

Article

Efficiency and Sustainability of CSR Projects

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Abstract: The progressive expansion of Corporate Social Responsibility (CSR) has been accompanied by an increasing interest from regulators and market analysts. Governments and supra-national organisations have issued guidance rules on CSR, while market analysts have created a set of gatekeepers focused on its evaluation, publishing rankings and comparative reports. The UN Global Compact and the sustainability indexes are two relevant examples. The complexity and some of the functions of this CSR infrastructure have common features with the financial system. Information is at the core of both. The distinction between information and noise is central for building up efficient financial markets. The aim of this paper is to analyse how information can be separated from noise in CSR. To this end, we develop a qualitative model that centres on the following variables: the CSR features of the project under consideration, its financial features, its relationship with corporate strategy, the performance metrics for its analysis, the different kinds of risk it involves, and its impact on value creation. This model relies on two common functions that we identify in the CSR infrastructure and the financial system: the defining function and the performance information function. The model is applied to Adidas' CSR policy.

Keywords: CSR; informational efficiency; sustainable projects; Global Compact; Adidas

1. Introduction

Corporate sustainability is based on three pillars: environmental, social, and financial. Environmental and social pillars constitute the core of Corporate Social Responsibility (CSR) which goes beyond the legal requirements about environmental and social duties. Financial sustainability, to the extent that it is incorporated into the stock price, is the unique one of the pillars that is traded on the market. Thus, it benefits from careful regulation and detailed information furnished by corporations, stock exchanges, and analysts. The reliability of this information and the quality of the market performance have received wide academic and practical attention through the framework of efficient market theory. CSR is not subject to this accurate degree of analysis, although different public and private institutions have issued guidance rules about it. The comparison between the attention that public institutions pay to CSR and to financial sustainability through the lenses of market efficiency theory enlightens the relevance of contrasted information on CSR and the links to corporate and social value creation. Generating information directed to a complex audience, such as stakeholders, requires an accurate use of marketing techniques. The social relevance of CSR cannot be conceived without a constant and efficient marketing policy on sustainability developed by corporations, institutions, and Non-Governmental Organisations (NGOs). It can be regarded as a successful outcome of what Kotler and Zaltman [1] called social marketing. The Cone Communications CSR study [2] points out that 71% of US Millennial generation members “expect businesses to continue improving their CSR effect”, while 63% of US “citizens are hopeful business will take the lead to

drive social and environmental change moving forward". This report also signals that consumers strongly support social and environmental corporate initiatives, and underlines their requirement for corporations promoting social justice. Kotler and Lee [3] already quote earlier issues of this study (at that time, Cone and Roper) as a relevant reference on information about CSR.

The analysis of the trading of financial securities has led to building up market efficiency theory and to turn its principles into real features of the financial market. Fair prices are the defining feature of an efficient financial market. These prices are based on reliable, contrasted, and easily available information. Nevertheless, market efficiency is not a direct consequence of free competition. Instead, it can be regarded as the outcome of the interaction among regulators, corporations, gatekeepers (rating agencies, market analysts, auditors, among others), and investors, in the framework of the financial system. Regulators, apart from designing the rules that guarantee free competition, decide the information that corporations and organised markets must publish and how it is to be controlled. Corporations, in turn, publish the required information and add to it the complements they estimate necessary for the correct valuation of their securities. Analysts, investment managers, and investors assume the important role of separating noise from information. All in all, the interaction of the trading rules with publishing information and its analysis leads to the valuation of corporate common stocks that can be assimilated to the valuation of corporate financial sustainability and value creation.

Although there is not a specific market for CSR, corporate projects focused on environmental and social sustainability can be regarded as an outcome of the interaction between the demand from stakeholders and the supply by corporations. This interaction does not directly create a price, but it has relevant consequences on corporate risk and return, and, of course, on sustainability. The generalised societal demand of CSR, together with the need of differentiating CSR from pure marketing projects, has led public institutions to issue guidance principles on CSR. At the same time, gatekeepers specialised in CSR have emerged with the purpose of analysing the adequacy of CSR projects to the goals of sustainability and their performance. Together, regulators of CSR and gatekeepers have created a framework that parallels the financial system, and that can be called CSR system. In the framework of this CSR system, marketing techniques play a central role. Corporations ought to demonstrate their contributions to environmental and social sustainability, and, at the same time, their contribution to financial value. As justified in the next section in the literature review, over the years, consumers have improved their critical capacity for analysing corporate projects. Thus, a high rigour, compatible with a direct communication capacity, is expected of CSR reports. Public institutions that issue guidance rules on CSR, such as UN Global Compact, also need an excellent marketing management because a central difference between the financial system and the CSR system is the compulsory character of the rules issued by the former, while the rules issued by the latter are at the level of recommendations. Not surprisingly, marketing campaigns are necessary to promote their implementation.

This paper aims to explore the essential features of the CSR system, to analyse how it contributes to separate information from noise on CSR, and which tools it has developed to extend informational efficiency to CSR through the analysis of the projects in this field. To this end, it focuses on answering two questions:

- How do the market in general and investors, in particular, manage to separate information from noise on CSR?
- Which is the appropriate framework to extend informational efficiency to CSR?

The separation between information and noise has been developed mainly in the field of finance. Thus, to answer the first question, we proceed to examine the information function of the financial system, and, next, to extrapolate it to the CSR system. This analysis shows that the CSR system provides the information needed to define the requisites that a project must fulfil to be accepted as a CSR initiative, and to measure its performance from the points of view of environmental and social

sustainability. To extend informational efficiency to CSR, the information provided by the CSR system and corporations themselves has to be adequately structured according to the variables that determine the nature of the project and its effects on environmental, social, and financial sustainability. To that end, this paper presents a model for structuring the information on CSR projects, by defining their central variables and the most relevant questions for each one of them, complementing the point of view of CSR with financial sustainability. This model selects the most relevant questions about the specific case of CSR under analysis, and answers them using the information available provided by the CSR system and the corporation itself. In brief, the model aims to support the methodological synergy that stems from uniting analysis and synthesis. It can be applied to specific projects or the complete CSR policy of any corporation. As a case study, we apply it to Adidas. The reasons for choosing Adidas are the ample information it publishes on its CSR policy, its big supply chain mainly placed in emerging economies, and the sensitivity and resilience it has shown concerning criticism. The paper draws three main conclusions. First, the analysis of the parallelism between the financial system and the CSR system, stressing the roles of the latter in the definition of CSR and the measurement of its performance. Second, the model to synthesize the sustainability features (environmental, social, and financial) of CSR projects. Finally, the study of Adidas' CSR policy through the application of the model previously built up.

