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Which Corporate Social Responsibility (CSR) models most effectively enable firms to increase profits ethically?

**Introduction**

Corporation Social Responsibility (CSR) seems to be everywhere. From Nike's partnership with Colin Kaepernick[1] to Toms' shoe donations[2] to BP's "alternative energy practices,"[3] we constantly hear about the field. In particular, these so-called CSR examples have been highly publicized, as well as criticized. From woke-washing to greenwashing, the field has been called it all. What if, however, CSR could be more than just an advertising technique? What if it enabled corporations to maximize profits ethically?

Companies are aware of this opportunity and because their social initiatives are at the forefront of their reputations, many now practice CSR in some way. However, not all of these initiatives are created, executed and/or made equally. Companies are cognizant that community partnerships, sustainable and environmentally friendly practices, and philanthropic contributions benefit their brands. They help attract and retain high-achieving employees, capture customers, and increase profits. Companies have used this understanding to their advantage. As consumers though, it is challenging to differentiate CSR models, initiatives, and results. Corporations publish reports with glossy heartfelt pictures and inspiring charts that cast them in positive lights, but it is imperative to understand the actual effects of these advertised initiatives.

Because of this, I have consolidated a wide range of previously published research. From studying academic journals to case studies, I focused on four CSR models: the shared value initiative, the win-win model, delegated philanthropy, and insider-initiated philanthropy. Within each model I studied a particular case study, or two, to reveal the real-world effects of each

[1] In 2018, Nike created an advertisement with Colin Kaepernick saying, "Believe in something, even if it means sacrificing everything." Nike, however is also known for its sweatshop labor so consumers criticized this action for being hypocritical (Spellings, 2018).
[2] Toms' one-to-one model for donating shoes has been criticized for its inefficiency, economic disenfranchisement, and aid dependency (Reed, 2017).
[3] British Petroleum (BP) has pledged to use alternative energy, yet consumers only see this as an attempt to recover face from its 2010 oil spill disaster in the Gulf of Mexico (Frick, 2014).

model. Throughout this research, the goal was to answer the question, which CSR models most effectively enable corporations to increase profits while doing so ethically? By understanding the current literature, I have made an educated claim about the models of CSR that best enable companies to make money ethically.

## Literature Review

### CSR: Background

CSR's broad landscape allows companies to tailor the sector to their individual needs. Due its extensive nature, there are several definitions within the field. Gupta and Sharma (2009) understand CSR "to be the way a company achieves a balance or integration of economic, environmental and social imperatives while at the same time addressing shareholder and stakeholder expectations" (p. 397). This characterization emphasizes the interconnected effects of the initiatives on the environment and the company's financial status. Rangan et al. (2015) state that CSR is "aligning a company's social and environmental activities with its business purpose and values." Here, CSR transcends not only to the charitable side of a firm, but also become an inherent part of the corporation. Dizik (2018) defines CSR as "corporate initiatives that express responsibility for the company's effects on the environment and society." These initiatives can include corporate donations and philanthropic giving, designated employee volunteer days, environmental packaging, and partnerships with local organizations, along with many more. While a charitable interpreter of these definitions recognizes firms taking ownership for their effects on the environment, a more critical interpreter views utilizing the initiatives solely for their personal financial gains. Gupta's and Sharma's (2009) definition, however, incorporates the duality of CSR by acknowledging the financial gains and ethical components that can accompany CSR. Because of this, throughout the paper, CSR will be discussed utilizing this definition.

The multitude of definitions reflects changing attitudes regarding the field. The expansion of CSR is relatively recent. Carroll (2009) explains that CSR's development is tied to the individuals' changing philanthropic beliefs and the increasing presence of corporations in society. Gupta and Sharma (2009) point to global warming, wealth disparities, consumer preferences, and the increasing presence of the media for CSR's growth. Further, they attest that "in this global age, social, economic, and political problems merge into one another – as do the solutions" (p. 396). With improved access to empirical data and an emphasis on stakeholder theory, business ethics, and sustainability, CSR initiatives have shifted to the center of companies' objectives, or at the very least, the objectives they publicize.

## CSR: The Financial Benefits

While businesses can use CSR to incorporate philanthropy and sustainability, they can also use it to their financial benefit. This is why so many companies have integrated CSR into their business models. Businesses remain invested in their bottom lines; it is essential for them to remain in business. Therefore, embedded within my research question "Which model of CSR most effectively enables corporations to increase their profits while doing so ethically?" is the assumption that ethical business decisions can increase profits. Previous research supports this fundamental claim. Howard Bowen, an American economist, was one of the first researchers to investigate the effects of CSR on business performance based on economic theory (Acquier, et al., 2011). Bowen believed that should businesses ignore their social obligations, 'present-day capitalism' would inevitably decline. While Bowen acknowledged the upfront price businesses must pay to implement CSR initiatives, he asserted that corporations also produce "working conditions" and "standards of living," and therefore "on average, society may well accept paying higher prices for products and services in exchange for improved welfare" (*Ibid*). CSR therefore is a necessity, not a choice. Businesses must increase their presences to increase profits and support the greater environment to continue attracting customers.

Eccles, Ioannou and Serafeim (2014) offer a few tangible explanations for CSR's ability to positively impact a firm's financial profits. They argue that firms with CSR initiatives integral to their objectives "are able to attract better human capital, establish more reliable supply chains, avoid conflicts and costly controversies with nearby communities, and engage in more product and process innovations in order to be competitive under the constraints that the integration of social and environmental issues places on the organization" (p. 17). These inputs are crucial to any firm's success as stronger inputs can produce more profitable financial gains. With consumers' increasing demands for ethical practices "the success of a business is inextricably tied to the welfare and stability of the community … 'people' and 'planet' have a part to play alongside 'profit'" (Gupta and Sharma p. 397). CSR is now touted as a competitive advantage for "cost savings, reducing risk, increasing revenue, building reputation, developing human capital, improving access to capital" (Gupta and Sharma p. 398).

