**CHAPTER 2:** **Literature Review**

**2.1 Introduction**

 With reference to the requirement of the Grounded Theory method, the literature review is organized into areas of relevance to Corporate Strategy and CSR. The literature research process is described in Section 2.2. Then this is followed by sections relevant to key topics that are addressed according to the emerged concepts from the data. The sequence of sections are organized according to the researcher’s perception of Strategic Management and Corporate Social Responsibility.

**2.2.1 Literature Review in Grounded Theory**

 The primary interest of the researcher was exploring the relationship between strategic management and social responsibility of the corporations, and how these responsibilities can be considered in strategic decision making.

 According to the Grounded Theory criteria (Glaser and Strauss, 1967,([Charmaz 2006](#_ENREF_28)), literature review starts after the data collection and never before. This avoids predetermined ideas and ensures the theory comes from the data. Consequently, the research is not biased towards a particular theoretical approach, common theories or dominant literature in the discipline.

 The current literature review has been done in two different time-scales during the research process. At the beginning of the research process, the researcher began an initial review of literature in CSR. At this stage, the methodology had not been decided, and a level of critical understanding of the whole concept through the literature was important (McGhee et. al, 2007). This brief literature review was essential for acquiring knowledge in the CSR domain, and was fundamental for beginning the research path. Furthermore, the grounded theory method does not suppose that the researcher enters the field with an ‘empty head’ (Charmaz, 2006,([Gibbs 2008](#_ENREF_45)). In fact, the researcher needs to have the relevant knowledge about the discipline before entering the data field and lack of background and practical understanding of the subject does not generate a fitting theory. In addition, an appropriate level of literature review for finding the required area for the further research is recommended for the grounded theory method (Wilson, 2012, Dunne, 2011). Therefore, a general idea about the research gap in the relevant discipline without specifying what the researcher should look for was important. Because the aim of the grounded theory method is not to test a hypothesis or answer detailed research questions (Charmaz, 2006) (Section 3.3), the research process soon started with data gathering. Therefore, the researcher did not limit herself in the theoretical frameworks of literature at this first stage of literature review and entered the data field. This had important effect of avoiding biasing the ideas from the literature framework about the issue under study.

 At the initial literature review, the researcher started reading academic papers and books about CSR. Later, the annual report was selected as a source of organization information that represents CSR practices of companies for understanding the issue. During this stage, the researcher realised that some information was mismatched with her prior experience in organizations and her strategic management background. Consequently, at this stage the researcher found her way in continuing the research with a constructivist grounded theory approach (Section 3.9).

 There is a difference in the literature review when the research is performed within the grounded theory as opposed to other research methods, as the grounded theory research adopts a selective approach to find the relevant literature based on emerged concepts from data. Therefore, the broader process of literature search started after data collection and analysis. Glaser (1992), noted literature, in the grounded theory method, is itself further ‘data’ that helps constant comparison with the emerging categories and to be integrated in the theory. Following the literature search guidelines and multi-dimensional nature of the research that considers corporate strategy and CSR practices, various concepts emerged from analysis of the annual reports required enough literature background for supporting and developing the relevant theory.

**2.2.2 How the literature Search is Organized:**

 The current exploratory research focuses on CSR practices, and how they are contextualised within the framework of the annual report that expresses the business context including strategies and business operation. According to the requirement of the grounded theory and based on the emerged concepts through coding in the research analysis; the relevant literature to clarify these concepts were selected.

 This selected literature for CSR focused upon definition and conceptualisation, implementation, the relationship between CSR practices and strategic management and CSR integration in the business. Additionally, based on these concepts the key areas of relevance in business aspect of companies were reviewed. These include the literature about organizational context, interaction with the environment, strategy and marketing that were chosen as are well suited for the current study.

 The relevant sources for CSR include a wide range of information about companies and industries and are covered in various media resources; therefore, there was a requirement for looking beyond academic papers and searching for relevant official reports, news in journals, academic and professional websites.

 Additionally, a review of literature about the nature of the business sector, organizational study and strategic management was included to bring insights about the emerged concepts about companies from selected business sectors for the current study.

 Finally, the Annual report was the data field for the current research and its unique characteristic and communicative feature was considered for further investigation in the literature. Therefore, relevant literature of communication theories for understanding the context is reviewed.

 The order of sections in the literature review in this chapter is based on what can explain the relationship between concepts. In so doing, the chapter begins with the literature review about organization system, organizational environment and business perspective. Then the section continues with the literature about CSR.

**2.3 The Rational System of Organization**

 Scott (1961), recommends the researcher should ask herself for the helpful research tool to study the organizational system since understanding organizations and their actions requires appropriate research tool and theoretical assumption. In the current study, a review of the organizational system helps to understand the business context and the way the companies perceive their environment and deal with different aspects of it.

 Based on the concepts revealed in the grounded theory approach,the literature search starts from a review of organizational context and the system that shapes fundamentals of business perspective and activities. This is important to review relations between prominent aspects of organizational system and find out the position of relevant CSR practices and emerged concepts of the phenomenon under study in this coherent system.

 In his book, *Institutions and Organizations,* Scott (1994), claims that organizations are rational systems that are brought into being for achieving their selected goals. He discusses two main characteristics of organizations. First, he explains that organizations adopts appropriate actions for their rational purpose and objectives. This is compatible with the strategic management literature which suggests that surviving in the competitive business world has been considered as a main goal for organizations (Margolis and Walsh, 2003, Porter and Kramer, 2006).

 Second, organizational tasks, performances, resource allocation, and behavioural systems are highly dependent on organizational decisions for doing activities and achieving organizational objectives. Based on its business type and industry sector, the organization has its own unique structure that is composed of different departments such as financial, marketing, human resource, research and development, production and other departments. These departments do different tasks to help the organization achieve its objective. Jones (2004), asserts that organizational tasks are composed of harmonized actions for desirable purposes. Additionally, Scott (1994), argues that even the structure of organizations is highly created for the purpose of organizational goals through facilitating departmental tasks.

 In explaining how the organizational system affects decisions and actions of organizations, Scott (2003), in his book *Organizations, Rational and Open System* claims the rationality of organizations is identified through three levels of decision making, identifying limitation and setting goals. These levels not only are associated with internal organizational goals but also with external factors. For instance, decision making in organizational systems is associated with a number of other actors including suppliers, customers, and competitors, in that all these actors and their relations to an organization have an impact on it (Scott, 1981).

 During the decision making process, based on relations with organizational actors, companies identify effective factors, limitations and achievable goals. Therefore, understanding organizational actions requires identifying their goals, tasks and the limitations they face in pursuing the objectives. Scott (1961), suggests some key questions that are helpful for understanding organizational system and the business context. These include: recognizing strategic parts of the system, estimating mutual interdependency of these strategic parts, distinguishing the main processes of the system that link the organizational parts together, searching the goals that the system seeks.

**2.4 How the Organization Interacts with the Environment:**

 A review of literature about organizational interaction outside the immediate domain is of relevance to the current research. The interaction of organization with its environment can help understand the expected organizational actions and plans. In addition, organizational interaction does not only explain the business purpose but also it can reveal interaction with the broader domain of society and other responsibilities.

**2.4.1 Interaction through an Open System Perspective:**

 The theory of organizational systems attempts to explain how various activities within a contextualised framework are interrelated, and there is a multi-relationship between them. Organization is a system of an integrated structure; that is composed of interrelated sub-systems that makes a coherent system. In fact, this interaction between different parts of the organization helps improve the function of the system (Scott, 2003).