The paper is structured as follows. Section 2 is focused on the literature review. In Section 3 we revise the relationship between the financial system and informational efficiency on the financial market, distinguishing the defining function of the traded assets from the information function about their performance. It constitutes the basis for the exploration of the CSR system developed in Section 4, where the separation between the defining and information functions is applied to CSR. Section 5 builds up a model about how the CSR system contributes to the efficiency of CSR projects. Section 6 presents a case study, and Section 7 closes the paper by discussing its results and limitations.

2. Literature Review

Waddock [4] studies the growing institutional infrastructure for CSR (Waddock prefers the denomination Corporate Responsibility to the most extended Corporate Social Responsibility), distinguishing three main projects: Market/Business-Sector, Civil Society Institutions, and State/Government-Sector. The Market/Business-Sector project includes the principles that define what is accepted as CSR, and also the principles of information and assurance, plus the role of consultants, analysts, and the responsible investment movement. The Civil Society projects include the private politics of NGOs and media focused on CSR (literally, journals and magazines in the article (Currently should be adapted by incorporating the Internet)). The State/Government-Sector projects consist of the governmental legal regulation of CSR and sustainability. Moon and Vogel [5] signal that governments encourage CSR as a new form of corporate governance, regarding specifically the government as a driver for CSR (p. 312) and underlying the fact that CSR cannot be viewed without considering the active role of governments in encouraging it.

Salvioni et al. [6] show how sustainability promotes the convergence of different corporate governance systems, concluding that the basis for long term corporate sustainability is twofold: to be trusted by stakeholders and to manage the corporation with a long-run perspective. These authors also recommend integrating into the regulatory CSR rules the experience of the best corporate practices. Gjolberg [7] centres on the fundamental complementarity between soft civil regulation, i.e., the demands from private politics, and hard government regulation. She also highlights the corporate attempts to influence both sources of regulation. Gainet [8] studies the impact of legal systems and financial structure on European CSR. She concludes that legal systems have a relevant influence on Corporate Environmental Responsibility, but not on the other areas of CSR. Osuji [9] points out the complex nature of the relationship between law and CSR, focusing on the legal nature of CSR as a governance mechanism to correct externalities. Nam [10] studies the CSR infrastructure under the denomination of CSR system, analysing the centrality of different organisations in it.

Kocmanová et al. [11], departing from the Sustainability Value Added model by Figge and Hahn [12], build up a model that measures the Corporate Value Added that integrates into the economic value the effects of environmental sustainability, social sustainability, and corporate governance. As these authors point out, this quantitative model has a close relationship to the concept of shared value created by Porter and Kramer [13].

Corporate communication on CSR has strict connections with corporate communication and marketing policy. Corporations must expect that the information they issue on CSR will be carefully revised by stakeholders. Wagner et al. [14] find out that consumers are very sensitive to what can be perceived as hypocrisy in CSR reports, especially in the case of proactive communication strategies. Van de Ven [15] studies the requirements that CSR marketing campaigns must fulfil from the point of view of ethics, stressing that they must avoid insincerity, which is measured by the gap between promise and performance. Corporate marketing cannot put aside sustainability requirements. Kotler [16] points out that the challenge of environmental sustainability requires adapting marketing corporate policies to the new setting, in particular by incorporating social marketing and demarketing (i.e., promoting energy and water resource savings). Hildebrand et al. [17] conclude that marketing strategies based on CSR lead external and internal stakeholders to become identified with the corporation, mainly if CSR activities comprise the entire company. An appropriate marketing management of CSR can be seen as one of the keys to obtain a positive impact of CSR on financial performance. In this respect, Mishra and Modi [18] find a positive impact of marketing capability on shareholders achieving positive returns from CSR. Furthermore, marketing capability responds differently to different CSR types, showing positive effects for sustainability initiatives and becoming nil for charitable giving.

3. Financial System, Market Efficiency and Financial Sustainability

The existence of an efficient capital market requires a well-designed and well-functioning financial system. Bodie et al. [19] define the financial system as “the set of markets and other institutions used for financial contracting and the exchange of assets and risks”. As these authors point out, the financial system “includes markets, intermediaries, advisory firms, and the regulatory bodies that govern all these institutions”. A central function of the financial system is to provide information about the assets traded on it (Merton [20] defines the core functions of the financial system. Among them, he includes providing price-information plus a way of dealing with asymmetric information and incentive problems). We can subdivide it into:

- (a) Defining function: the risk and return features and the political rights of the assets and financial instruments traded on the market must be clearly defined and known by investors.
- (b) Performance information function: reliable information about the assets and financial instruments must be available to all investors.

The performance information function includes not only the evolution of prices but also the additional information and analysis from gatekeepers, namely, rating agencies, market analysts, and auditors. This function consists of generating contrasted and analysed information about corporations and the securities they issue, plus information about market trading and market statistics. On this basis, fair prices can be established through the interaction between supply and demand. It is central for reaching market efficiency, namely a well-functioning financial system.

Financial regulation aims to guarantee that corporations, investors, and the whole society can trust the financial system. Deakin [21] enumerates the objectives of financial regulation: support financial stability, promote market efficiency, guarantee transparency and integrity, and protect consumers. Therefore, as this author points out, regulatory tools can be classified into conduct-related tools focused on achieving market efficiency and prudential related tools focused on financial stability. The former mainly regulates the disclosure and use of information, while the latter has a micro-level approach

aimed at the individual stability of financial intermediaries (mainly banking) and a macro-level approach centred on the stability of the whole financial system.

4. The CSR System

As stated, CSR projects started with the aim of making positive contributions to environmental or social sustainability beyond the legal requirements. Although this principle still prevails, many rules on CSR have been issued at different levels by different regulators and political powers. In fact, the growth of CSR and the increasing interest in environmental sustainability due to the climate change have posed the problem of distinguishing true CSR from pure marketing, which is very similar to the distinction between information and noise. Furthermore, information on CSR is by itself substantially more difficult to contrast than financial information, as well as corporate results in this field. To address these issues, the rules on the delimitation of CSR have been complemented with rules on disclosing information, on the control of this information, and on the control of corporate results on sustainability as well. This set of rules along with information requirements and controls create a complex setting that parallels the financial system. For this reason, we call it CSR system. In the CSR system, we also find a defining function and a performance information function. The former deals with identifying which activities can be accepted as CSR projects, while the latter deals with disclosing their development and analysing their results.