Some critics, however, argue that no matter the possible benefits to society, CSR should never be undertaken by corporations because the initiatives will inevitably lessen their profits. This view considers only the short-term opportunity costs to implement such initiatives and that in these preliminary transactions there are no direct returns to the corporations. One of the most outspoken critics of CSR, Milton Friedman (1970), an acclaimed, yet controversial economist, asserts that businesses do not have a social conscience and that their only responsibility is to their shareholders[4] or investors to increase profits. When executives refrain from price increases in order to prevent inflation or reduce pollution to improve the environment and not to directly optimize their operating expenses, they are not acting in the interest of their investors, according to Friedman. However, this argument is based solely on short-term goals and ignores the long-term economic gains that are associated with CSR, when performed strategically.

Eccles, Ioannou and Serafeim (2014) empirically investigated this question of long-term gains in a comparison of firms that engaged in corporate sustainability[5] to those that did not. Between the 180 firms they analyzed, the researchers evenly split the businesses into two groups: High Sustainability and Low Sustainability. High Sustainability firms were those that adopted sustainable policies voluntarily in the early 1990s and used these policies to guide their business decisions. Conversely, Low Sustainability firms were labeled as those that follow the more "traditional model of corporate profit maximization in which social and environmental issues are predominately regarded as externalities" (p. 23). The researchers found substantial financial benefits for the High Sustainability firms, even when controlling for the states of the firms prior to 1993. For comparison, a $1 investment in 1993 in a portfolio of a High Sustainability firm would have grown to $22.60 by 2010, whereas, this same monetary investment in a Low Sustainability firm would have yielded a $15.40 return in 2010 (p. 18). Further, the collection of High Sustainability firms financially outperformed the Low Sustainability firms in 11 out of the 18 years of the study. These same firms also experienced lower volatility on average and more stable financial records (p. 18-19). CSR's long-term events are quite evident. The firms that

[4] Shareholders are a subset of stakeholders. Due to convenience, I refer to shareholders as investors throughout this paper.
[5] I am using the phrase "corporate sustainability" here to refer to a business strategy that focuses on ethical business policies.

chose to adopt sustainable practices received economic gains in the long-run, as too did their stakeholders.

CSR: The Ethics

Although there is large body of research advocating for CSR based solely on financial profits for the firm, other research focuses on the ethical arguments. Bénabou and Tirole (2010) argue for CSR to correct market failures that originate from negative externalities, inefficiencies, incomplete information and high costs in business activities. Tonello (2015) reasons that not only do companies have personal motives to engage in CSR, they have a "moral obligation to assist the communities in which they do business." Because businesses operate in a profit-maximizing world, often they ignore the negative externalities that arise from these operations. Businesses have the opportunity to correct some of these missteps by implementing CSR.

Friedman (1970), however, not only objects to the financial arguments for CSR, but also argues against the power of the business executives to act for the investors. To Friedman, CSR represents "taxation without representation" as business executives use investors' money and then spend the 'tax' revenue on initiatives of their own choosing, not those of the investors' choosing (*Ibid*). Friedman omits a couple of points here. One, investors have the ability to no longer invest in companies if they do not agree with the company's choices. I will acknowledge, however, that CSR needs to increase its transparency to make this statement completely accurate. Regardless, Friedman ignores the agency of consumers to determine if they want their financial contributions to support certain causes and can remove their contributions at any time. Second, Bénabou and Tirole (2010) offer a couple of reasons for why consumers want corporations to exercise CSR initiatives and not just rely on their own individual efforts. Information and transaction costs are costly and disincentivize individuals to invest their time and money without perfect information. However, when corporations engage in CSR, individuals experience fewer costs – monetary and time – but can still feel connections to the corporations' social initiatives. Further, corporations have the ability to enact greater changes by "refraining from specific behaviors, such as polluting the environment" than consumers can do individually (Bénabou and Tirole, 2010, p. 11). This helps explain why so much of CSR's growth is a result of consumers' demands for the sector.

There are other critics that argue against CSR because they view it solely as public relations scams. Gupta and Sharma (2009) explain that "CSR is still sometimes seen as 'green wash' to clean the sins of pollution, or 'white wash' to provide a facelift to the company's public image (p. 400). In these situations, critics condemn the use of CSR as public relations schemes. Here, firms are creating the initiatives not for enacting positive change, but rather for advertising ploys that lead to competitive advantages and financial gains solely for their benefits. "Woke-washing" a term coined for "profit-driven companies cynically cashing in on people's idealism and using progressive-oriented marketing campaigns to deflect questions about their own ethical records," is one of the most prevalent complaints against the sector (Jones, 2019). Lacoste, an apparel company, created a collection of shirts displaying different endangered species while it continued to offer 'gloves made from deer leather' and 'cow leather handbags' (*Ibid*). Nike, the powerhouse in athletics, launched a campaign around Serena Williams to challenge sexistt attitudes females' skills and performances. Yet, Alysia Montaño, a Nike-sponsored runner, revealed that Nike refused her paid maternity leave (Jones, 2019). While these campaigns provide great financial returns to their firms, the critics rightfully condemn the corporations for not changing their behaviors.

Gupta and Sharma (2009) explain that to change CSR from "damage control" or "public relation campaigns" to a genuine business opportunity requires greater transparency, increased consideration for future generations, and more empathy and respect for employees, communities and the environment. Because of this understanding that not all CSR initiatives are created equally or ethically, when considering the various models later in the paper, I evaluated the ethical concerns equally as much as the financial benefits. This ensured that the integrities of all people are honored. A CSR method that advances a company's financial gains but violates individuals' rights is not be a preferred method of CSR.

## CSR: The Unknown

CSR has grown from a minor subsection of business to its own field. Its substantial development has been accompanied with increasing amounts of research. I have discussed some of the current literature above. The supporters and critics all provide a greater understanding of the current CSR landscape. Based on the literature, however, the ethical and financial arguments strongly suggest the importance of CSR in business operations. The growing nature of the field reflects this too. Current literature discusses how businesses implement their social objectives. The overall focus has been on the company specific initiatives, the supposed effects on the greater community, and the returning profits to the firm. These current initiatives are not without critics, and rightfully so in many cases.

