



IMPACT ON THE COMPANIES IN ADOPTING SOFT LAW CSR

The Case of the ESR Distinction in Mexican Companies

Grecia Muñoz Botello & Mariel Juárez Olvera

Supervisor: Sabina Du Rietz

Master Thesis within the main profile of Energy, Natural Resources,
and the Environment

NORWEGIAN SCHOOL OF ECONOMICS

This thesis was written as a part of the Master of Science in Economics and Business Administration at NHH. Please note that neither the institution nor the examiners are responsible – through the approval of this thesis – for the theories and methods used, or results and conclusions drawn in this work.

Abstract

Corporate Social Responsibility (CSR) has gained more importance in recent years as companies have realized that the adoption of soft law CSR instruments is a strategic resource to improve their social, environmental and financial performance. Although CSR has received a lot of attention from the academic world in recent years, researchers have not yet fully explored how specific soft law mechanisms impact on companies. Using the qualitative method, this study examines the external and internal impacts of CSR on firms.

To succeed in the aim of this thesis, the ESR (Socially Responsible Company) Distinction is used as a case of study and proxy indicator of soft law CSR instruments. In the process, this study will also collect information about what motivates companies to pursue the ESR Distinction, as well as the changes and benefits derived from obtaining this recognition.

The results show that CSR initiatives enhances the relationship with stakeholders and corporate reputation, boost firm attractiveness to investors, reduce costs and improve the firm's operational efficiency. The findings suggest that external impacts are higher than the internal ones, which is connected with the companies' motives to adopt CSR initiatives. Responses indicate that the primary motivation lies on improving companies' reputation, followed by the firm's differentiation from competitors, and external pressures.

This dissertation expands the knowledge in this field by focusing on the impacts of private CSR initiatives, specifically in Codes of Conduct and Label instruments through the analysis of the ESR Distinction. Consequently, the study's results contribute to knowledge by highlighting the importance of external pressures on companies' decision-making to adopt CSR initiatives as an explanatory factor of where firms put greater efforts to receive higher impacts.

Key Words: *Corporate Social Responsibility, CSR, Soft Law, Codes of Conduct, Label, CSR Impacts, External Impacts, Internal Impacts, CSR Implementation Mechanisms.*

Acknowledgments

The project of study a Double Degree at NHH has its end with this Master Thesis. Without a doubt, it was not an easy road, but finally we did it! As a consequence, we are very happy and proud of that. However, the culmination of this important project in our lives would not be possible without the help and support of very special people.

First of all, we want to thank Sabina for saying yes to be our supervisor and guiding us through this arduous path of writing a thesis. Thanks a lot for enlightening us during this process and also for the encouraging meetings, full of many relevant ideas and enthusiasm.

Of course we could not even be here without the unconditional support of our families, who although they are thousands of miles far away, we can feel their love and encouragement as if they are just next to us. Enormous thanks for always be there for us.

Last but not least, we want to thank those friends that have become part of our family in this country. Thanks for your friendship, love, support and help during all this time.

Thanks all of you for be our inspiration and motivation during this project!

Grecia & Mariel

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Abbreviations

AliaRSE	Alianza por la Responsabilidad Social Empresarial por México (Alliance for the Mexican Corporate Social Responsibility)
Cemefi	Centro Mexicano para la Filantropía (Mexican Center for Philanthropy)
CSR	Corporate Social Responsibility
ESR	Empresa Socialmente Responsable (Socially Responsible Company)
GRI	Global Reporting Initiative
OECD	Organisation for Economic Co-operation and Development
SMEs	Small and Medium Enterprises
WBCSD	World Business Council for Sustainable Development

1. Introduction

Corporate Social Responsibility (CSR) is not a new idea; however, it has gained more importance in the past ten years because of the globalized economy that has increased the expectation that firms should be economically, environmentally, and socially responsible wherever they operate (Myron & Coussens, 2007). In addition, the pressure for adopting a CSR initiative has become stronger as companies have realized that failure to consider the interest of the community and stakeholders can have negative consequences to their reputation and financial results.