4.1. The Defining Function

Since its first steps in the 1950s, CSR has greatly evolved in the context of a world that has greatly evolved itself. Corporations have had to manage the increasing importance of stakeholders together with the increasing social demand for sustainability. Globalisation and the Internet have played a central role in this change. The widely and fast availability of news and opinions through the web has made practically immediate to compare corporate behaviour in different parts of the world. At the same time, the Internet has made more necessary than ever to separate information from noise. Several NGOs, often leading the claims on CSR, have become multinationals on their own way. Therefore, the claim for CSR has become global and focused, by this order, on environmental and social sustainability. Also, financial corruption, tax-avoidance, and bribery, better known than ever due to improvements on information, have become a social concern obviously connected with the responsibility of corporations. This new and globalised world expects from corporations and demands to them a complete responsible behaviour, not only some punctual projects that may, at their best, do not mean more than limited commitments. To sum up, CSR has experienced a 'Big Bang' comparable with the liberalisation of financial markets. Not surprisingly, governments and multinational political organisations have decided to regulate CSR.

The UN have been involved in CSR at a global level by launching and developing the Global Compact. It is defined as a call to companies to align strategies and operations with universal principles on human rights, labour, environment and anti-corruption, and take actions that advance societal goals [22]. Its purpose is to lead business organisations to implement ten principles based on the Universal Declaration of Human Rights, the International Labour Organization's Declaration on Fundamental Principles and Rights at Work, the Rio Declaration on Environment and Development, and the United Nations Convention Against Corruption. These principles focus on human rights, labour, environment, and anti-corruption. Specifically, they state that business should support human rights, reject any complicity in the abuses of them, respect workers' freedom of association, eliminate compulsory labour, child labour, and discrimination in employment, adopt a precautionary approach to environmental challenges, promote environmental sustainability, encourage and use clean technologies, and reject all forms of corruption. Being more specific, the Global Compact proposes a management model integrated by six steps: commit to Global Compact principles, assess the risks and opportunities that CSR projects involve, define the courses of action (goals, strategies, and policies), implement them, measure the effects, and communicate the progress to stakeholders [23]. In the context of the Global

Compact, the UN approved in 2015 the Sustainable Development Goals (SDGs) [24]. This document proposes seventeen goals to be reached by the Member States of the UN in fifteen years (2015–2030). SDGs are not only for big corporations but also for SMEs, which can become members of the Global Compact Network.

The same concern has been shared at more concrete political levels. Governments and supra-national organisations (European Union, Organization for Economic Cooperation and Development (OECD), Organisation of American States, Association of South East Asian Nations, African Union, etc.) have issued rules and/or taken actions to promote CSR in their areas of authority, and, also, by private organisations focused on quality control, such as the International Organization for Standardization (ISO). Their rules, in general, are in line with the ones of the Global Compact. The European Commission defines CSR as “the responsibility of enterprises for their impact on society and states that it consists of following the law, and integrating social, environmental, ethical, consumer, and human rights concerns into business strategy and operations” [25]. The Global Compact quotes explicitly as sources for its rules and strategy on CSR the United Nations Guiding Principles on Business and Human Rights, the ISO 26000 Guidance Standard on Social Responsibility, the International Labour Organisation Tripartite Declaration of Principles concerning Multinational Enterprises on Social Policy, and the OECD Guidelines for Multinational Enterprises (Other more specific rules have been issued focusing either on one of the sustainability issues or on specific industries. On the environmental side, we have the United Nations Environmental Program (UNEP) and ISO 14000, while on the social sustainability side we find the United Nations Guiding on Principles on Business and Human Rights and the International Labour Organisation Tripartite Declaration of Principles concerning Multinational Enterprises on Social Policy. As for specific industries, the Equator Principles regulating banking responsible lending, the Responsible Care Program of the Chemical Industry, the Electronic Industry Citizenship Coalition, the NGO Ceres, Greenpeace, Oxfam, and others. The Johns Hopkins University publishes a report about the most influential NGOs. It can be accessed at <http://www.sustainabilitydegrees.com/blog/most-influential-sustainability-ngos/>). Merli et al. [26], in an empirical study of Italian firms, analyse the consequences of implementing the social performance certification SA8000 on working conditions (SA8000 is a certification on corporate working conditions issued by Social Accounting International, a NGO devoted to the supervision of social performance. See, <http://www.sa-intl.org/index.cfm>). The corporate image of these companies has improved together with the involvement of their employees in corporate tasks. For large companies, brand protection and competitive advantage have also improved, although the whole market effects are not obviously positive after considering the whole sample, which includes SMEs. Some difficulties were found in applying the requirements of SA8000 into the supply chain.

Porter and Kramer [13] have developed the concept of shared value which advocates for strategies through which corporations create value together with their stakeholders, of course under the leadership of corporations. It can be regarded as the full integration of sustainability into the corporate strategy by linking business opportunities, social needs, and corporate assets. The Shared Value Project is an organisation that provides information and guidance about shared value implementation (The Shared Value Project can be accessed at <https://www.sharedvalue.org/about-shared-value>).

All in all, this set of rules, although in most cases they are only valid at guidance level, provides a complete and reliable definition of CSR. Therefore, they build up the defining function of the CSR system.

4.2. The Information Function

The development of CSR has generated a system of information and control that, although being more complex, parallels the performance information function of the financial system. Once defined, CSR requires accurate information in order to estimate its degree of authenticity, its effects on corporate value, and its effects on sustainability. The information on CSR is generated at three levels: the corporation itself through the CSR reports issued by it; the audits of this information,

and the evaluation of external analysts. Contrary to financial information, CSR does not benefit neither from standardized documents, such as the balance sheet and income statement, nor from financial market data. The CSR strategy is often more difficult to be explained than the ordinary business strategy. With the aim of filling this gap, the Global Reporting Initiative (GRI) has assumed the mission “to make sustainability reporting standard practice among all companies” [27]. The GRI goes beyond issuing information on CSR and requires disclosing information on the corporate sustainability practices. Thus, it discourages corporations focusing CSR reports on a small number of pure marketing projects while concealing their true impact on sustainability.