What the literature fails to discuss in great detail are the precise models that most effectively enable corporations to increase profits while doing so ethically. Due to the sheer number of CSR initiatives, it is challenging to section them into individual models. There are also a number of methods listed and described by various authors using inconsistent terminology that makes it challenging. However, when we are able to split specific initiatives up into methods, we can better understand the positives and drawbacks that are commonly found within various CSR models. While I acknowledge the number of models currently discussed in the literature, the four I studied are the shared value initiative, the win-win model, delegated philanthropy, and insider-initiated philanthropy. These models have appeared in a variety of previously published literature from academic journals to investigative journals. Because of this, there was a plethora of information on the models that I was able to analyze in combination with specific initiatives to understand the effects of CSR.

Further, an often-overlooked consideration is when do consumers believe in the credibility and legitimacy of these company-led initiatives? What does it take for a company to not be seen has having mixed motives? This is another form of success. When consumers believe in a company, it obtains financial gains. Included in my analysis of the outcome of each case study and model, is my evaluation of the methods, ethics, and profitability used by corporations.

**Methodology**

To explore the effectiveness of CSR models in achieving financial profits ethically, I first analyzed current social initiatives by corporations. Next, I compared my analysis of these initiatives to a global CSR survey. Finally, I combined my analysis with those from my secondary sources to evaluate the overall effectiveness of each CSR model. Currently, much of the published literature focuses only on the value of individual initiatives but does not draw on greater implications from these findings. Because of this, I have made educated and supported claims on the characteristics that ensure the effectiveness of these initiatives. My analysis considers the financial profitability and ethicalness of each CSR method. Not only are these findings valuable for the development of accurate information, but they are also instrumental for other firms hoping to adopt similar CSR methods.

To analyze current initiatives, I studied case studies. Due to CSR's growing prominence in business, there are many cases available to study. This availability made the selection of specific case studies invaluable to the direction of this analysis. In order to provide support for my research question, I analyzed case studies that have been shown to increase financial profits while doing so ethically. For the Shared Value Initiative, I analyzed Nestlé, and in particular its Global Youth Initiative (GYI). For the win-win Model, I analyzed Hindustan Unilever and its Project Shakti. I analyzed Patagonia and its sustainable practices for Delegated Philanthropy. Lastly, I analyzed the Cummings Properties in Boston for Insider-Initiated Philanthropy. I chose these companies and initiatives for their brand recognition. In addition, these initiatives have been mentioned in previously published CSR reports for their socially responsible practices. They offer data and reports to better analyze how CSR can merge financial profits with ethical motives. I countered these with CSR initiatives that have not been as ethically driven or financially profitable to better understand the characteristics of CSR models that make some more successful in achieving these goals than others.

To most effectively analyze the myriad of case studies, I used some from a variety of already published studies. The Harvard Business School and the Haas School of Business, University of California Berkeley offer a wide array of accessible case studies. Other case studies were derived from company CSR reports. The majority of companies that engage in these sustainable initiatives publish yearly reports reflecting on their successes. Included in these reports are illustrations, graphs, and descriptions that positively display their social results from the past year. While many of these reports are often public relations reports and highlight reels, they provide an insightful first-hand look at the companies' goals, actions and results. However, due to their inherently positive designs, I critically examined the models, the goals, and the results. I compared these findings with the companies' overall profits to understand how the models affect financial outcomes. To do so I relied on company financial information, which I acknowledge includes bias, and supplemented it with secondary financial sources. By understanding the precise models used within each case study, I was better able to understand the successes and failures associated with each case. Following a critical review of the models, I compared the results – both financial and social – and indicated which CSR model I believe the research supports in best achieving economic and communal success.

Within the framework of these case studies, I evaluated the results of the initiatives through data analytics. Because I lacked access to detailed reports of companies' honest and transparent effects, I relied primarily on others' data analytics to inform my findings. I used the Reputation Institute's (RI) Global Corporate Responsibility RepTrak Study. RepTrak annually ranks companies by their CSR initiatives. RI is a research company that analyzes consumers' perceptions. In creating RepTrak, RI collects the rankings of 230,000 individuals regarding companies within the fifteen largest global economies. While it is a United States based company, it administers its survey globally. To ensure informed responses, respondents are required to be at least 20% knowledgeable of a minimum of five global markets. Respondents then rank the companies based on their global reputations and corporate responsibility metrics. The rankings quantify consumers' perceptions on corporate responsibility and company specific initiatives. RI publishes its annual report on these findings. The 2019 summary report was released in October 2019.

By combining secondary data analysis with my own primary analysis of data, I made educated claims and correlations about the findings. Further, while these rankings reveal some of the strongest CSR models, they do not outline the complete financial effects of the initiatives. In my analysis, I was thoughtful of both the financial practicability and ethical purposefulness embedded in each model. Because I argue for the feasibility of both of these properties, I ensured that the desired model encompassed both qualities. A CSR method that advanced a company's financial gains but violated individuals' rights was not be the preferred method. By addressing both of these aspects of CSR, I have provided support for a method that has the ability and potential to be adopted by a wide array of firms. When orchestrated with purposeful intentions, the method will effectively enable firms to increase their profits ethically.

While the greater analysis of these methods offers increase insight into a variety of methods, my analysis is not without its limitations. Primarily, I lacked access to large datasets that reveal the true financial gains from CSR initiatives and the ethics behind them. Companies are privy about their finances. They also are often not transparent when revealing the successes, failures and ethics behind such initiatives. I attempted to remedy this by supplementing my findings with those from RI but recognize this remains a limitation. In particular, while RI is a highly regarded source, it is not without its faults. In 2015, RI rated Volkswagen as the 11th Most Reputable Company globally even though only a short time later Volkswagen's name was marred in a scandal, which I discuss in the analysis. Even RI is not perfect. Its analysis was deceived by Volkswagen's actions. Therefore, while I used RI to supplement my findings, it also contained limitations. An additional drawback to my analysis is that my primary mean of estimating a firm's financial success was through stock prices. Stock prices do not reveal the entire story, however. Because of this, I accompanied my analysis with case studies from a variety of sources by published researchers. These professional case studies discussed the companies' finances in greater depth and offers a more complete financial view of companies.