….In order to explain the internal interaction of organization, it is important to consider that organizations have different departments such as marketing, financial, human resources, research and development. Scott (2003), argues the function of each department is not independent of the rest of the system, and function of each department affects the function of others. Therefore, even the tasks or, objectives in one department have an impact on the tasks and activities of other departments because these activities are related to each other to achieve the objectives of the whole system. Additionally, depending on the organization, some parts of the system may have vital roles in the organization’s system, and other parts are influenced by them or may need to adapt themselves with those main parts in the system.

 Boulding (1956), introduced the open system from science to organizational study. According to his book *General System Theory, The Skeleton of Science*,an open system is growing and sustaining itself. Organizations are open systems, because they need to maintain their business growth through interaction with external environment.

 In order to distinguish the open system from a closed system, Daft (1998), in his book *Organization Theory and Design* defines that a closed system is independent of its environment and does not have interaction with the external environment. In contrast, an open system for living and surviving has interaction with its environment and uses available resources in its environment. Consequently, the system cannot detach itself from the external environment and need to adapt itself at every point (Daft, 1998). The open system operates through a recurrent system of input, transformation and output; that expresses a balanced process between receiving energy from the environment and giving energy to the environment through products and services of the organization. This indicates that open system is aware of its environment situation, and through constant monitoring and getting feedback the system amends the operation process to adapt itself with the environment (Robbins, 1987).

 Robbins (1987), in his book, *Organization Theory: Structure, Design and Application*, describes two types of Maintenance and Adaptive activities for optimizing the interaction within the system and with the surrounding environment of organization. Maintenance activities are for interacting between sub-systems and balancing interaction between the system and its environment. Adaptive activities help evaluate requirements of the system based on any changes inside and outside the system.

**2.4.2 The Environment of Organization:**

 In the *Design and Management of Externally Controlled organization*, Pfeffer and Salancik (1978), state ‘’*…environment …is not objective reality. Environment became known through a process of enactment in which perception, attention and interpretation come to define the context for the organization.’’*

 Pearce and Robinson (2003), divide the surrounding environment of the organizations in two categories**:** Functional Environment and Remote Environment.They explain functional environment includes internal factors that affect the business and operational environment of the organizations.

 On the other hand, Remote Environment describes factors that exist outside the domain of direct function of an organization but still affect that organization. These external factors are economic, political and societal, and, through direct or indirect relationship with functional factors of organization, can affect performance. David (1999), identified the external factors as economic, social, political, technological and competitors.

 French and Bell (1999), define two major environments for the organization according to current and future trends. The current environment requires constant monitoring to enable estimation of opportunities and limitation of the future environment. The organization should respond to the current demands of market, but it needs to be prepared for changing demands of the market in near or longer future.

 The internal environment of an organization defines organizational domain and functional factors. According to Scott (1994) range of activities in the organization and the relationship between inter-organizational actors’ have the main impact on structuring the internal environment of an organization. In contrast to the internal environment, the external environment includes whatever factors lie outside this domain, such as factors from the remote environment. Internal and external environment affect each other. Factors relevant to geographical position in which the organization is located, the business sector, cultural norms, political and societal characteristics influence the inter-organizational environment (Scott, 1994). Consequently, the organizations need to balance their internal environment with the external environment to be able to perform their tasks.

 It is not always the environment that affects the organization, as the organization itself can impose change on the environment, such as innovation or technology that has a high impact on the business sector and other multinational companies.

 Based on different organizational factors and operations, the organizations can be exposed to various environments. Scott (2003),states that the organization is surrounded by multiple environments. He emphasizes that multinational organizations have different environments and they must adapt to all of these concurrently.

 Environments can be categorised as either stable or unstable, changing and complex. In an unstable environment, changes are quicker, and the factors that influence them have high impact. In the complex environment, environmental factors are diverse, and the competition is high (Robbins, 1987).

**2.4.3 Interpreting Environment:**

Organizations are open systems (section 2.4.1); therefore, the relationship between organizations and their environment is not only limited to scanning and evaluating but also active interaction with the environment. The environments of organizations are uncertain and challenging; therefore, organizations for maintaining their position and sustaining their business need information and knowledge about their surrounding environment. Depending on how organizations interpret their environment, the interaction with the environment can include a range of different reactions from actively engaging with their environment to a passive observation.

 Organizations constantly monitor and, interpret their environment and learn from it to find appropriate answers and solutions to their questions regarding the business situation. Their further actions and performance are based on this interpretation and analysis (Miles and Snow, 1984). This interpretation also indicates how organizations understand the demands of the environments (Lorsch, 1967). Daft and Weick (1984), propose interpretation systems for organizations including; enacting, discovering, indirect viewing and conditioned viewing. This interpretation system model develops understanding of strategic priorities within the process of decision making in the organizations is linked with interpretation of the business and organizational environment. Similarly, Child (1997), explains his model of “*Strategic Choice’’* that refers to how organizational actors based upon their perception of the environment and the available alternatives in decision making choose their strategy.

**2.5 The Role of Strategy in Organizations**

 After a review of the characteristics of organization and their environment, this section provides a review of what organizations may use to help them in winning and overcoming the challenges. According to Strategic Management literature, in order to be successful in their business, companies require a strong management system, sufficient resources including financial and human resources, efficient performance and business processes that deliver value. In a changing world, competition affects various factors and parameters in business; the organizations require an appropriate strategy to face the challenges of the competitive situation and insufficient resources.

 The organization starts and continues a series of actions based on its specific strategy that is shaped to achieve business objective. The strategy is a managerial tool to guide the organization in a forward direction (Flouris and Oswald, 2006). Jenkins et al. (2007), describe strategy as a fundamental underpinning mechanism for successful development of organizations. Robbins (1998), defines strategy as a tool that justifies current activities and the future direction of organizations.

 Pfeffer and Salancik (1978), in their categorization of managerial role, identify roles by three major tasks: “Symbolic”, ‘’responsive’’, and ‘’discretionary’’. The symbolic role is in the domain of the usual tasks of managers and the responsive role considers decisions to overcome limitation. In the discretionary role, the manager deals with threats and limitation to achieve profits for the organization. Although there are similarities between responsive and discretionary roles, in the latter the manager makes changes in contextualised setting of the organization and transforms the organization.

 But organizations need to facilitate their business tasks, put their time and effort for appropriate strategic planning and implementation. In justifying the importance of strategies, Ansoff and McDonnell (1990), claim that strategy offers higher compatibility between the current performance and the objectives of an organization to achieve a higher level of business success for the companies. Strategies can help organizations achieve long-term objectives. In addition, strategies include all prominent decisions of organizations; such as major activities of organizations, resource allocations, new investments and market development (David, 1999). Pearce and Robinson (2003), argue that strategies are the outcome of a strategic management process and have multi- dimensional effects on various operations in the organization. Therefore, any change in strategy affect other organizational aspects. On the other hand, the current strategies of the organizations are based on the evaluation of internal and external factors that affect the business of organization (David, 1999).

 Pearce and Robinson (2003), argue strategies require the support of top managers, may need high organizational and financial resources, have long-term impact on business growth, anticipate future trends of business and have multi-dimensional effects on organizational performance.

 Organizations scan their environment to assess the opportunities that help success and sustain profit in the longer term. According to Ansoff (1957), growth of organizations depends on their adaption with the external environment including industrial, economic, and political factors that affects business trends. Robbins (1999), argues that the external environment is changing quickly; therefore, strategies are important in the domain of a specific time and turbulent business situation. In fact, the organization can choose various strategic options, but for achieving the highest benefit they require adopting the most appropriate strategy.