Corporate Social Responsibility is defined by the World Business Council for Sustainable Development (WBCSD) as:

The continuing commitment by business to contribute to economic development while improving the quality of life of the workforce and their families as well as of the community and society at large. (Johnson, Whittington, & Scholes, 2011; WBCSD).

CSR is a concept that can be implemented through various private initiatives with diverse objectives, origin, areas covered, and implementation mechanisms. Some CSR initiatives address a wide range of issues, including human rights and labour rights, community development, consumer rights, the use of security forces, bribery and corruption, health and safety issues and environmental standards (OECD, 2009). Due to the fact that these initiatives depend primarily on the involvement and resources of nongovernmental actors and they are non-binding instruments, we are actually talking of soft law CSR mechanisms (Andorno, 2007).

The European Commission, (2004) states that the existing soft law mechanisms can be classified into three big groups: Socially Responsible Management, Socially Responsible Consumption and Socially Responsible Investment. In accordance to this classification, our case of study will focus on instruments which belong to the first and second group, specifically Codes of Conduct and Labels.

Against this background, this research is concerned with the impact on the companies of the ESR (Socially Responsible Company) Distinction, a specific case of soft law CSR mechanism used by Mexican companies. In the process, this study will also collect

information about the incentives that motivate companies to pursue the ESR Distinction, as well as the changes and benefits derived from obtaining this recognition.

Although CSR has received a lot of attention from the academic world in recent years, the vast majority of academic research has been carried out with a focus on the speculations regarding the real and alleged pros and cons of implementing CSR. Therefore, the main motivation behind the choice of this topic is found on the specific instruments adopted by the firms through which managers try to implement a theoretical commitment to social, environmental and economic goals, and the effect that instruments have in the firm itself (Hopkins, 2004; Iatridis, 2011).

At the moment, there is a recognized shortage of dedicated studies on the degree to how this kind of soft law mechanisms for CSR have influenced business performance. Regarding this gap, this study intends to analyse the impacts of the application of the ESR as an example of soft law CSR instruments.

In order to reach the aim of this study, while taking into account all considerations that have been explained above, the central research question is:

How adopting the ESR Distinction has impacted the companies?

To identify the impact of adopting the ESR Distinction on the companies analyzed, we need to know the changes that had to be made in business as a consequence of being involved in the process of the ESR Distinction. Also, it is important to distinguish the obtained or expected benefits derived from having this recognition.

In this way, the methodology used to answer the main research question will help us to identify the changes that have been implemented in the company in order to obtain or maintain the Distinction according to the principles and standards evaluated by the Cemefi, as well as the gains resulting by obtaining this Distinction.

It follows that the information that is needed to determine the impacts of the ESR Award will be produced by answering two more detailed questions:

1. Which were the main changes that had to be made in the company in order to get the ESR accreditation?

2. Which has been the benefits driven by having the ESR Distinctive?

This work becomes relevant since Corporate Social Responsibility has become a business imperative as firms have realized that by demonstrating concern for the environment, human rights, community development and the welfare of their employees, they can have benefits not only enhancing their legal license to operate in a community, but the social acceptance to operate as well.

International leading companies have incorporated the Corporate Social Responsibility in their business strategies as a differentiated element and competitive advantage to obtain positive financial results. Studies on this topic show a positive correlation between the economic and financial performance, and the corporate socially responsible behavior (Cajiga Calderón). In addition, a CSR initiative performs the company's perception by the community as it is the second most significant factor in a company's reputation next to the quality of products. According to some scientific research, customers do not evaluate companies based only on the features of their products and services, but also on what business practices they are engaged in, how their products are produced, and what effect on society the company has (Cajiga Calderón; Kaufmann & Olaru, 2012).