**Analysis**

CSR's immense landscape has created a sector in which businesses have adapted so-called "sustainable" and "philanthropic" practices to their business models. This vast array of possibilities has also complicated the field. It has provided a platform for surface-face initiatives to be considered socially responsible and lessened the impact of positive initiatives. Because of this, my aim here is to understand some of the most high-profile CSR initiatives. In gaining a greater and more complete understanding of such initiatives, I have considered each initiative and its goals, its success for the community and the company in terms of profitability, and its ethicalness. To further the analysis, these individual initiatives have also been described in the greater context of CSR models.

The Shared Value Initiative

The *Shared Value Initiative*[6] describes its goal as encouraging company leaders to focus on "maximizing the competitive value of solving social problems in new customers and markets, cost savings, talent retention and more." ("About – Solving Societal Challenges Together"). This goal goes beyond the typical focus of philanthropy or environmental impact. Here, the emphasis remains on the importance of the business structure to help achieve solutions for social problems. In order to do so, the *Shared Value Initiative* outlines three levels necessary to achieve total

[6] The *Shared Value Initiative* is a "a community of leaders" working together to use their individual potential to create impact. https://www.sharedvalue.org/about/

shared value[7]. The first is reconceiving products and markets. This is “meeting societal needs through products and addressing unserved or underserved customers” (*Ibid*). The second is redefining the productivity in the value chain by “changing practices in the value chain to drive productivity through better utilizing resources, employees, and business partners” (*Ibid*). Lastly, companies must enable local cluster development by “improving the available skills, supplier base, and supporting institutions in the communities where a company operates to boost productivity, innovation and growth” (*Ibid*). Taken individually, these steps could be a part of any CSR model, but the emphasis on the entire business model, differentiates the model from others, and Nestlé has positively utilized it because of this.

Nestlé, a Swiss company, is one of the largest producers and distributors of food and beverages globally. In recent decades it has become one of the first corporations to champion for Creating Shared Value (CSV). Nestlé’s website describes that CSV is fundamental to for long-term financial success for the company, investors, and society. The company also believes that their “activities and products should make a positive difference to society while contributing to Nestlé’s ongoing success” (“Nestlé Needs YOUth, Our Global Youth Initiative”). Because of its presence as a multinational company, Nestlé has factories in 83 countries globally, many of which are in developing countries (*Ibid*). This affords Nestlé a platform to create initiatives in tune with its CSV initiative across the global. Some of its core CSV aims include water, rural development and nutrition. The company has worked to create initiatives that focus on these core areas in a variety of regions that are all region specific to work to improve life there.

One of its most prominent initiatives is the Global Youth Initiative (GYI). Nestlé launched GYI in 2017 to encompass its entire value chain. It aims to provide 10 million young

[7] Total shared value is the concept that all stakeholders – customers, employees, the environment, the financial profitability of the company, and more – can benefit from an initiative.

people worldwide by 2030 the opportunity to exercise their ambition through employment, agripreneurship[8], and entrepreneurship. Nestlé asserts on its website that not only will this initiative contribute to positive societal gains, but it will also generate positive financial returns to the corporation. Fortunately, Nestlé publicized its methodology notes in 2018 regarding this program, its impact, and its value for both society and Nestlé (Vionnet 2018). The hypothesized findings are promising, and the details below are based solely on this methodology.

Nestlé will undergo cost savings and increased productivity value. With agripreneurship, or farming entrepreneurship, Nestlé estimates that the world could experience an increase income of 46,780 CHF/agripreneur over 20 years (Vionnet 2018)[9]. With Nestlé's increasing focus on promoting farmers through training, coaching, and specific support, such as access to materials and loans, Nestlé anticipates that 4,5000 agripreneurs will be created. Therefore, human and social capital will be greatly increased globally. Further, Nestlé will benefit from the agripreneurs because they will reduce the company's cost of sourcing of commodities by 2%, or 88.4 CHF/farmer. This is directly related to operating profit and Nestlé estimates that it will increase to 381 CHF/farmer over five years (*Ibid*). Nestlé anticipates realizing direct gains from these future agripeneurs.

Nestlé also expects cost savings to accrue from the apprecentices, trainees, interns and employees it hopes to inspire. It will save because it believes young employees who enter into this program will stay on average three times as long as normal hired employees. This avoids the hiring and training costs associated with high turnover rates amongst employees. Further, because these employees will be trained from an early age, their education and experience will

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[8] Agripreneurship, or agricultural entrepreneurship, is the entire value chain of the farming business.
[9] CHF is the currency abbreviation for Switzerland's currency, the Swiss franc. Today in 2020, 1 Swiss Franc is equivalent to $1.03 USD. Therefore, this equals $48,283 USD.

translate to direct savings. In total, between all of these savings, Nestlé proposes a savings of 2,000 CHF/trainee (Vionnet 2018). These are substantial savings that contribute directly to financial profit for the company. It is important to note, however, that Nestlé does not provide an estimate regarding the costs to implement such a program. Because of this, it is unclear what the true net value will be, but the company certainly is advertising the profitability of such a program.

While we do not have Nestlé's specific figures, Rubén Hernández-Murillo and Christopher Martinek published the report "Corporate Social Responsibility Can Be Profitable" (2009) for the U.S. Federal Reserve Bank of St. Louis that outlines how CSR can allow "corporations to embrace responsibilities toward a broader group of stakeholders (customers, employees and the community at large) in addition to their customary financial obligations to stockholders" (Hernández-Murillo and Martinek, 2009). This aligns with my previous research on CSR's potential benefits, and also supports Nestlé's decision to implement GYI. Nestle's GYI will enhance its reputation as one of the world's largest food conglomerates. By investing back into the community, Nestlé will work to make more meaningful and more long-lasting connections with their consumer base.

Currently, Nestlé's published reports regarding the GYI are extremely promising. However, when reading any CSR report, it is important to be critical. The numbers provided in the Methodology report are only estimates. The GYI only began in 2017 and the company has not provided an update on the progress of the program due to its recent implementation. Further, the Methodology report was published by Christian Frutiger, Nestlé's Head of Public Affairs, and Duncan Pollard, Nestlé's Head of Sustainability and Stakeholders Engagement. Therefore, it is important to note that this report was created to positively showcase Nestlé and must be analyzed critically. However, Nestlé's detailed report provides great insight.