The GRI issues guidance rules for sustainability reporting. It defines itself as an international, independent organisation that helps businesses, governments and other organisations understand and communicate the impact of business on critical sustainability issues such as climate change, human rights, corruption and many others [28]. Through the application of its rules, the GRI aims to help organisations to become aware of their sustainability features and to communicate them to their stakeholders. As its GRI 101 ([29], p. 3) document states through this process (sustainability reporting) an organisation identifies its significant impacts on the economy, the environment, and/or society and discloses them in accordance with a globally-accepted standard. GRI has strategic partnerships with the Global Compact, OECD, UNEP, and ISO. In its Five-Year Focus document, GRI highlights the importance of trust, a principle that shares with the financial market efficiency principle [30]. The claim of having applied the GRI rules does not mean that the report is externally certified. The Global Compact, in turn, has issued some guidance document about communication strategies aimed at helping managers to convey to shareholders the value creation potential of CSR. In fact, disclosing information on CSR faces the challenge of showing its strategic relevance to two groups of, at least in the surface, opposite interests: shareholders primarily interested in value creation and stakeholders primarily interested in environmental and social sustainability.

Corporate sustainability reports and policies are analysed and evaluated by different institutions, with different aims and applying different methods. Classifying these external evaluations according to the nature of their reporting we can identify three types of outputs:

- (a) Assurance of CSR reports, mainly issued by accounting firms
- (b) Sustainability rankings, centred on environmental and/or social sustainability, and
- (c) Stock market sustainability indexes.

GRI encourages corporations to have their reports externally certified [31]. Pflugrath et al. [32], among others, find a positive relationship between assurance of CSR reports and credibility. Prego and Kolk [33] analyse how externally qualified auditing strengthens the credibility of CSR reports. As pointed out by Rossi and Tarquinio [34], some authors, as Adams and Evans [35], arrive at sceptical conclusions about CSR reports and their assurance.

Several investment management and financial information firms, such as HIP Investor, RobecoSAM, and Corporate Knights, produce sustainability rankings. Newsweek has been publishing yearly two rankings on environmental sustainability respectively referred to the 500 largest publicly traded US and Global companies. These rankings are the outcome of a partnership of HIP Investor, Corporate Knights, and Newsweek itself. Forbes, in turn, publishes the ranking of the 100 most sustainable companies in the world, which includes environmental and social sustainability, prepared by Corporate Knights (This ranking, with the details of its calculation, can be accessed also at <http://www.corporateknights.com/reports/global-100/>) [36]. RobecoSAM publishes a ranking, including 2474 companies of 60 industries in 2016, which determines the components of Dow Jones Sustainability Indexes. The Sustainability Accounting Standards Board (SASB) [37] is an approved provider of the CFA Institute foundation that, as it literally states, has the mission of setting industry-specific standards for corporate sustainability disclosure, with a view towards ensuring that disclosure is material, comparable, and decision-useful for investors.

Sustainability stock market indexes consist of portfolios that represent the value of the corporations publicly traded on the stock market who follow a sound and recognised sustainability policy. Among them, we find the Dow Jones Sustainability Indexes (DJSI) designed and calculated by RobecoSAM (DJSI World, North America, Europe, Asia Pacific, Emerging Markets, Korea, Australia, and Chile), the FTSE4Good Index Series, estimated by the integration between FT and Russell indexes in 2015, and MSCI Sustainability Indexes estimated by Morgan Stanley Capital International. They aim to furnish investors with benchmark portfolios for passive sustainable investing. Global Compact also estimates a sustainability index (Global Compact 100 Index).

The publication of sustainability and CSR rankings approaches the CSR system to the financial system. Financial performance measures are usually based on data from market transactions. In the case of CSR, performance measures are obtained either directly from the estimation of CSR indicators or using other available indicators.

5. The CSR System and Informational Efficiency: A Synthesis Model

The CSR system provides the necessary background for answering the two questions asked in the introduction: how can information be separated from noise in CSR, and how the informational efficiency of financial markets can be extended to CSR. The defining function of the CSR system enables analysts, investors, and corporate managers to identify whether a specific project proposed as CSR matches with the requirements of reference sources on CSR, such as Global Compact. Fulfilling these requirements is a necessary condition for any project to be accepted as CSR initiative. The diverse outputs of the information function reveal the environmental or social performance of CSR projects publicly evaluated by gatekeepers. For the projects that do not receive direct attention from gatekeepers, the information function furnishes the methodology to approach this analysis. In other words, the sets of indicators published by gatekeepers for the corporations they study can also be applied to other firms or projects.

The defining function and the information function of the CSR system contribute together to separating information from noise and to bring informational efficiency into the field of CSR. Nevertheless, this separation requires a complex process in which many different variables intermingle among themselves. The challenge of gathering information about CSR projects is often accompanied by a more complex one: synthesizing this information. Next, we build up a qualitative model with this aim.

The goal of the model consists on synthesizing the relevant information about a CSR project. The first piece of information to be known is the nature of the project itself, namely to delimit in what it consists of. Next, the two sides of the interaction between the project and the corporate strategy must be evaluated: the corporate know-how to manage the project and the project's impact on the competitive advantage of the corporation.

From the financial side, the capital outlay required by the project and the appropriate combination of financing sources have to be determined. The study continues by exploring whether the project contains real options, namely whether the project embeds opportunities that can be analysed using option theory. As known, real options thinking enlightens strategic analysis (Amran and Kulatilaka [38]). Furthermore, CSR projects, given their nature, often incorporate real options (Bosch, Montllor, Tarrazon [39]).

Any corporate project involves risk but, at the same time, CSR projects often hedge reputational risk. Therefore, a complete analysis of the risks associated with the project becomes compulsory. Risk opens the way to performance analysis. Ex-ante and ex-post performance metrics must be estimated, again from the points of view of the three sustainability pillars, i.e., environmental, social, and financial. Computing the impact on value creation follows performance analysis. This step requires estimating the project's impacts on the value of equity and the environmental and social indicators. Thus, value creation is approached from the twofold point of view of finance and CSR, or, in other

words, from the three pillars of sustainability. Finally, revision of the marketing and communication policies associated with the project closes the study.