 Strategy is a dynamic process of evaluation and feedback to adopt the appropriate one. Because organizations need applicable strategic decisions to be able to survive in challenges with their competitors, they concentrate on performances that offer a competitive advantage or a good position in the market, and help allocate organizational resources for that particular aspect. David (1999), claims that strategy increases the awareness of the organization about the actions of competitors and what may threaten future business success

**2.6. Different Levels of Strategy**

 The concept of strategy and its relation to corporate social responsibility practices has been of interest to scholars. According to Andrews (1997), there is a difference between strategy at the level of business and corporate. The corporate strategy is a process consisting of procedures, goals and decisions in the overall system of an organization. On the contrary, strategy at the level of business defines the choice of organization in a particular action or product and identifies the relationship between market and product. The variation of strategy level in the organization system can impact the nature of relations and our understandings of the practices. Therefore, the current section reviews different levels of strategies.

 Pearce and Robinson (2003), describe strategy is defined at three levels: Corporate level, Business level and Functional level. Strategy at the corporate level includes the overall performance and, activities, and it reflects the major financial and non-financial concentration of organization. However, business strategy focuses on how the organization competes in a selected market and chosen products. Functional strategies concentrates on the task of each department in the organization such as Marketing, Human Resource, Financial, Research and Development and Production departments.

**2.7 The Process of Strategy Making**

 French and Bell (1999), claim that strategies are shaped to achieve organizational objectives through scanning the present environment and anticipating the future environment. Consequently, selecting an appropriate strategy needs a proactive interaction with the environment and adoption of the right approach. Smircich and Stubbart (1985), argue that strategists do not only rely upon their perception of the environment, but they make sense of the action-pattern that is created by other strategists. Presumably organizations do not only inspect the environments for evaluating the business situation, but also monitor the actions of other actors, organizations and competitors.

 Strategies are shaped through a process of three stages: Planning, Implementing and Evaluating (David, 1999). In “*Reflecting on Strategy Process’’*, Mintzberg and Lampel (1999), describe ten schools of thought that affect strategy implementation. According to these schools; strategy is an analytical, interactive and cognitive process to shape the visible form of strategy and it has a transformation process that is based on internal and external factors of the organization.

 Organizations’ strategy is relevant to their different way of interacting with their environment. Depending on how organizations interact with their environment, Chaffee (1985), proposes three strategy models: linear, adaptive; and interpretive. According to the linear strategic model, the strategy consists of three stages of decisions, plans and actions. The assumption of linear model is that strategy solely depends on the organizational plan, the environment is predictable to a high extent and there is little impact from the environment (Chaffee, 1985).

 In the adaptive model, the organization is in continued interaction with the surrounding environment and constantly assesses the environment to recognise opportunities, risks and those aspects the organization should work on them (Chafee, 1985).

 The assumption of the interpretive model is that the organization is an open system shaped by voluntary contracts between people. In this model, instead of the organization context, social contract has the key role. Therefore, strategy is characterised as a model that helps understand the organization and the environment as system of interaction (Chaffee, 1985). Additionally, Chaffee (1985) declares similarity between the interpretive strategic model and the linear model is that strategy is mostly based on the organization’s plan.

**2.8 A Review of Social Cognition Theory**

A review of social cognition theory is of relevance to the literature search of the current study. This theory offers a clear understanding of organizational output decisions that are taken by managers. Although this research does not consider the individual in the micro-level of organizational system; however, its relevance is for understanding the business perspective and the link between business approach and CSR perspective of the organization. Notably, strategic decisions of the organizations are related to top managers

 Major understanding in strategic management derived from economy and human behaviour science (Jenkins et al. 2007). The organization is a human system (Scott, 1961) with human behaviour; therefore, it can be interpreted as a cognitive mechanism that is influenced by the society and environment (Bandura 2002, 2001). Organizational decisions and actions are based on understanding and interpreting of the situation. Organizations are set within an environment that includes a social contract, expectations, and challenges; social cognition theory relates to cognitive, behavioural and environmental input to the output decisions (Wood and Bandura, 1989).

 Inside the organizations, managers decide on the strategic directions of the organization and their managerial decisions are taken according to the available information about the environment and the understanding of the business situation. Managers are exposed to various information and multiple decisions; the decisions that can be relevant to either a short term or a long-term objective of the company. As a result, the managerial choice for the optimal decision is the outcome of cognitive, behavioural and environmental consideration (Wood and Bandura, 1989).

 Organizations apply their cognitive ability to predict the situations that assist them in being prepared for a challenging situation, and organizational problems (Wood and Bandura, 1989). Organizational decisions are being taken after considering complex internal and external organizational environment. In the external environment, the organization faces a changing environment and uncertainty. For instance, according to Wu et al., (2003), environmental uncertainty is a significant environmental variable that affects organizational actions and explains the way organizations react and respond to this uncertainty (Wu et al, 2003). In this regard, evaluating opportunities and limitations can help understanding about organizational decisions and actions (Buchanan, 1988).

**2.9 Going Back to Corporate Social Responsibility**

Based on the emerged concepts of the research, the current section reviews the literature about Corporate Social Responsibility. First, this section provides an explanation of the definition and concept of CSR and its implementation. A review of the relationship between CSR implementation and strategy comes after this. Then the section follows with reviewing the literature about integrating CSR into strategy.

 Reviewing the definitions given CSR, and expectations from CSR practices is critical for this study. CSR literature is broad, relatively new and far from rigorous foundation like other disciplines. As a result, in order to understand the practices and expectations in data field of the current research within CSR domain, it is important to investigate how CSR is defined in the literature and what are the expectations of it.

**2.9.1 Definitions and Conceptualisation of CSR**

 CSR is a voluntary act of organization towards society. It is a matter of self-regulation of organizations towards society. CSR has been of interest in recent decades to many researchers (Murphy and Schlegelmilch, 2013). Surprisingly, CSR is not a new concept and has existed before the current time (Smith, 2008; Marens, 2008; Drucker, 1974). In recent years, the CSR debate has received more attention, that means organizations should have more responsibility toward society rather than their own business, and they need to respond the demands of society (see Freeman, 1984).

 Broader understanding of CSR in current decades originates from the definition by Freeman (1984), suggests that companies should meet the demands of society and stakeholders in their business practices. CSR is the link between responsibility of organization towards society and the demands of society. Bonini et al. (2006), claim that identifying these demands comes from a social contract between business and the society. At the same time, companies respond differently to the demands of society (Porter and Kramer, 2006; Heslin and Choa, 2008). Therefore, the question is how do companies identify the demands of society, and how do they choose to engage in these CSR practices.

 The expectation from CSR has been more than a simple good act. Smith (2008), differentiates CSR and philanthropy and believes that organizations have a broader responsibility towards society rather than only participating in some good actions.

 In addition to the above, CSR is a dynamic concept. A review of corporate social responsibility concludes that during recent years, expectation and acceptance toward CSR practices have been changing ([Lee 2008](#_ENREF_61)). While the definition of CSR has showed an advancement, new and developing definitions are still emerging.

 Furthermore, CSR is a subjective concept that has a variation in definition (Yang and Rivers, 2009; Cheah et al., 2007; Castka et al., 2004; Turker, 2009). Votaw (1972), noted that corporate social responsibility does not have the same meaning to everybody (Garriga and Mele, 2004; Van Marrewijk, 2003). But this variation is not only in the domain of definition and goes beyond that level that offers flexibility of approach towards CSR implementation. This implementation includes a wide range of practices, different perspectives, expectations and interpretation accordingly.