The company acknowledges the importance of the program to society and the company. The GYI aims to improve society by providing young famers and entrepreneurs with the resources to improve their lives. This impact on self-motivation and success is vital to for future self-sustainability. Further, the GYI incorporates these societal gains to Nestlé's financial gains. RepTrak ranked Nestlé as the 89th most reputable global company based on its performance in CSR and considers its initiatives to be "strong," the second highest honor on a five-scale ranking (Reputation Institute). Nestlé's implementation has the potential, and is projected, to greatly increase the company's firms, in an ethical and community centered way.

Nestlé needs this positive brand reinforcement. In 2020 author Mihai Andrei published "Why Nestlé is one of the most hated companies in the world." Much of the article traces Nestlé's history through a number of scandals including its aggressive advertising techniques of its baby formulas in developing countries, its bottle water production in the face of droughts, its use of child labor, abuse, and trafficking, its health threats associated with its products, its pollution, and its price fixing (Andrei, 2020). Therefore, in the current times, it does not appear that consumers believe Nestlé's altruistic side of its operations. One challenge Nestlé faces is its enormous product base. For instance, Nestlé's use of palm oil from Indonesia has been greatly criticized, as Amnesty International reports. Indonesia's largest palm oil grower, Wilmar, has been accused of multiple human rights violations, particularly for its use of minors in hazardous conditions. Nestlé, as well as other multinational corporations, including Kellogg's, Procter & Gamble, and Unilever, have been accused of ignoring workers' exploitation in their supply chains ("Palm Oil"). The companies state that their products are made with "sustainable palm oil," but the working conditions to produce this palm oil is anything but sustainable (*Ibid*). While Nestlé has acknowledged that some of its products contain this palm oil, it has not announced what, if any changes, it will put in place to stop this exploitation of labor (*Ibid*).

An additional accusation against Nestlé is that it "Got Brazil Hooked on Junk Food," detailed by Andrew Jacobs and Matt Richtel (2017) of the *New York Times*. In order to reach new markets in Brazil, Nestlé hired door-to-door vendors to sell packaged foods, many of which contained pudding, Kit-Kats, and cereal. While this helped Nestlé financial growth, its effects on Brazil have been destructive. Today there is a "new epidemic of diabetes and heart disease, chronical illnesses that are fed by soaring rates of obesity in places that struggled with hunger and malnutrition just a generation ago" (*Ibid*). These "cheap" food options have upended centuries of traditional meals. While Nestlé proclaims it has helped "alleviate hunger and provide crucial nutrients," even Sean Westcott, Nestlé's head of food research and development, "conceded obesity has been an unexpected side effect of making inexpensive processed food more widely available" (*Ibid*). Nestlé has expanded its products available to these rural communities to include healthier options, however, many customers remain solely interested in its products laden with sugar. Money continues to talk in Brazil with increasing sales for Nestlé, but as this continues, so too do the rising obesity rates and negative publicity for Nestlé. Nestlé must continue to work on its practices to be seen as a socially responsible corporation.

Win-Win

A second model of CSR is win-win. In short, this model advocates that companies do well by doing good (Bénabou and Tirole p. 9). Businesses act in the best interest of society and financially benefit simultaneously. In many ways this is quite similar to the Shared Value

Initiative. The primary difference between the two is that the win-win method does not require a total overhaul of the business. It can be incorporated into an individual initiative, whereas the Shared Value Initiative encapsulates the business' entire philosophy. Therefore, win-win is easier to implement in the short-run when business executives only have to focus on a singular project. One positive example is Hindustan Unilever's (HUL) Project Shakti in India.

Unilever began Project Shakti in 2001. The primary goal of the project was to empower rural Indian women and increase profits for the company. Shakti is a Hindu word that translates to "power" or "empowered" ("Expanding opportunities"). Unilever redesigned its routine wholesaler-to-retailer distribution model to better reach remote villagers in India (Rangan et al.). To do so, Unilever recruited village women, known as Shakti 'ammas' or mothers ("Expanding opportunities"). The women were trained and given access to microfinance loans to become more financially independent. The women then went door-to-door throughout their villages selling soaps, detergents and other hygiene products. Unilever greatly profited. It reached villages and villagers that it once had limited access to. In 2015, Unilever expanded the program to equip women with smartphone apps to help them manage their inventories and businesses (Mahajan 2016). From Project Shakti, Unilever enjoyed more than $100 million in sales (Rangan et al.). These sales were previously nonexistent, but now with Project Shakti, Unilever enjoys access to these markets and this enables business growth ("Expanding opportunities"). This was a direct result of the more than 97,000 women recruited to Unilever by 2018 serving more than 165,000 villages (Rangan et al.). These women not only offered financial benefits to Unilever, they also offered social benefits to their communities.

Unilever's venture into rural Indian villages greatly increased access to hygiene products. This benefited public health and increased sanitation. Further, by recruiting women specifically, average household incomes have nearly doubled in the Indian villages. Further, by providing women with their own income and access to microfinance loans, Unilever was supporting female empowerment and female financial independence. Unilever finds that "by narrowing the gender gap in employment in emerging markets, income per capita could rise by as much as 20% by 2030" ("Expanding opportunities in our retail value chain"). One Shakti amma, Maharashtra describes her experience on Unilever's website detailing Project Shakti:

> "My contacts have increased. I was not social but now I speak to many ladies and I share information with them as well. Now people know me. I have an identity in society. We normally can't go out but because of this program, I can go out now. I get to know many people. It's like a designation to me in society. My credibility has increased in society. People know me now." – Shakti amma, Maharashtra

Unilever found this to be a resounding opinion amongst many of the women when the company partnered in 2017 with Kantar Public a research agency to analyze the impact of the program. Women stated that the program "enhanced their monthly income, leading to an increase in spending capacity, and also improved their financial decision-making ability," "helped women to increase their confidence, self-esteem, negotiating skills, communication and engagement capabilities, and supported the development of the entrepreneurial mind-set needed to run a business" ("Expanding opportunities in our retail value chain"). In addition, in a 2018 survey with Acumen of 204 female participants, 48% reported improved income, 39% reported access to high-quality products for the household, and 11% reported access to a more robust social and professional network (*Ibid*). These are extremely valuable and important societal changes. The Project respected women by offering them the opportunity and the resources to join the program, and in turn, Unilever and the participants gained tremendously.