In summary, there are six variables to identify: project definition, strategy, performance metrics, risk, value creation, and communication strategy. Therefore, we divide the model into six steps, one for each variable. Each step is approached from the points of view of CSR and the financial perspective. Thus, its scope includes the three pillars of sustainability, i.e., environmental, social, and financial. The identification of the variables is obtained after answering the questions displayed in Table 1.

The answers to these questions build up a synthesis of the CSR project under analysis. Its strong and weak points become explicit. Having them together generates a synergy that smoothes the decision making and evaluation processes. The value creation step deserves additional attention. Calculating the impact on the corporate financial value of a CSR project requires estimating:

- the present value of the cash flow sequence, including the price increase that could be accepted by consumers,
- the appropriate risk premium to be incorporated into the discount rate,
- the collateral effects on corporate value, mainly due to the hypothetical reduction of reputational risk and the support to marketing campaigns,
- whether the CSR project embeds real options. In case of a positive answer, the project analyst has to identify and value them.

Table 1. Corporate Social Responsibility (CSR) identification model.

CRS Questions	Financial Questions
Step 1: Project definition	
Which are the main features of the proposed course of action? Which are the expected results? Do they fit with the Global Compact or other accepted CSR principles?	Which is the expected initial capital outlay of the project? Which are its expected cash flows?
Step 2: Strategy	
Is the project related to the general corporate strategy? What is its impact on the corporate competitive advantage?	How is the project to be financed? What is its impact on the corporate capital structure? Can we identify real options in the project?
Step 3: Risk	
How can we estimate the risk of the project success or failure from the environmental point of view? And from the point of view of its social impact? What is its estimated impact on the corporate reputational risk?	Which is the financial risk of the project? Which is its operational risk? How does it impact on the corporate strategic risk?
Step 4: Performance metrics	
How to measure the environmental impact? How to measure the social impact?	Which is the appropriate capital budgeting model to apply to the financial analysis of the project?
Step 5: Value creation	
How will the project impact on the corporate position in sustainability rankings? And in the sustainability indexes?	Which is its expected impact on financial value creation? If it is negative, how can it be turned into positive?
Step 6: Communication	
How to communicate the project to stakeholders? Does the corporation follow the rules of GRI in its ex-ante and ex-post information?	How to communicate the project to shareholders? Does the corporation follow the rules of financial regulations in its ex-ante and ex-post communications?

Let us consider how an external analyst can answer the questions asked by the model. The answers will come from the information disclosed by the corporation plus the one provided by the CSR system and the methodology created by it. Continuing with the division into the six steps, we have:

Step 1: The analyst obtains the features of the project from the information disclosed by the corporation, and revises their concordance with accepted CSR principles. The amount invested in the project would be published by the corporation probably, but the expected cash flow sequence will be regarded most likely as an internal matter.

Step 2: Once the nature of the project is known, its relationship with the corporate strategy can be immediately estimated. The experience of the analyst and his/her knowledge of the industry

will contribute to evaluating the competitive advantage of the project. The corporation is expected to publish information about the connection between the new project and the corporate strategy. Furthermore, other analysts and stakeholders may publish their analysis on the project and state their opinions. The financing of the project will not be explicitly disclosed by the corporation in most cases. The changes in the capital structure can be obtained from the balance sheet and cash flow statements, although they will be due to the whole corporate decisions about the composition of its financing sources. Nevertheless, the financing of CSR will not be a relevant issue for external analysts, except in the unlikely case it produces a relevant change in the capital structure.

Step 3: The estimation of the probability of success or failure of the project from the point of view of CSR is central. The good purposes associated with CSR projects are not a systematic guarantee of their success, even in the strict terms of sustainability. Thus, the scenario of the project's failure must be estimated and watched. The impact on the corporate reputational risk is also essential. A good CSR reputation constitutes a hedging barrier against any negative sustainability impact, such as an accident that damages the environment.

Step 4: The measurement of the project's environmental and social impacts rely on the methods of CSR performance estimation developed in the framework of the CSR system. The analysis of CSR projects through the lenses of finance requires deciding which capital budgeting criteria is the most appropriate for the current project. The net present value (NPV) is the obvious choice in many cases. Nevertheless, it must be approached from a wide perspective. Probably, an external analyst will not have the data to calculate the NPV of the CSR project, but an experienced analyst can estimate the sign of the project's NPV, i.e., whether its contribution to corporate value is positive.

Step 5: A central part of the analysis are the effects of the project on the external recognition of the corporate active and positive social responsibility line. Although they cannot be approached through a monetary amount, the qualitative recognition of CSR actions is essential for many issues. For instance, to attract talented workers and be included in sustainability stock market indexes, which, consequently, place the corporation in a better position to capture investments from responsible funds. The information provided by the CSR creates a basis for estimating this impact. The financial value created by the project is, in fact, its NPV as appreciated by the financial market. The analyst can estimate it following the rules that he/she applies to the evaluation of any investment project. Its comparison with similar projects undertaken by other corporations will complement the analysis.

Step 6: Essentially, the external analyst must evaluate whether the reports issued by the corporation follow the rules about the communication on CSR and the rules issued by financial regulators. This evaluation is essential to distinguish between reliable CSR and pure marketing issues.

This model can also be applied by corporate managers. In this case, the complete information is available to them and contributes to obtaining a synthesis of the CSR policy and, furthermore, an immediate comparison with its financial impact. The whole CSR of a corporation can also be the object of the analysis. Then, instead of focusing on a specific CSR project, the analysis centres on the complete corporate sustainability actions. In the next section, we study Adidas' CSR from this approach.

6. Case Study: Adidas' Sustainability Policy

The aim of this case study is to analyse, from the perspective of the model presented in the previous section, to which extent Adidas' CSR policy is in line with the CSR system. We divide the case into the analysis of the sustainability strategy, the identification of the defining and information functions of the CSR system in Adidas, and the measurement of its CSR performance. In fact, Adidas permanently uses the term sustainability instead of CSR. In this analysis, we substitute the term *project* by *CSR policy* because we apply the model to the whole Adidas' CSR. The data sources used for this case have been:

- Adidas' sustainability report
- Web of BOK Schools
- Web of Fair Labor Association

- Web of RobecoSAM
- Corporate Knights sustainability report
- Forbes ranking of best sustainable corporations
- Dow Jones Sustainability Index
- Academic articles: Salvioni et al. [6], Amaeschi et al. [40], Lund-Thomsen and Nadvi [41], Giulianotti [42], Brennan et al. [43], Schölmerich [44].