 For a better understanding of CSR practices, the researcher began looking into various definitions offered in the literature that enabled me to explain the further position of the current research. Evaluation of CSR implementation requires a clear definition to clarify how it can be measured. Crane et al. (2007), argue that CSR practices include three stages: definition; implementation; and evaluation. At the definition stage, organizations interpret CSR and what CSR means to them. Next, CSR implementation refers to how organizations participate in CSR practices. Third, evaluation of CSR engagement allows companies to manage the phenomena within the organizational process.

 In grasping the idea behind CSR, Amaeshi et al. (2008), explain that CSR have received its origin from the concept of morality. CSR is mingled with moral values, expectations and rationality. Therefore, CSR has been a multi-dimensional issue for practicing inside the companies. George et al (2006), categorises the main domain of CSR practices as either legal or ethical. Lockett et al. (2006) classifies general CSR practices as Social, Environmental, Ethical and Stakeholder.

 In her book, *Corporate Social Responsibility in Asia*, Fukukawa (2010), argues a country-context affects definitions and perspectives towards CSR. One reason behind this variation in definition is the fact that the CSR debate originated from the western world. CSR and Western philosophy is mostly influenced by Greek philosophy and in particular Aristotle. According to Aristotle, intentional choice shows rationality and a responsible behaviour is the one that is done voluntarily (Amaeshi et al., 2008). Consequently, the stress on the voluntary act of organizations in relation to social and environmental responsibility in the countries that are influenced by this western philosophy can be explained. Therefore, morality has been an important perspective integrated in CSR expectations.

 Carroll (1979), identifies four main categories for CSR practices: Economics, Legal, Ethical and Discretionary domains of corporate actions. This includes the responsibility towards responding demands of stakeholders, shareholders and applying appropriate regulations and philanthropic actions. Given that this is among the first widely accepted definition developed to clarify the issue, the definition does not answer how organizations concentrate on all these domains equally. Presumably, challenging situations may trigger the prioritizing of one category over another.

 One main aspect of CSR definitions focuses on controlling the impacts of companies’ business on the environment and society. Therefore, stakeholders and the managing of their demands should be considered. In so doing, recognising the demands of stakeholders and identifying how the organizations should respond to them is important ([Maon, et al. 2008](#_ENREF_66)). For instance,(Panapanaan et al. (2003), argue that CSR has three dimensions: economic, environmental and social, for responding to stakeholders’ ongoing concerns over business activities.

 The constant monitoring of stakeholders’ demands is advised by scholars in CSR literature. Wood (1991), defines CSR through a relationship between the organization and society that requires systematic review of CSR practices and respond to demands. In so doing, Aguinis (2011), argues that corporate social responsibility should be contextualised within the corporate actions to meet the demands of the stakeholders. Although the focus in this definition is on controlling the impacts of business on stakeholders; at the same time there is attention to the benefit of the organization from responding to stakeholders’ concerns.

 Davis (1973), asserts CSR activities should be beyond regulatory requirement and financial outcome of mandated practices. This definition still implies where organizations have two separate concentrations, one of them is their business, and the other one is social responsibility. Therefore, CSR practices is open to various interpretations by organizations, and does not offer a way to assess CSR implementation that are beyond regulation.

 The other definition explains the role of CSR as a tool for betterment of the environment and society surround the organization. Drucker (1974), states that organizations should move forward from controlling their business’ impacts to implementing practices, towards making a better society. Similarly, Cramer (2005), defines CSR as a commitment of the organization to develop a sustainable economy, interact with employees and their families, and improve quality of life within communities and societies. In addition, the stress is on a continuing process of contribution to the community and society (World Business Council for Sustainable Development).

 McWilliams and Siegel (2011), highlight a mutual relationship between business and society that offers a benefit for both. As a framework for a practical approach, McWilliams and Siegel (2011), categorise practices for community development, CSR strategy and shared value creation, a philanthropic approach.

 The recent definitions focus attention on a systematic approach towards CSR. For instance, Wade (2005), defines CSR as the voluntary participation of companies and integration of social and environmental dimensions into business decisions. Companies aiming to be responsible towards society should include social and environmental decisions in their strategic decisions to manage their business impacts (Were, 2003). However, there has not been enough evidence of practical aspects of CSR integration within business decision making in current literature.

 In *Corporate Social Responsibility Initiative* by Harvard Kennedy University (2012), CSR is defined as practices within the strategic approach of the organizations. This includes not only the responsibility of organization towards society and environment through various forms of practices, but how the organization performs the business.

 In summary, corporate social responsibility is conceptualised in numerous ways that affect interpretation and expectations of the issue. Largely, the corporate social responsibly concept is mingled with subjectivity and even varies between scholars. In addition, this wide scope of definitions associated with variation in practices. As a result, various definitions imply different views to deliver a practical platform for implementing CSR.

**2.9.2 A Review of Corporate Social Responsibility Implementation**

 Discussion of CSR implementation is fundamental to the rationale for this research. A review of the evidence is presented here to give a balanced perspective on why the issue is relevant to the current study. The review of CSR implementation helps clarify how organizations are able to perform their CSR practices and practical aspects of CSR implementation in the organization system. First this section starts with explaining that how decisions and (in particular CSR practices) are given thoughtful consideration within the organization. Then, this section reviews the literature about CSR integration into corporate strategy to represent available practical platform.

 Cramer et al. (2006), present three approaches towards CSR implementation in the organizational context. The first approach is through responding to regulation requirement. The second approach is based on moral judgements and distinguishing between wrong and right acts. The third approach is associated with the learning process through communicating with stakeholders. In all these three approaches, the stress is on ethical judgements and the moral value of CSR practices.

 CSR implementation in the organizational context is a complex process. For instance, there has been various research that different organizational factors such as size and business sector can affect CSR practices (Aldama et al. 2009, Jose and Lee, 2007). The literature review about multinational companies shows this variation. Jones (1999), argues large companies have more resources that facilitate CSR practices. Large companies have more access to financial resources that enables them to spend higher amount on CSR implementation. [Galbreath (2009](#_ENREF_41)), and [Galbreath and Benjamin (2010](#_ENREF_42)), conclude that larger companies need to adopt a systematic process towards CSR that shows a thoughtful direction of the companies in CSR practices.

 Aldama et al., (2009), claim that organizations have three perspectives towards CSR: centralization, decentralization and lowering costs. Centralization explains how the CSR practices are compatible with the business objectives (Burke and Logsdon, 1996). In contrast, the decentralization and lowering cost approach refers to CSR implementation and is separated from the main business practice of the organization.

 Reviewing the relationship between CSR and strategy is another focus of the current literature review. The study of this relationship is important for two reasons. Companies adopt a strategy to help them in their business domain to improve the position of organizations in the market. Therefore, taking decisions in aspects of both CSR and strategy is challenging for the companies. In addition, the strategy is a powerful tool that helps any practice be ingrained into the core aspects of companies. This is emphasized by the UK Minister of Corporate Social Responsibility, Griffiths (2004); that CSR practices should be incorporated into the core values of every organization, and not be bolted on from the outside. Therefore, the organization needs a systematic and consistent perspective toward CSR to apply an appropriate framework for implementation system for the organization (Porter, 2008). Mattan and Moon (2008), classify two approaches toward CSR as implicit and explicit. Implicit CSR is a system of values and norms that put stress on the interrelationship between society, political system and business and the way that business responds to the concerns of stakeholders. In contrast, in the explicit CSR, companies strategically implement CSR practices according to their business intention. Implicit CSR is associated with an emergent style to offer an appropriate way of doing CSR in that organization (Angus-Leppan, et al. 2010).