Project Shakti is an example of Unilever utilizing the transformative business model. Rangan et al. describe the transformative business model as the use of business to address pressing social challenges. Project Shakti was originally created with rural Indian villages as the sole market. This allowed Unilever to specifically tailor the project to the region. Unilever has now broadened the program to other countries and tailored it to China, Bangladesh, Indonesia, Pakistan, the Philippines, Vietnam, Ethiopia, Nigeria, and Egypt (Mahajan 2016). Unilever's willingness to adapt its business model, programs, and initiatives using the Win-Win model highlights the effectiveness of the model. Unilever benefited from several things when implementing the program. For one, Unilever is the producer of a large basket of goods that are easily transportable. Second, its chairman and board were heavily involved in the beginning stages of Project Shakti's implementation. Finally, Unilever strategically used technology to design a supply chain and sales network for its sellers (Narsalay et. al, 2012). Accenture, a global management consulting, technology, and outsourcing company, cites that it is for these reasons that Unilever was able to become "India's largest fast-moving consumer goods company" (*Ibid*). Further, Accenture estimates that Unilever has sold products to two-thirds of all Indians (*Ibid*). Unilever has been able to take complete control over the Indian market because of its careful implementation. Both Unilever and its rural Indian consumers have greatly benefited from this partnership.

Critics, however, have condemned the company for using developing markets grow its brand. Lawrence (2011) criticizes Unilever's "small army of door-to door vendors selling to low-income villages in India and west and east Africa" as using the world's poor to be its "vehicle for growth." Others have criticized Unilever for separate practices. In 2011, the *Irish Times* reported that Unilever paid its female workers in Kenya a measly three euros, or $4.15 per day (Murdock

2017). Not only was this less than a livable wage, the female workers had to sacrifice their earnings avoid sexual harassment from their supervisors (Borelli 2017). In 2014, Sri Lanka's *Daily Mirror* reported that Unilever purposefully sourced tea from Indian producers that employ individuals under consecutive, short-term contracts. This allows the producers to lower their costs because they do not have to pay pension- and health-benefits (Murdock 2017). In 2016, Unilever settled with 600 workers in India who experienced mercury exposure near a Unilever owned plant. The complainants discovered that the mercury exposure negatively impacted their health in many ways and were directly impacted by Unilever's carelessness regarding its production at its plant (*Ibid*). These events were all ongoing as Unilever CEO Paul Polman preached that his motto was to "galvanize our company [Unilever] to be an effective force for good" (Borelli 2017).

Yes, Unilever positively used the win-win model to base its Project Shakti, yet, has failed in many other ways. Unilever thus can be seen extremely positively by some, and so negatively by others. RepTrak ranked Unilever as the 97th most reputable global company based on its performance in CSR (Reputation Institue). This highlights one of the many complications RepTrak faces. Corporations are not single-faceted, and neither are there operations. Unilever should be judged for its positive and negative work. It has not convinced consumers that it is an inherently socially responsible corporation. Unilever positively created a Win-Win initiative with Project Shakti, but this does not excuse its faults.

<u>Delegated Philanthropy</u>

An additional model of CSR is delegated philanthropy. Corporations engage in delegated philanthropy when they act as channels of expression for the stakeholders. In this model, stakeholders are willing to forego some financial benefits to further social goals (Bénabou and Tirole p. 10). This is a direct rebuttal to Milton Friedman's critique earlier against corporations spending stakeholders' money. Here, stakeholders actually push for corporations to engage in socially responsible activities because it is often easier and more efficient for large firms to do so than individuals. This is due to high levels of asymmetric information that make it challenging to decipher the positive initiatives from the deceitful ones (Bénabou and Tirole p. 10-11). Further, when corporations tackle environmental challenges, they can do so on a much larger scale than individuals can (Bénabou and Tirole p. 11). While the government controls taxation, education, social programs, and more, that can allow for implementation of societal changes, there is a push from consumers to urge businesses to do so as well. Consumers feel a part of the cause when they support corporations that have values and initiatives that align with those of their own. This push also demonstrates the rise of corporations in consumers' lives and the importance they can play.

A company that strongly emphasizes this sort of delegated philanthropy is Patagonia. Patagonia products, customers, and investors embody the catalyst against climate change, and the company desires to be the leader in this crusade. Patagonia was founded in 1973 with a mission to "build the best product, cause no unnecessary harm, use business to inspire and implement solutions to the environmental crisis" (Kammen et al. p. 2). It has incorporated this philosophy into its entire value chain. For example, it uses renewable energy at Patagonia owned and operated facilities (Kammen et al. p. 1). In 2011, Patagonia became a Certified B Corporation, a high distinction that describes a "a for-profit company that meets 'rigorous standards of social and environmental performance, accountability, and transparency'" (Kammen et al. p. 2). In 2012, Patagonia furthered its efforts and was the first company to register as a benefit corporation in California. A primary characteristic of a benefit corporation is that the business executives must consider the non-financial interests of all stakeholders, including investors, company employees, employees of subsidiaries and suppliers, the environment and more (Kammen et al. p. 2).

One really interesting aspect of Patagonia's innovations is the company shares its sustainable adaptions with the world. Therefore, after developing new environmentally-friendly materials and/or processes, Patagonia reveals them after only one year, and chooses to forgo long-term exclusivity and a competitive advantage over these other firms. Kammen et al. explains two reasons for this decision. One is that Patagonia believes in its mission to protect the environment. Because of this, the more firms utilizing these sustainable practices helps preserve the Earth. The second reason is a more pragmatic business decision that underlines the importance of sound business decisions to ensure a company's longevity. Patagonia releases the information because it helps reduce its costs. As the demand grows for these sustainable materials and processes that Patagonia developed and desires, the supply increases and so too do the costs. By publicizing the information, Patagonia ensures its financial security all while performing business sustainability and protecting the environment.