The Adidas sustainability policy contains answers and provides solutions for some relevant shortcomings detected in the past, with the aim of preventing their repetition in the future. The academic literature on CSR illustrates these problems. Amaeschi et al. [40] stress the ethical responsibility of multinationals in the control of the working conditions in the outsourced manufacturing of their supply chains. Lund-Thomsen and Nadvi [41] compare the effects of vertical and horizontal governance in monitoring child labour. Giulianotti [42] presents a complete panorama in sport contrasting the smoothness of being engaged in sports promotion with the difficulties associated with reaching social justice. Brennan et al. [43] study a conflict on the use of chemicals in the textile industry, involving Adidas, solved after an interactive process of dialogism. Schölmerich [44] studies the effects of CSR on reducing poverty in Cambodia, concluding that the CSR strategies linked to the core of business activity have better effects than the ones that lack this link, signalling the integration of CSR into Adidas' general strategy. This conclusion fits with Porter and Kramer [45] paper that underlines the value creation capacity of a CSR policy linked to corporate strategy. Salvioni et al. [6], in their study on sustainability and the convergence of corporate governance, point out the long-term focus of Adidas' strategy.

The sustainability strategy is presented as part of the general strategy, i.e., integrated into it, which becomes clear from the analysis of its sustainability courses of action, as shown below. The practical development of Adidas' strategy follows a holistic approach that links sustainability with value creation. The corporation has adopted an Integrated Performance Management programme with the aim of integrating financial and non-financial, tangible and intangible value drivers into the process of value creation. Although not explicitly stated in Adidas' reports, the expression non-financial value drivers suggests the consideration of real options, i.e., investments with implicit capacity for creating financial value in the future, probably with some new investments. The title on page 11 of its sustainability report [46] could hardly be more explicit: we monitor our footprint while maximising the value of our business.

The environmental strategy materialises in three courses of action: water savings, innovation in materials and processes, and energy conservation. The latter is a generic goal of environmental sustainability. Water saving is a case in point for any corporation that, like Adidas, has dyeing as part of its production process. Both can be regarded as investments that anticipate future legal requirements on a more efficient use of water and energy. Innovation initiatives, such as the products made with Parley Ocean Plastic and certified organic cotton, not only improve the environmental sustainability but also enhance the quality of the products and become an excellent platform for marketing.

The social sustainability strategy is divided into three lines: empowering people, improving health, and inspiring action. Empowering people is centred on the workers of Adidas' supply chain by promoting their human and professional development, which includes gender equality. Insistence is placed on the supervisors' skills to communicate with workers. Multiculturality, although not explicitly stated, is present in the sustainability report that praises the value of diversity for corporate management: diversity can only be a powerful driver for innovation and engagement if it is embedded in an open and inclusive company culture. Adidas has appointed a Diversity Director to take the maximum profit of multiculturalism.

Promoting the health of its employees beyond the practice of sport, which not surprisingly is central in this corporation, is one of the Adidas' social goals. Its Work-Life Integration department has the mission of creating an appropriate work environment for its employees. Adidas' external side of its promoting health projects consists of developing nutrition programs, supporting BOK

(www.bokskids.org) schools that boost the integral education of children through physical activity, and promoting football development in China through young peoples' practice in partnership with the Ministry of Education. The inspiring set of action projects is centred on enticing employees volunteering, by encouraging their engagement in social programs backed by the corporation, such as support to Syrian refugees in Germany and Turkey, active workshops for children in Rio de Janeiro, and joining Parley of the Oceans, a NGO that works to prevent the Oceans' destruction due to human activity.

The performance evaluation of Adidas' strategy and its projects takes place at four levels: the internal controls applied by the corporation, the controls to which it submits the external producers of its supply chain, the external controls, and its inclusion in sustainability stock market indexes. For each sustainability project, Adidas declares the results achieved in the current year, and also the goals for 2020 that act as a benchmark. The sustainability report displays wide information about the supervision of working conditions in the external producers of its supply chain. They include independent audits from the Fair Labor Association (<http://www.fairlabor.org/>), an NGO dedicated to solving abusive labour practices. Furthermore, 96% of suppliers are certified according to OSHAS 18001 for working conditions and ISO 14001 for environmental management.

The Adidas sustainability performance is measured by the specialised firms RobecoSAM and Corporate Knights. RobecoSAM has awarded Adidas as a GoldClass sustainable corporation, qualifying it for the inclusion in the Dow Jones Sustainability Index. Corporate Knights includes Adidas in its ranking [36] of the best sustainable corporations (number 49 in 2017, and number 5 in 2016). This ranking is published by Forbes. Currently, Adidas is one of the corporations participating in stock market sustainability indexes (Dow Jones Sustainability Index, FTSE4Good Index Series, MSCI Global Sustainability, among others).

The Adidas' strategy and sustainability projects show very direct links to the CSR system. The goals stated in its sustainability report [46] fit with the Global Compact principles, although these principles only receive a minor quotation in the report. In brief, it can be said that Adidas sustainability model agrees with the defining function of the CSR system. The information disclosed in this report fulfils the requirements of the GRI, the cornerstone of the performance information function. It displays wide information about the corporate sustainability projects: their goals, the actions taken, the results achieved, as well as the performance control and analysis. The internal controls, including the ones applied to the supply chain providers, are clearly depicted. Furthermore, the performance of Adidas' sustainability model is evaluated by CSR specialised analysts, i.e., relevant gatekeepers of the CSR system. Their ratings lead Adidas to be included in some of the most relevant sustainability stock market indexes, as already stated.

Applying to Adidas the model presented at the end of the previous section, we obtain a structured panorama of the sustainability policy of this corporation. We summarise the results in Table 2.

Table 2. Summarising Adidas' CSR policy.