 Smith (2003), and Maignan et al. (2005), believe that the organization should adopt a systematic process to implement CSR within their strategies. Graffland et al., (2003), conclude that organizations with a clear strategy more often have a focused strategy plan for their CSR practice. The strategic plan for CSR implementation helps the organization allocates resources appropriately and creates competitive advantages for them (Husted, et al., 2007).

 The current level of CSR engagement in companies is still far behind the ideal responsible practices of organization (Aguinis and Glavas, 2012). At the same time, the wide assumption is that there is a distance between CSR and Strategy (Murphy, P. E. and B. B. Schlegelmilch 2013). Many studies recommend that companies should consider the alignment of CSR practices with business strategies to enable organizations to put their social and environmental views into practice (Taubken, Leibold, 2009, edited by Mantere, 2000; Husted and Allen 2006; Pohl and Tolhurst 2009; 2010; Cloutier and Montreal, 2011, Vallaster, et al., 2012, Porter and Kramer, 2006, 2011). A responsible business uses its equipment, facilities and manages policies and procedures that all indicate the responsible actions of the company (See Priest, edited by Pohl and Tolhurst, 2011).

 The other significant aspect of embedding CSR in strategy is evaluating compatibility between CSR and Business aspects of companies and its facilitation into the system. Managers need to takes decisions based on understanding their business situation, and avoiding decisions that harm their business (Porter, 2006, Burke and Logsdon, 1996). Taubken and Leibold (2010), claim that large organizations need to think about the long-term aspect of their business; therefore, they should choose an appropriate CSR system (See Priest, edited by Pohl and Tolhurst, 2011). Similarly, Detomasi (2008), argues that in order to implement CSR practices, managers need to make the right decisions; otherwise, these new practices are risky for the organization. Therefore, in their managerial decisions, organizations may prefer social and environmental practices that are compatible with the business situation of their organization (Burke and Logsdon 1996, Porter and Kramer, 2006). Aldama et. al., (2009), explains that in CSR integration the conformity with business systems is important; otherwise, it will put the whole business into risk, including the position of managers in large organizations and the business, because of inability to create value. Therefore, managers may prefer CSR practices that are compatible with their organizational situation; otherwise, it would be difficult for them finalizing either their decisions or CSR practices. Moreover, the business will lose its position in the market if it does not answer to new opportunities, technologies, and limited resources.

 The current CSR management approach is not able to explain strategic alignment (Holliday et al. 2002, Werther and Chandler, 2006). One main assumption is that any CSR practice that benefits the organization is strategic. For instance, if CSR practices help improve the performance of firms these are considered as strategic (Vitaliano, 2010). Porter (2008), indicates that all CSR activities have a strategic purpose behind them, whether it is responding to regulatory requirements or any other responsibility at any level. Similarly, Yang and Rivers (2009), believe that CSR practices are strategic decisions of the organization towards stakeholders. Therefore, the organization, through managing stakeholders’ demands, protects itself from further issues. According to the literature, there is still an assumption that CSR implementation should be detached from any benefit to the organization and should have another intention (Acquier, Gond and Pasquero, 2011).

 A high recommendation for embedding social and environmental practices in the business strategy is to present a practical platform for responsible business (Adams and Frost, 2008, Bell, et al. 2012). It would be difficult for organizations to follow and improve two separate types of practices within the same organizational system and may distract the companies from one of these practices. Therefore, in order to improve CSR implementation the organizations are required to move beyond a simple practice and integrate CSR practices in the core business and organizational culture.

 Ketola, (2007) and (2010), states that organizations implement CSR practices, but normally they are separate from their business activities. Therefore, these practices are irrelevant to the business of organizations. This can be a similar story to philanthropy and what the scholars agree about. For instance Fukukawa (2010), states when CSR practice philanthropy is beyond the main business tasks of companies; it cannot be accepted as CSR practice.

 The other approach in applying strategies towards CSR has been improving the implementation process within the organizations. One reason is that CSR strategies offer some advantages that persuade organizations to continue those practices. For instance, allocating resources and using them appropriately within a CSR strategy framework helps create a competitive advantage for companies (Husted et al, 2007).

 In this regard, one approach towards CSR implementation has been separating these practices from other activities within the organization and identifying them under the social and environmental strategies of the organization (Aragon-Correa et al., 2008).

 In the book, *Sustainable Strategic Management*, Stead and Stead (2004), identify two types of CSR strategy that create competitive advantages. First, by focusing on the market and seeing how the organization is able to differentiate products and services from their competitors. Second, concentrating on the process. They suggest that CSR strategies do not concentrate on making business profit, but they help achieve competitive advantages and long-term survival through lowering the impact on the environment. Similarly, Jones (1995), argues that CSR practices make it easier for companies to gain a leading competitive position. However, they do not explain how, if all companies focus on CSR implementation, they will reach a position of competitive advantage.

 In embedding CSR in the organizational context, the organization requires adopting a CSR framework based on a systematic approach towards the business perspective of the organization. The common assumption between researchers about embedding CSR in strategy is that they seek a process within the organization (Porter and Cramer, 2011, Vogel, 2006?), because ‘’ ...*process based environment practice’’* shows a determined attempt on the part of the company*.*

 But how is the requirement for embedding process defined in the literature?

 Maignan et al., (2005), argue that CSR needs to be embedded in the organizational values and cultures. Mclagan (1999), indicates this embedding process should be based on moral values and the participation of employees.

 Basically organizations work on their chosen strategy through environmental scanning to develop their business plan (Gond, J.-P., S. Grubnic, et al., 2012). As a result, integrating CSR in the companies’ strategy needs extra effort from them. This restructuring process is with the support of top management (Barr et al., 1992). According to Maon et al. (2008), starting this new process requires strategic renewal of organizations. Crane and Matten (2004), discuss that the context of the organization and organizational cultural pattern indicates what is possible to do or not within an organization. Therefore, alliance between CSR and the mission and values of the company is a requirement for the integrating process (Maignan et al., 1999).

 Finally, in the literature, the knowledge about the business perspective of an organization in an embedded system is missing. Jones and Lee (2006), in empirical research, found that organizations are interested in moving beyond meeting regulatory requirements in order to achieve their objectives. Competitive advantage has been considered as an important factor by many organizations; however, achieving this purpose through embedded CSR process is not clear yet (Jones and Lee, 2006).

**2.9.3 Motivation for Engaging in CSR:**

 A literature review of motivations for CSR is of relevance to this study because it can shed a light on activities performed by the organizations. The literature about motivation towards CSR implementation is inconsistent and does not show the reasons of companies for participating in these practices and incentives for CSR engagement within the organizational system. McWilliams and Siegel (2001), claim that CSR incentives are different from one organization to another.

 Regulatory requirements, financial outcomes and stakeholders’ demands have been considered as major factors for motivating organizations that participate in either mandatory or voluntary CSR practices (Jones and Lee, 2006). Detomasi (2008), declares that motivation needs a level of persuasion that encourages performing a practice or makes an organizations feel threatened if they are not implementing a CSR practice.

 According to stakeholders’ theory, the power of the stakeholders and benefit of satisfied stakeholders are two major incentives for companies to implement CSR practices. Tan (2009), identifies stakeholders’ pressure on multinational companies is a major reason for participating in CSR practices. Similarly, strategic concerns of the companies for their success is linked to stakeholders’ demands (Gray et.al., 1995), and the benefit of CSR practices for companies comes from responding to these demands.