Even Patagonia's efforts are not without faults. For one, Patagonia does not own many of the facilities in which it produces its products. While this may be a smart financial business move, it also ensures that the company has limited control over the practices in these facilities.[10] The factories in Asia offer an especially strong obstacle as their primary source of energy is coal and fossil fuels (Kammen et al. p. 2). An additional problem is the use of exploited labor in

[10] In my research, I was unable to find detailed information regarding Patagonia's factories and the practices used within these factories. I am also not aware of the contracts between Patagonia and the factories and therefore do not know the specific of the agreements. Patagonia may have more or less control of the factories than I am giving them credit for.

factories. Gillian White (2015) of *The Atlantic* argues that even with the Patagonia's best intentions to stop human trafficking within its supply chain, it struggles to do so. In 2011, internal audit reports described human trafficking, forced labor, and exploitation in its production of clothes, as reported by Cara Chacon, Patagonia's director of social and environmental responsibility, and Thuy Nguyen, its manager of supply chain social responsibility and special programs (*Ibid*). Patagonia's primary challenge is that this exploitation occurs in the mills that produce the fabrics from raw materials. These mills are not Patagonia's first-tier suppliers, but nonetheless are part of its supply chain and important to its business. Patagonia's admission is a reminder how challenging it is to create a complete CSR delegated philanthropy. These fractured supply chains owned by multiple companies makes it challenging for corporations to enact total changes.

A second consideration here that Sonya Hetrick, a sector analyst for the Sustainability Accounting Standards Board (SASB) warns of is that there is a point when reducing carbon emissions begins to cost money. "The benefits at that point become much more intangible. They can brand themselves to consumers or to their employees, but they're probably not actually saving money at that point" (Kammen et al. p. 20). Patagonia, however, excels in this area. Its customers demand this sense of environmental concern. In 2011, Patagonia procured a full-page advertisement in the New York Times that said, "Don't Buy This Jacket" (Beer 2018). Under this headline was one of the company's easily recognizable fleeces. While an odd sight at first, Patagonia was encouraging customers to repair and reuse their already existing Patagonia clothing. This campaign was known as the Common Threads Initiative and was incredibly successful. In 2012, sale increased by 20%, up to $540 million (Beer 2018). Patagonia was advertising an anti-consumerist message, yet consumers were flocking to its products. They liked the feeling of financially backing a company that stands for sustainable practices. While this may can be seen as incredibly creative and successful advertising, Patagonia showed in the following years that it was not, it meant more to them than solely profits.

In November 2016, Patagonia announced that all its sales from Black Friday would be donated to charity (Gibbs, 2016). 100% of its sales on arguably the biggest shopping day of the year were donated to charities and organizations that benefit the environment. Patagonia originally estimated that it would see sales of $2 million, but the result was record-breaking sales for the company of $10 million. All $10 million in sales, both retail and online, were donated to grassroots organizations. Rose Marcario, Patagonia's CEO, called it its "fundraiser for the earth" (Marcario, 2016). The company saw donating to local organizations as an opportunity to "defend policies and regulations that will protect wild places and wildlife, reduce carbon emissions, build a modern energy economy based on investment in renewables" (Gibbs, 2016). While this was a one-time event, Patagonia donates 1 percent of its total annual sales to these environmental groups. In total, Patagonia has donated $100 million to thousands of grassroots groups (Semuels, 2019). These initiatives have sold consumers on Patagonia as a socially responsible company, yet the company continues to profit.

In the past decade, sales have quadrupled. Thousands of high-achieving students and workers are applying to work at the company's headquarters. Patagonia focuses on sustainability and also offers employee perks (*Ibid*). One of the main reasons Patagonia has successfully achieved this success is that environmental activism has been a core quality of the brand since its inception. It has operated a repair center since the 1970s, it launched a venture capital fund to invest in environmental start-ups, and it has worked to make environmentally-friendly materials for its clothes (*Ibid*). Patagonia's constant social and environmental work has served the environment, its customers, and itself quite well since 1973. Patagonia showcases consumers' desires to feel like their voices are being heard. Consumers with an interest in sustainability turn to Patagonia to be environmentally friendly on a greater scale. Patagonia in turn experiences positive financial gains. Delegated philanthropy is a growing field because of these things (Bénabou and Tirole p. 9).

While Patagonia has used its platform to effectively redesign aspects of its production model, not all "sustainable" companies have done the same. One example of poor and deceptive CSR marketing is Volkswagen, a leading car company that used propaganda and deceit to propel its ascent to the number one car manufacturer in the world. Its scandal has been dubbed the "diesel dupe" (Hotten 2015). In 2015 it was revealed that Volkswagen purposefully installed a "defeat device" in 11 million cars sold to consumers. The device allowed the cars to detect when they were being tested and thus change the performance of the diesel engines. This enabled the cars to be characterized with low emissions, even though they were emitting pollutants as high as 40 times the amount allowed by the Environmental Protection Agency (EPA). Volkswagen successfully advertised their "clean diesel" cars and profited. In 2015, the company became the world's number one car maker in 2015, beating out reigning champion Toyota (Kaye 2015). Consumers flocked to the company based on this environmental claim hoping to save money in gas with diesel engines all while being more socially responsible. Even RepTrak ranked Volkswagen 11th on its Most Reputable Company measure (Kaye 2015). This reveals the harmful effects of this dreadful deceit and also the importance of critically analyzing all published information, even from credible sources.

When the scandal broke in September 2015, Volkswagen responded swiftly in an attempt to save face. The company's CEO, Martin Winterkorn resigned immediately, and Michael Horn, executive of the United States operations admitted, “we’ve totally screwed up” (Hotten 2015). The use of CSR as a marketing tool not only damaged Volkswagen image and profits, but also the surrounding environment. This deception is one of the primary problems critics have against CSR. This CSR was based on theatrics, not tangible results (Kaye 2015). Companies are continually trying to advertise themselves as “sustainable” and “responsible” to gain a competitive edge in the marketplace. This can have dangerous effects, however, many of which were poignantly displayed in this scandal. Volkswagen’s delegated philanthropy was a scam. It promised consumers low emissions cars, but delivered something much less, purposefully.