CRS Questions	Financial Questions
Step 1: Project definition	
Which are the main features of the proposed course of action? Which are the expected results? Do they fit with the Global Compact or other accepted CSR principles?	Which is the expected initial capital outlay of the project? Which are its expected cash flows?
Environmental sustainability: water saving, innovation, energy saving. Social sustainability: Empowering people, improving health, inspiring action. Includes control of working conditions of its suppliers. The report relates the expected results for 2020. The CSR policy, as the projects in which it is materialised show, fulfils the GC principles. It is also in concordance with the sustainable Development Goals of the UN.	Corporations do not publish a specific income statement for their CSR policies. The yearly expense in this field is neither mentioned. Nevertheless, Adidas regards its whole sustainability policy as creating value.

Table 2. Cont.

CRS Questions	Financial Questions
Step 2: Strategy	
Is the project related to the general corporate strategy? What is its impact on the corporate competitive advantage?	How is the project to be financed? What is its impact on the corporate capital structure? Can we identify real options in the project?
Through its sustainability actions, Adidas becomes more competitive because they contribute to attracting customers due to innovation and skilled workers through the sustainability social model combined with innovation.	Adidas does not disclose the detail of the financing of its sustainability actions, which is a usual corporate practice. Although real options are not specifically mentioned in the sustainability report, the opportunities generated by the CSR policy of this corporation can clearly be assimilated to real options, mainly growth options.
Step 3: Risk	
How can we estimate the risk of the project success or failure from the environmental point of view? And from the point of view of its social impact? What is its estimated impact on the corporate reputational risk?	Which is the financial risk of the project? Which is its operational risk? How does it impact on the corporate strategic risk?
From the internal and the external performance information it stems that Adidas is able to achieve its goals of sustainability. A case in point has been the improvement of the control of the working conditions in the supply chain.	Since the Adidas' CSR policy is closely linked to the corporate strategy, it cannot be said that it increases the financial risk. Conversely, there are reasons to sustain that it reduces the corporate risk. First, it can be regarded as a hedging against reputational risk. Furthermore, since sustainability projects contribute to attract better-skilled workers, operational risk is reduced (hedging against it as well). Without sustainability projects, the strategic risk would increase.
Step 4: Performance metrics	
How to measure the environmental impact? How to measure the social impact?	Which is the appropriate capital budgeting model to apply to the financial analysis of the project?
External performance analysis by RobecoSAM and Corporate Knights.	The classical NPV can also be regarded in this case as the most appropriate model to estimate the value created by CSR. Nevertheless, it should be complemented with real options analysis in order not to put aside the capacity often embedded in CSR projects to create new opportunities.
Step 5: Value creation	
How will the project impact on the corporate position in sustainability rankings? And in the sustainability indexes?	Which is its expected impact on financial value creation? If it is negative, how can it be turned into positive?
Adidas enjoys a high position in sustainability rankings and belongs to the main sustainability indexes.	As stated, Adidas regards its sustainability policy as a source of value creation. This assertion is strongly supported by the Adidas' sustainability report and the outputs of external analysts.
Step 6: Communication	
How to communicate the project to stakeholders? Does the corporation follow the rules of GRI in its ex-ante and ex-post information?	How to communicate the project to shareholders? Does the corporation follow the rules of financial regulations in its ex-ante and ex-post communications?
Adidas' CSR report contains wide and detailed information.	In addition to the CSR report, the annual report for shareholders also counts with a summary of it.

Special relevance deserves Adidas' CSR relationship with value creation and market efficiency. To the extent that making corporations sustainable is a compromise with society, corporate sustainability strategies are the best manifestation of CSR. Nevertheless, sustainable CSR, at the same time boosts value creation. Adidas is a case in point of this fact. Its environmental sustainability strategy has innovation at its centre. Water and energy saving can, in turn, be regarded as anticipating future legal requirements. The combination between innovation and water plus energy saving constitutes, at the same time, an excellent platform for corporate marketing. Attracting skilled workers is also essential for value creation. The social image that stems from supervising working conditions in the manufacturers of the providers' supply chain reduces reputational risk and increases the value of the brand. Furthermore, it conveys to the financial market that the corporation is managed with a long-run perspective, a condition for attracting shareholders that work with this frame of reference instead of short-termism.

The philanthropic side of Adidas' sustainability is also centred in strategic giving, following Porter and Kramer [47] denomination. In other words, the philanthropic projects supported by Adidas are closely related to its corporate skills in the sports industry.

From the perspective of the financial market efficiency, the information on sustainability provided by Adidas, jointly with its analysis by gatekeepers of the CSR system and the financial system, obviously enlarges the published information about the corporate strategy. In addition, it enables investors to value Adidas' securities more accurately, mainly considering the impact of reputational risk. From the perspective of the efficiency of the sustainability projects, the information provided and the gatekeepers' analysis make clear that CSR initiatives are deeply rooted in the goals of sustainability, instead of being mere marketing issues. Mazutis and Slawinski [48] point out that CSR is perceived as authentic by stakeholders when its courses of action are in line with the corporate strategy and strongly linked with the corporate social context. Adidas' CSR clearly has these features.

7. Discussion

In this paper, we have explored the parallelisms between the CSR system and the financial system from the point of view of informational efficiency. A proper understanding of the CSR system requires taking into account the evolution of CSR from philanthropy to sustainability. As known, CSR started with the idea of returning to society part of corporate profits. Nevertheless, CSR has been progressively tilted to sustainability, becoming, in practice, almost totally absorbed by it. The growing awareness of society about the relevance of climate change has played a paramount role in this evolution. On the other hand, the facility for being informed through the Internet has strengthened the demand for social sustainability. If philanthropy admits scarce regulation, environmental and social sustainability needs a proper regulation to correct market imperfections and to bring corporate decisions in line with societal goals. The CSR system shows an enlightening parallelism with the financial system, especially when we look at both from the point of view of informational efficiency. The value of the securities traded in financial markets is mainly due to the expectations about corporate investment decisions, namely the investment projects that corporations have decided to undertake. The accuracy of sustainability decisions is also estimated on the basis of their future expectations. The expenses of environmental and social courses of action to improve sustainability are known with a high degree of certainty at their inception. Nevertheless, their future effects that will determine their success or failure are uncertain. The CSR system contributes to estimating whether corporate sustainability projects are sound projects and whether they are expected to have a positive impact on the environment and/or society, together with their consequences in corporate value. The real effect of environmental decisions is practically always a future matter. The effects of social sustainability decisions often are expected to take place in distance, either time or space. For instance, support to young students will show its effect in time, while an improvement in working conditions in the supply chain may show its effect in a distant place. The true impact of these sustainability decisions can easily be contaminated by noise or even manipulated. Through its defining function and its performance measurement function, the CSR system cleans and enlightens information. Then, informational efficiency is extended to the field of sustainability. In the Adidas' sustainability model revised in the previous section, we have seen how the sustainability courses of action have been decided, often with the interaction with NGOs' private politics, according to the accepted goals of sustainability defined by regulators. Its performance has received the recognition of gatekeepers.