 An accepted assumption among researchers is the link between CSR practices and the financial benefit and outcomes for the company (Siegel, 2009). Financial benefits include a range of outcomes such as reducing costs, longer relationships, less regulatory incidents that may encourage organizations for CSR implementation. However, there is still a lack of sufficient evidence that indicates a relationship between CSR practices and the financial performance of organizations (Delmas et al., 2013). According to Lee (2008), there is not enough evidence that show CSR practices have financial benefit for the companies. However, in a survey from global chief executives 70% mentioned that CSR is vital to the profitability of business (Simms, 2002). Husted and Allen (2007), claim that organizations do not necessarily want profit from CSR practices; in contrast, the organizations like to be sure that CSR implementation does not harm their business purpose. In the literature, the direct relationship between CSR practices and financial resources has been considered as a financial outcome (Aguinis, H. and A. Glavas, 2012). As a result, other aspects such as achieving competitive advantage (Greening and Turban, 2000) or attractiveness to investors (Graves and Waddock, 1994) do not show the direct relationship is considered as the non-financial outcome of companies.

 Blowfield and Murray (2008), state CSR has a strong positive impact on the intangible rather than the tangible resources of business performance. They define the intangible resources of a business as reputation, relationships and knowledge. It is claimed that many companies have realized that having a positive corporate image through CSR practices is a significant strategic asset, because it has been associated with marketing benefit**.** Therefore, the CSR practices of multinational companies have been linked to reputation and image (Hess et al., 2002). Furthermore, Jones (1999), claims that large companies, because of their market power, have more concerns about any consequences arising from CSR issues.

 Another major concentration in literature has been that customers are interested in organizations that implement CSR practices. Particular attention in the literature has been on CSR implementation and the positive effect on customer satisfaction (Brown and Dacin, 1997; Luo and Bhattacharya, 2006; Sen and Bhattacharya, 2001). In contrast, Hartmann (2011), argues that what makes customers respond to the CSR practices of organization has not yet been made clear, and there could be multiple factors that contribute to this.

 The other aspect that triggers motivation is the link between CSR practice and its role in enhancing business performance. Kemper et al. (2013), argue that CSRimplementation can enhance organizational performance through improving operations that benefit the organization in a competitive market. Sharma and Vredenburg (1998), believe that CSR implementation raises innovation opportunities inside the organizational system. In addition, CSR enhances those organizational performances that are related to customer preference (Luo and Bhattacharya, 2006; Sen and Bhattaacharya, 2001).

**2.10 Managing Risks**

 A review of risk management is related to the current study because it can give the opportunity to find out the potential risk of companies and investigate the actions of organizations to prevent unwanted outcomes. In addition, exploring risks and threats that the companies face, helps them make a thorough assessment of CSR practices (reporting) of companies.

 Clarke and Varma (1999), state that risk management helps managers understand their business practices are consistent with strategic aims of the company. Pritchard (2010), defines risk as a ‘future phenomenon’, anything that may happen and have further consequence for the company such asadding cost on performance and threatening the profit, either in the short term or the long-term. Therefore, by managing risks, the organizations attempt to identify what has the potential to affect their business and avoid loss. In a report by KPMG, risk management has two main impacts on the companies; it helps competitive position and survival of the business. (KPMG International, 2005)

 Multinational companies face more risks because of their size and operation scales. Tufano (1996), argues that companies with more operational options face a higher risk. In addition, he claims that managing more stock shares creates deals with higher risks (Tufano, 1996).

 Although risk factors may represent external aspects that affect both the organization and the organizational interpretation of the risks; at the same time risk factor recognition is based on the internal abilities of the companies. That is how companies interprets risk factors, and how they feel threatened by these factors (Harvard Business Analytic Services, 2011). According to the report, *'Risk Management in a Time of Global Uncertainty*' by *Harvard Business Analytic Service*s (2011), risk management needs to be intrinsic in the companies' strategies and performances in order to be effective for avoiding any major problems in monitoring risks.

 Vogel (2006), identifies two major purposes for CSR practice purposes: strategic and defensive. The relation between risks in the CSR domain are mainly categorised as those aspects that do not satisfy the demands of stakeholders appropriately and breach regulations. Consequently, these can impose costs on the organization. In contrast, for instance, managing risks about environmental issues reduces taxes and costs (Huseynov and Klamm, 2012).

 In order to deal with CSR issues and avoid any risks from the beginning, organizations communicate with various groups of stakeholders and this helps them to be aware of their demands (Taubken, Leibold, 2010 edited by Pohl, Tolhurst, 2010). Additionally, the organizations are able to assess these demands through constant monitoring of social and environmental trends.

 In the CSR discipline, there has been more weight put on reputation as an incentive for managing social and environmental risks (for example; Bebbington et al, 2008)**.** In contrast, Campbell and Slack (2011), claim there is different perception between performance risk and environmental risk for the analyst and the investor. Additionally, Unerman (2008), emphasizes distinguishing financial and societal risk of companies and their importance for the business of the organization. Investors evaluate the organization and their level of risk. In empirical research about organizations with high reputation, Delgado-Garcia et al. (2013), found when the risk level is lower, even with different scores, the investors do not differentiate between risks.

 On the other hand, larger organizations are the target for NGOs; therefore, these organizations are more interested in avoiding loss to their reputation (Basu and Palazzo, 2008). Additionally, organizations feel a pressure from shareholders to avoid any damage to reputation as it could affect profitability. However, Godfry (2005), asserts that a positive image does not directly influence risk management and value of shareholders; but this helps managing other risks and protecting shareholders’ value. Additionally, Greening and Turban (2000), claim a positive image is highly important to help build a better relationship with customers, investors, suppliers and even their employees.

**2.11 My Connection with Annual Reports:**

 To understand CSR practices and strategies of companies, the researcher is required to use an appropriate tool that enables her to access both of these aspects in the organizational system. The annual report offers an opportunity for simultaneously evaluating both the business and the CSR perspective of the companies. The Annual Report is supposed to present a coherent framework communicating various activities in different sections.

 As a result of an increasing demand to participate in social and environmental practices, CSR reporting has been a way that organizations use to communicate their CSR practices to the general public (Gray et. al. 1995). Supposedly, increasing CSR implementation among organizations in recent years has led to growing participation from organizations in CSR disclosures (Gray, 2001). Therefore, various forms of communication in organizations were considered in CSR disclosures analysis: websites, stand alone and annual reports (Wanderley et al. 2008).

**2.11.1 Annual Report as a Source of Communication System**

 Using various segments of annual reports is fundamental for the purpose of this research (Section 3.8). The Annual report’s aim is communication in a textual framework (Wanderley et al. 2008). It is a formal document that represents relevant information and strategic direction**.** Therefore in this research the annual report provided the opportunity for multiple voices of companies to be heard in a contextual framework.

 The researcher needs to be aware of characteristics of a data set for a better evaluation of the issue under study, limitations of the research tool and the probable impact on emerged concepts. Therefore, the characteristics of the annual report as a specific communication feature are considered. For instance, the communication character of the annual report facilitates advertising CSR practices. Organizations may intend to inform of their social and environmental practice before they start to implement it (Taubken, Leibold, 2009, edited by (Pohl and Tolhurst 2009; 2010). In this section, two theoretical frameworks are reviewed to explain the communicative perspective of the annual report: **Signalling Theory** and **Strategic Communication** process.

**2.11.1.1 Signalling Theory**

 The audiences of the annual report are a range of stakeholders; including shareholders, investors, governments, general public, and communities. According to the signalling theory, mangers produce information about inside companies, and make them available through various communication means to outside receivers that are from an individual audience to a range of various audiences (Connelly, et al. 2011). Signalling theory refers to ‘asymmetries’ of information that occurs for on-purpose communication between inside the organization and the outside audiences. ([Spence 1973](#_ENREF_87)).