Insider-Initiated Philanthropy

Lastly, one of the most criticized models of CSR is insider-initiated corporate philanthropy. When corporations engage in this, they are listening only to the executives’ philanthropic preferences (Bénabou and Tirole p. 9). This is when corporate prosocial behavior reflects the desires of the boards’ or managers’ wishes, not necessarily those of the stakeholders. This is an interesting model to consider because it receives a lot of negative press. Porter and Kramer (2002) argue that these “contributions often reflect the personal beliefs and values of executives” and therefore are deserving of the claims that the contribution programs are diffuse and unfocused.

One particularly polarizing example is when corporations become involved in politics. In 2014, Monsanto, an agriculture company, established a charitable foundation and donated money to the University of Northern Iowa. While beneficent at first glance, a trustee of the university was Charles Grassley, a Republican Iowa senator. Economist Raymond Fisman does not view this charitable contribution and others like it positively. He explains that executives use these charitable foundations as a "form of tax-exempt influence seeking…7.1 percent of total US corporate charitable giving is politically motivated" (Goldberg 2018). In turn, these charitable contributions carry weight, especially in a political atmosphere where money is power (Goldberg). The contributions are, in a sense, political lobbying. This form of CSR is not ethically increasing profits. It is relying solely on the values and beliefs of those heading the top of the business ladder. Further, it is not evident whether these contributions positively increase the financial standing of the entire firm or just the pocketbooks of the executives.

Therefore, while the above-mentioned traditional approach to charitable giving designated by top business executives does not align with the CSR ideals of this paper, Cummings Properties, a commercial real estate company, has attempted to redesign the landscape. Cummings Properties has introduced employee-directed giving (EDG) designed to allow its 370 employees to provide a direct donation of $1,000 to a non-profit of their choosing (Guillette 2015). From the EDG program, non-profits in the Boston, Massachusetts area have received $1,068,000 since 2012 (Guillette 2015). The financial benefits to Cummings Properties are not quite as clear, though studies do link employee philanthropic engagement to increased worker productivity. Greater human capital results in greater profits for the firm. Further, Dennis Clarke, president and CEO of the EDG program, marvels that "with employee-directed giving, there's a broader purpose to show up at work, with a different kind of tangible result – it's an extra reason to feel good about what they're doing here" (Guillette 2015). The surrounding community also takes note and the program has enabled the growth of connections within Boston (Guillette 2015). It is this form of insider-initiated philanthropy, from the bottom-up, and not the top-down that will help the field expand positively.

**Conclusion**

All four of these CSR models reveal the benefits CSR can serve the company and the greater environment. However, it is vital to note that the information provided here is asymmetric. Companies camouflage their true successes and failures, their financial gains and losses, and their ethical motivations and hinderances to only highlight the positive. Further, this is only a small screenshot of the indefinite number of CSR initiatives currently in use. The immense nature of the field means that companies can truly dictate their initiatives – good or bad.

An additional caveat is that some additional literature presents the importance of industry. Certain industries are able to explore some of these CSR models more easily than others. Therefore, a possible extension of this paper would be to understand which models of CSR fit best with which industries. This extension would allow these findings to be even more accessible and adaptable to firms looking to grow their CSR presence for financial and ethical reasons.

With all of this being said, the research I have presented does indicate the importance of CSR, when implemented and executed correctly. In particular, my analysis suggests that the Shared Value Initiative provides the greatest financial and ethical backing to companies' CSR initiatives. This is for a couple of reasons. The first is that the Shared Value Initiative encourages a total overhaul of the business. This ensures that the entire business, from employees, to products, to stakeholders, and more, all understand the premise of the organization. By encouraging training programs for young workers, Nestlé is developing a strong culture in the organization. This will help attract and retain hard-working and loyal employees and will results in strong work. Second, the Shared Value Initiative is best able to provide positive gains to the company and the surrounding environment. Nestlé's GYI provides the greatest positive externalities to the communities. By sponsoring education through entrepreneurship and agripreneurship, Nestlé is helping to foster independence for these young individuals. In turn, the company will experience positive financial gains from these newly developed connections and the partnerships they can create with these new farmers. Further, these newly developed and supported farmers will strengthen their own communities that will then in turn purchase Nestlé's products. While it is still too early for Nestlé to realize its complete financial gains from GYI, the years to come should positively reveal them.

While the Shared Value Initiative offers the greatest financial gains, all four of the models presented in this paper can help firms profit ethically. The most important aspects are the intentions of the business, the implementation and considerations regarding the models, and the dedication the firm has to seeing the initiative succeed. CSR initiatives can go down a variety of paths; and not all are good. However, the case studies and suggestions provided above offer ways for all corporations to build their CSR platforms ethically.

One of the most important takeaways from this research is that it is vital to have support from the leading executives. Both Hindustan Unilever and Patagonia prominently feature their top executives as being the leaders for change. For Patagonia, this all began with their founder and has continued. Patagonia has benefited from this constant emphasis on sustainable practices and newly-created companies can learn a lot from this. By developing a company centered around particular causes, consumers are able to associate with them. Patagonia's customers cherish the brand for its devotion to sustainable and well-made clothing and it has become one of the companies leading principles.

While the world is always changing, so too are corporations. They are constantly trying to find advantages compared to their competitors. What this research has emphasized, however, is that doing well – financially – can actually arise from doing good – for others. While the research strongly supports this, the field of CSR will always have its critics.  It is an intricate combination of business and charity. It is uncomfortable. It mixes business and cold hard numbers with altruistic ideals. Further, companies do not always do it well. They often have ulterior motives and are only in it for their bottom lines. However, many companies can do it well, and some have. When thinking of CSR remember Patagonia *and* Volkswagen. Consider the incredible work of Nestlé and Hindustan Unilever, but also their faults and scandals. CSR is not perfect, but that does not mean that it cannot accomplish good for the corporation and the greater environment. In fact, it already has.

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