: Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining;
Principle 4: the elimination of all forms of forced and compulsory labour;
Principle 5: the effective abolition of child labour; and
Principle 6: the elimination of discrimination in respect of employment and occupation.

Environment
Principle 7: Businesses should support a precautionary approach to environmental challenges;
Principle 8: undertake initiatives to promote greater environmental responsibility; and
Principle 9: encourage the development and diffusion of environmentally friendly technologies

Anti-Corruption
Principle 10: Businesses should work against all forms of corruption, including extortion and bribery

The companies endorsing Global Compact must report on their process associated with these principles. (Global Compact, 2006)

Appendix II - Global Reporting Initiative

Another organization working to spread triple bottom line thinking across the world is the Global Reporting Initiative. GRI seeks to harmonize and integrate the following:

Figure 1 –The role of GRI (GRI, 2005)

According to The Global Reporting Initiative, "GRI is a multi-stakeholder process and independent institution whose mission is to develop and disseminate globally applicable Sustainability Reporting Guidelines". The GRI integrates the active participation of representatives from business, accountancy, investment, environmental, human rights, research and labour organizations from around the world. Started in 1997, GRI became independent in 2002, and is an official collaborating centre of the United Nations Environment Programme (UNEP) and works together with UN Secretary-General Kofi Annan's Global Compact. The GRI *Guidelines* are an outline for reporting on an organization's economic, environmental, and social performance.

The *Guidelines*:
- Present reporting principles and specific content to guide the preparation of organization-level sustainability reports;
- Assist organizations in presenting a balanced and reasonable picture of their economic, environmental, and social performance;
- Promote comparability of sustainability reports, while taking into account the practical considerations related to disclosing information across a diverse range of organizations, many with extensive and geographically dispersed operations;
- Support benchmarking and assessment of sustainability performance with respect to codes, performance standards, and voluntary initiatives; and

- Serve as an instrument to facilitate stakeholder engagement.

The Guidelines are not:
- A code or set of principles of conduct;
- A performance standard (e.g., emissions target for a specific pollutant);
- A management system.

The *Guidelines* do *not*:
- Provide instruction for designing an organization's internal data management an reporting systems; or
- Offer methodologies for preparing reports, or for performing monitoring and verification of such reports.

GRI can be used to report the process of the Global Compact to external stakeholders. The company can then be accountable for their actions. (GRI, 2006)

Appendix III – Discussion Guide

Part 1 contains more general topics, whilst Part 2 contains more specific topics.

Focus Group 1

First and foremost, the focus group is anonymous, which means that we will only refer to you as male or female. Furthermore, there are no right or wrong opinions, answers or questions.

Part 1

Background: *Companies has brands, which express what they stand for*

Discussion topics

- What does the clothing industry stand for?
- What do you think of specific companies and what they stand for (H&M, Björn Borg and so forth.)?
- What are your perceptions on the production of clothes?
    - The Process?
    - Where?

Part 2

Contemplate on this scenario:

You are out shopping for a new shirt, what influences the decision (proce, quality)

How?

Develop?

Focus Group 2

First and foremost, the focus group is anonymous, which means that we will only refer to you as male or female. Furthermore, there are no right or wrong opinions, answers or questions.

Part 1

- What do you see as quality? Is only the output or also the process?

- Where lies the responsibility for an ethically and socially responsible society?
    - Does it lie with the state in the shape of laws and such, the customer and his or her buying behaviour? Perhaps on everything and everybody?
- Do you think companies should take CSR?
- What do you think companies' motives are for using CSR?

Part 2

What does it take, from a company, for you to boycott its products or services?

2 basic questions:

1. Have you ever chosen to pay more for a garment because of social or environmental reasons?

2. Have you ever chosen not to buy a garment because of social or environmental reasons?

Are there any companies that position themselves as extra good or bad when it comes to the environment and society?

How important is CSR for customers when deciding whether to buy or not to buy in relation to price and quality?