 The signals are for a range of audiences; therefore, the signal is multi-purpose and can be interpreted by various audiences differently (Magness, 2009). In addition, special signals can be for a particular audience. This theory believes the signalling process only works when the audiences are looking for that message and pay attention to the signals (Connelly, et al. 2011).

 In this regard, companies may focus on signalling the information about their superior performance to gain reputation, competitive advantage and the goals they want to achieve (Campbell, Shrives et al., 2001). For instance, investors and shareholders seek information in the annual report to evaluate the business value of the organization and its situation.

 Therefore, the investors can invest on a desirable organization with less risk and better business prospects. As a result, the investors expect the disclosed information in the annual reports to minimise their uncertainty about the organization (Freedman and Stagliano, 1991, Magness, 2009). Organization signal appropriate information to attract investors in a competitive situation for investment (Campbell et al. 2001). In the research by Magness (2009), investors respond differently to signals that come from the financial information section of the annual reports and the CSR disclosures of the companies.

 **2.11.1.2 Strategic Communication Process**

 Organizational document is produced through a series of recursive relationships between talk and text (Spee and Jarzabkowski, 2011). Therefore, annual report can be outcome of such a process within the organization. That Annual report is prepared thorough a communication process between various departments in an organization.

 According to Ricoeur, the text can be constructed ‘’in more than one way’’ (Spee and Jarzabkowski, 2011). The annual report is an intended product that passes through an internal process before reaching the final stage and becomes visible to a general audience. The process is through a series of interactions, communications, meetings, writing and editing before preparation of the final annual report. Furthermore, it is expected that multiple departments and CEO of the companies review the annual report draft or monitor the way it is prepared.

**2.12 CSR and Employees**

 In general, companies need to respond to demands of two groups of stakeholders; external stakeholders, including the local community, suppliers, society; and internal stakeholders that are employees (DiMaggio and Powell, 1983; Wood, 1991, Aguilera et al., 2007). The influence of CSR performance on the internal stakeholder (employees) is gaining more attention from management researchers (Collier and Esteban, 2007, Peterson, 2004 a; Rodrigo and Arenas, 2008).

 Bhattacharya et al. (2012), argue that in order to improve relevant CSR practices that benefit employees and respond their demands companies are required to focus on internalising the CSR process. They suggest that companies should communicate CSR practices to employees, consider their demands and provide a situation for employees’ involvement.

 Employees are an important resource for companies and have a significant role for success of the business. Resources of companies can be categorised to three main groups: human resources, financial resources; and organizational resources (Simpson et al. 2004).

 In the literature, the relationship between companies, employees and CSR practices has three aspects. Companies can have a positive image on potential employees through CSR practices; they can facilitate the CSR process in an organizational system through employees’ participation; they can respond to employees' demands through CSR implementation.

 Making a positive image in the mind of people can help companies to have a better relationship with customers, investors, suppliers and even their own employees (Greening and Turban, 2000). The existing literature suggests that CSR initiatives can be broadly understood from an employee's perspective (Rodrigo and Arenas, 2008). Clutterbuck et al. (1992), recognize that employees are interested in working in ethical companies (Mclagan, 1999). Turban and Greening (1997), argue that social performance of companies is helpful to attract potential employees to the company. Albinger and Freeman (2000), found a positive relationship between the CSR performance of companies and attractiveness to highly qualified employees.

**2.13 Organizational Interaction with Shareholders**

 The classical notion in economics is a belief that organizations have more responsibility to their shareholders than the society (Cheah et al. 2011). The CSR phenomenon has changed this belief that organizations should respond the demands of all major stakeholders. However, the way companies balance their decisions and responsibilities towards shareholders and stakeholders is of high importance. This section reviews the literature of organizations’ interaction with shareholders.

 In a survey by Jone and Nisbet (2011), they conclude multinational organizations are still more attracted to shareholders’ profit than stakeholders’ interest. Yangs and Rivers (2009), claim top managers of organizations are under higher pressures from shareholders. Similarly, McMurtie (2005), notes from a CSR manager of a large industrial company: “*When we have an incident that makes the news, the ... investors will be on the phone to find out what’s happening. We hear nothing from the [shareholders], but when the share price falls off by a cent they are on the phone trying to find what the hell is going on’*’.

 Literature asserts that CSR practices have positive impact on shareholders’ value. Godfry et al., (2009), claim that CSR implementation helps protect and secure shareholders’ value. Garriga, Mele (2004), argue that maximising shareholders’ profit is the priority for the organization, and CSR decisions are evaluated because they generate benefit to shareholders. CSR implementation can enhance shareholders’ value in various ways and avoid unnecessary environmental and regulation risks for the organization. Huseynov and Klamm (2012), state that CSR engagement can reduce costs that benefit shareholders’ profits. Bartram (2000), claims managing any risks that affect taxes and costs can assist shareholders' value.

 Similarly, in an empirical study Hillman and Keim (2001), found a positive relationship between stakeholders’ management and shareholders’ value; however, there is a negative relationship between social practice implementation and shareholders’ value.

 Furthermore, the shareholders’ value is not limited to a direct financial outcome. For instance, Clark and Allen (2012), discuss that the shareholders’ value is not limited to accounting profit, and it includes the perception towards a company such as managing risk and growth. They argue that there is a direct relationship between CSR performance and the shareholders’ value, and conclude that positive perception can multiply the shareholders’ value.

**2.14 Customers’ Perspective on Responsible Business**

 According to Sherer and Smid (2000),’’*human rights watch (1997) observed that companies in the textile and sportswear industries are made likely to support initiatives on human rights … This is because the success of consumer goods is very closely linked to the reputation of its brand name*’’

 This section explains the relationship between CSR practices and customer perspective on the business. Therefore, it mainly focuses on the business sector that is customer-based.

 The CSR researchers have investigated customer loyalty in a business to customer relationship context. Customer loyalty is associated with customer trust in the company (Rauyruen and Miller, 2007). In this way, the companies that deal with customers may be affected by CSR incidents and their impact on the brands. In the business to business context in the company does not deal with customers, the company is not impacted by the damage to brands. When customers are satisfied with the company they are loyal to the brands (Rauyruen and Miller, 2007). Significant reputation damage has a huge impact on the brand (Basu and Palazzo, 2008). However, there is a relationship between the successful brand and the level of disappointment of loyal customers.

**2.15 The Relation between Multinational Companies and the Governments of Host Countries**

 How multinational companies are influenced by the governments of host countries is important in this literature review. The importance comes from the impact of this relationship on business operations and CSR practices of companies.

 For multinational companies that newly enter a host country, the relationship with the government is vital. The governments are able to impose situations that may affect the policy and strategies of multinational companies in the host countries; these can be through allocating infrastructure, setting regulations and policies. Porter and Kramer (2011), argue that governmental policies, because of their influence on costs and taxes, are important for companies. In contrast, Wanderley et al., (2008), claim that the government of host countries may ask for a less ‘regulatory standard’ to encourage investment from multinational organizations.

 According to Detomasi (2008), multinational companies need social acceptance in the host countries. On the other hand, governments in host countries face complexity due to pressures from multiple-stakeholders' interests (Henisz and Zelner, 2003). Therefore, multinational companies need to manage their relationships with host countries and stakeholders in order to avoid risks (Conway, 2013).