The information displayed in Adidas' sustainability report together with the analysis of gatekeepers has enabled us to study the sustainability policy of this corporation. Adidas, as a multinational textile company, faces big environmental and social sustainability challenges, mainly through an extensive supply chain in which emerging economies predominate. The magnitude of these challenges practically forces the corporation to become a leader or a laggard in sustainability. Adidas has succeeded in becoming a leader through its sustainability strategy completely integrated into the corporate strategy, its innovation in production techniques that has led to more sustainable and better products at the

same time, and the social sustainability of its supply chain. Furthermore, some of its philanthropic initiatives can be regarded as a model of strategic giving. Finally, its marketing campaigns, founded on this solid basis, have managed to make consumers aware of the fact that, by purchasing its products, they are buying sustainability at the same time. These findings fit with the results of the CSR literature. The integration of CSR into the corporate strategy stated in the case study agrees with the equivalent result of Schölmerich [44] and the criteria established by Porter and Kramer [45] about CSR and innovation, of which Adidas is a remarkable example. This integration is only possible with the long-run managerial perspective observed in the case study and previously pointed out by Salvioni et al. [6]. The positive impact on value creation is also based on Adidas' strong marketing capability that can be seen as a confirmation of Mishra and Modi [18] results. The supervision of the supply chain and the fact of applying a dialogue attitude to conflict resolution, as stated by Brennan et al. [43], validate the ethical commitment of Adidas and bring credibility to its marketing campaigns, fulfilling the requirements signalled by Wagner et al. [14] and Van de Ven [15]. To sum up, the findings of the Adidas' case analysed in this paper fit with the existing CSR literature.

The results of the paper are centred on identifying, structuring, and analysing the relevant information for CSR projects. After the development of the CSR system, the management of CSR projects has experienced a more than remarkable change. Neither any initiative can be accepted as CSR nor any result qualified as a satisfactory CSR performance. For this reason, this paper stresses that any CSR project must be defined according to the standards of the CSR system and its performance must be measured following their methods and applying their benchmarks. Any sound CSR initiative cannot put aside the gatekeepers of the system. Separating the defining function from the information function in the CSR system is essential not only for the understanding of this system but also for any practical application of its outcomes to the analysis of CSR projects. Going one step further, we realize that the study of CSR projects is substantially more complex than the analysis of ordinary projects focused on financial value creation, although with the constraint of fulfilling the legal sustainability requirements. Conversely, the target of CSR projects is the improvement of environmental and social sustainability, with the constraint of being financially sustainable. Therefore, their study requires the twofold approach of CSR and financial sustainability. The model presented in this paper contributes to this analysis. In it, any variable is considered from both points of view. Many papers on CSR have stressed that CSR policies create financial value according to the empirical evidence of their performance. Nevertheless, the central issue of the performance analysis of CSR projects is their contribution to sustainability, and, as a necessary collateral, their impact on financial value. This twofold approach is the root of the complexity involved in the CSR analysis. The model we have presented helps to identify the variables inherent to CSR projects.

Considering the contribution of this paper with respect to the existing literature, we can conclude that, departing from the articles that have studied the CSR system, it relates their features to the ones of the financial system. This step opens the way to introduce the distinction between information and noise plus the concept of informational efficiency in the CSR system. Concerning the literature that relates sustainability to value, this paper builds up a model for the parallel study of CSR and financial sustainability, including ex-ante (valuation) and ex-post (performance analysis) aspects. It is not limited to specific projects but can be extended to the study of the CSR of any corporation. Adidas has been our choice for the case study application.

Summarising the research findings of this paper, we can say that it provides the tools for generating an analytical synthesis of a CSR project or a company CSR policy. Through the model constructed, the effects of the central variables of CSR are expressed in concrete terms with respect to the three pillars of sustainability, paralleling environmental and social sustainability, under the epigraph of CSR, with financial sustainability. This approach facilitates an efficient management of the information on CSR, including the separation between information and noise. Considering again the financial system, we can say that stock prices synthesize the financial value of corporations. CSR is too complex to be synthesized in a single figure, but the synthesis is both necessary and possible, as shown in this paper.

All in all, we can conclude that the CSR system creates the appropriate framework to extend informational efficiency to CSR and separate information from noise in CSR projects. In fact, it generates a virtuous circle of information: gatekeepers centre their analyses on the definitions and rules issued by regulators, while regulators can use the performance estimations issued by gatekeepers to adjust their decisions. Investors, in turn, can take long-term decisions focusing on sustainability indexes. Finally, corporate managers can compare the decisions they make with their estimated impact on the decisions of other corporations. Nevertheless, an efficient use of the information available requires an exercise of synthesis, something that the model presented in this paper intends to make easier. The usefulness for the reader of the results of this paper is encapsulated in Table 2 that shows the main features of Adidas' CSR policy. This table summarises the central information of Adidas' CSR reports and the documents of gatekeepers that study its performance. Obviously, it does not substitute the complete documents, but it has the value of a synthesis. The reader can apply the questions of this table to other corporations and cases in which he/she may be interested in. Furthermore, on the basis of the panorama of the CSR system presented in this paper, as well as in other papers of academic and practical literature, he/she can find the information sources that provide a framework for the CSR analysis similar to the one that the financial system provides for the analysis of corporate financial performance.

As limitations of this paper, we can signal that the information provided by the CSR is obviously not equally available for SMEs. Guidance rules for them have been issued, and they can join the Global Compact; but the performance metrics is mainly thought, and of course published, for multinationals. The full application of the model requires some data that are only internally available, especially those referred to cash-flow and real option valuation. The model presented in this paper has been applied to the case study of Adidas. Furthermore, the techniques to analyse the capacity of CSR for value creation deserve further research, especially from the point of view of the role of reputational risk in this field. Finally, the CSR system is subject to evolution and changes, mainly on the gatekeepers' side.

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