 The relationship with the government in host countries prevents problems for business development in the new area and help smooth business running. This relationship is of interest for companies in business sectors relevant to a natural resource because of controversial debates around these issues. For instance, oil and gas companies face a high political risk in the countries where oil is newly discovered (NewYork Times, 2012). In a similar vein, there is a huge debate over mining nationalization in South Africa (The Independent, 2012, The Economist, 2011, Global Post, 2012). The Global Post (2012), wrote *'' … the African National Congress, under pressure to address the country’s seemingly intractable poverty, unemployment and widening gap between rich and poor, is looking to the mining companies for a solution.''*

 The governments can have an impact on companies through rules and regulations. Groening, and Kanuri (2013), argue that companies in a ‘’highly regulated market’’ require more complicity with regulation and governments demands. One of the governmental regulations and policy is about environmental issues (Giddens, 2008). Climate change policies and regulations have an impact on multinational companies (Kolk and Pinkse, 2011).

 Political structure of the host countries can act as a driver for CSR practices. For instance, according to Hoskisson et al., (2000), in the emerging markets governments have a stronger power than the developed countries. Additionally Bonardi et al., (2005), state that CSR practice is politically important for the elected governments. In some countries, particularly in developing countries, CSR practices of companies facilitate improving quality of life and are in line with the policy of companies; furthermore, this helps the legitimacy of governments. Steurer (2010), claims that governments are interested in doing CSR because this helps them facilitate their ''policy objectives on a voluntary basis’’.

 Multinational companies often try to influence business and industrial policies in the governmental system (Dam, 2001). In so doing, companies are good at anticipating national political concerns and they attempt to influence public policy by administering their competitive advantage (Prahald and Doz, 1987).

**2.16 A Review of Business Sector:**

 Jose and Lee (2006), state that the sector a business belongs to, has a major influence on the CSR implementation of the organization. In addition to this companies based on the business sector can have a higher or lower impact on the environment and society. Therefore, there is more expectation and regulatory requirements from organizations according to their impact (FTSE4Good). Further to this, considering the characteristics of a business sector and what challenges and situations companies deal with in that business sector is of relevance to this research. Therefore, a search of literature has been carried out for business sectors dealing with controversial issues. The literature about business sectors mostly provided information around these issues, and the relevant literature about other the business sector included in this study is missing.

**2.16.1 Pharmaceutical Industry**

 Responsibility of pharmaceutical companies in producing medicines to save people’s lives, resulted in high expectations for CSR in this industry (Lee and Kohler, 2010). In addition, the pharmaceutical industry has a range of stakeholders including governments, customers and the general public who each have strong demands on the industry (Cheah et al., 2007, Smith, 2008). Inevitably the pharmaceutical industry deals with different challenges from a wide range of stakeholders (Smith, 2008). Cheah et al., (2007), declare that the pharmaceutical industry generates a high profit, but it is sensitive towards stakeholders’ demands.

 Maignan et al., (2005), claim pressure from stakeholders has been an important element for implementing CSR in a pharmaceutical company. Stakeholders in the pharmaceutical industry can apply an increasing pressure that affects the reputation of the company.

 The pharmaceutical industry is highly dependent on its customers. The competitive nature of business heavily relies on introducing medicines to the market and increasing market awareness of these products. Thus, networking is prominent in pharmaceutical products marketing. According to Wright and Lundstrom (2004), relationship marketing has a key role in sales of this industry. Sarri (2004), asserts the pharmaceutical industry, networking is an essential tool for survival as the industry faces rapid change. This networking includes a range of medical organizations, governments, doctors and those actors dealing with patients.

 A report by KPMG International (2005), indicates managing risk in the pharmaceutical industry has an important role in the profit and reputation of the companies. The pharmaceutical companies need to meet the required standards of regulation bodies such as Food and Drug Administration (FDA) in US. Failing to receive approval for products will bring a major loss for the companies’ reputation and brand image that are linked to the quality of products (Cheah et al., 2007). In order to gain business success and maintain customers’ loyalty, the company is required to improve quality of products (Smith, 2008). This expectation for quality is in line with the regulatory requirements and the pressure for meeting them in the industry, (KPMG International, 2009).

 The other main challenge for the pharmaceutical industry is its reliance on research development and a high amount of uncertainty as the outcome of the research and development process is not completely clear (Pammolli et al., 2011). Furthermore, the industry faces major risks including high market regulation and technological change (Pammolli et al., 2011). The companies in this industry need to consider regulations and new technologies in their research and development process and deal with a competitive and fast changing environment.

**2.16.2 Oil and Gas Industry**

 Oil and gas are significant resources that have a great impact on the world economy (Alazzani and Wan-Hussin, 2013). Increasing population and growing economies and industries indicate a rising demand for energy resources.

 The oil and gas industry is among the high pollutant industries with a huge impact on the environment. Therefore, increasing awareness and regulation requirements demand higher engagement in CSR implementation in the energy industry. Additionally, Bigliani and Feblowitz (2011), assert the oil and gas industry faces international pressure around social and environmental issues that have attracted attentions to new regulations in the industry.

 Le Menestrel and Bettignies (2002), claim a lack of consistency between CSR demands and expectations from the oil and gas industry. The world is facing energy challenges and at the same time the environmental impacts of the industry presents a growing concern (Le Menestrel et al. 2002). The current energy market is highly dependent on fuel energy consumption, and climate change policy is incompatible with it. In addition, there is a lack of a policy that puts equal weight on energy concern and environmental aspect to reach a solution (Bang, 2010, Van der Zwaan et al. 2009).

 Stressing the importance of energy demands, Belke et al., (2011), argue that energy use is insensitive towards increasing price because of high energy requirements. As a result, increasing price has no effect, or a minor effect, on demands for oil and only can slow the demands’ growth.

 In a similar vein, a lower price of gas and increasing demands of energy offer a great opportunity for the forthcoming years in one as well as the other aspect of oil price compensation and answer the growing demands for energy supply.

 In addition to the above, oil and gas operations are challenging without certain outcomes. Bigliani et al., (2011), claims the oil and gas industry have high operational risk and need strategic decisions for selecting projects that present appropriate business performance and profit. Therefore, financial sources and experience are of high requirement in the industry. Furthermore, Bigliani et al., (2011), noted that the oil and gas companies have a shortage of skilful employees.

**2.16.3 Chemical Industry**

 The chemical industry is among high technology industries (Arora, 1997). Since, their technology in chemical companies is based on research and development; in this industry that is highly competitive, patents, and licensing have a great role. Arora (1997), asserts patents make a barrier for competitors' entry in the chemical industry.

 This industry has focused on four sectors: specialty chemicals, commodity chemicals, care products and life science products (Gavrilescu and Chisti, 2005). Gavrilescu and Chisti (2005), explain the market situation as existing as four sub-sectors in the chemical industry. In recent years Commodity Chemicals has reached the 'mature' level in market and is characterised as a ’continuous process’ and ‘low profit sector’. Specialty Chemical requires a technological basis and offers a higher value as it cannot easily be replicated by other competitors. Customer-care products have a wide range of differentiated products and brand value. Life science is linked to pharmaceutical and biotechnology. Therefore, it is highly based on research and developed technology (Gavrilescu and Chisti, 2005).

**2.17 Summary:**

 A summary of the literature search in the current study is presented here relating to the nature of organizations includingorganizational rational systems, The interaction of organizations with the environment**,** The role of strategy for organizations , Different Levels of Strategy, The process of strategy, A review of social cognition theory, corporate social responsibility, definition and conceptualization, The evaluation of corporate social responsibility implementation, motivation for engaging in CSR implementation, managing risks, the annual report as a source of communication system, CSR and employees, organizational interaction with shareholders, customers’ perspective towards responsible business ,The relationship between multinational organizations and host countries government, and a review of business sector.

 This was followed by a review within the relevant literature on how the relationship between CSR and strategy is defined and how the integration of CSR within the strategy has been performed. The explanation of the applied method in the current research is presented in Chapter 3.