Likewise, some of the business case for CSR, notes that the adoption of these instruments can provide business benefits in eight areas: reputation management, risk profile and risk management, employee recruitment, motivation and retention, investor relations and access to capital, learning and innovation, competitiveness and market positioning, operational efficiency, and license to operate (Hopkins, 2004).

In this way, this study will try to explain how soft law CSR instruments work inside the companies by analysing the specific example of the ESR Distinction. This Distinction is an instrument that as it will be explained in Chapter 3, started as an award and now it has become a soft law mechanism of general adoption for firms in Mexico and Latin America. We will see that according to the European Commission and the OECD the ESR Distinction is considered as an instrument of Code of Conduct and Label.

Chapter 2 reviews the existing research regarding CSR and Soft Law, the two main concepts around which this study is built. Here, are reviewed different definitions of Corporate Social Responsibility as well as the evolution of the movement and recent approaches. This chapter

also provides the contextual framework of the concept of soft law and how it is linked within CSR.

As it was mentioned before, Chapter 3 describes widely the ESR Distinction, our case of study. Then in Chapter 4 are presented the research works that integrate the theoretical framework in which this thesis found its motivation.

Later in Chapter 5, the methodology followed in this study is explained. The Chapter analyses and explains the rational followed for adopting the research design, strategy, data collection method, and the approach taken for the discussion of the data. Also, in this section are discussed issues pertaining to data collection and ethical considerations taken into account during this research.

The discussion of results is described in Chapter 6 where the results derived from the analysis of the answers obtained from the questionnaires are explained in accordance with the methodology generated in the previous chapter. Finally, the last Chapter presents the conclusions of this study where the findings and main contributions of the research are highlighted, as well as the opportunity for further research on this topic.

2. Literature Review

In this chapter are presented several theoretical perspectives related to Corporate Social Responsibility, Soft Law, and the link between these two concepts. Therefore, this section lays the theoretical foundation for our study as these two concepts are the basis for developing the investigation that will lead us to answer the research question stated above.

In general, there is little research aimed to study the link between soft law and CSR (Gjølborg, 2011), however, there are quite a few studies pointing the link between CSR and law (Buhmann, 2006; Idowu, Frederiksen, Asli Yüksel Mermod, & Nielsen, 2014; Williams, 2003). However, as we will see later, the close relationship between these two concepts becomes evident since the instruments for adopting CSR are non-binding mechanisms created by private entities (Andorno, 2007).

2.1 The Evolution of CSR

Kinderman, (2015) refers to the work of Harold Bowen, “Social Responsibilities of Business”, published in 1953, as the first work in the matter of CSR, after that, the first CSR associations emerged in the 1960s. The next milestone in the subject of Corporate Social Responsibility happened in 1976 when the OECD released “The OECD Guidelines for Multinationals Enterprises”, whose purposes were ensure that firms’ operations are in line with governmental policies, strengthen trust between private sector and the communities where they operate, and finally improve the contribution of multinationals to sustainable development; in this way it can be said that this was the first instrument to follow in order to implement CSR (Bonilla Villarreal, 2009). However, it was until the 1980s and 1990s when there was an acceleration in the spread of Corporate Social Responsibility driven by the rising of the UN global CSR frameworks: Global Reporting Initiative (GRI) and Global Compact. From those decades until the present the CSR phenomenon has acquired more and more importance around the globe (Kinderman, 2015).

The increasing interest on CSR has caused that the movement is being analysed from various perspectives. In this way, although previously in Chapter 1 we have described the generally accepted concept of CSR, it is still a quite new concept that is constantly changing, and for

this reason it has been studied from different approaches as we will see in the following paragraphs.

There is, for example, the work of Waddock, (2009) who with the aim to understand better the CSR phenomena, have studied CSR from the perspective of a social movement. In her research, she seeks to adapt what is happening in the CSR movement with the characteristics comprehended in a social movement. This research was done by analyzing the work of what the author calls “difference makers,” which refers to those leaders and activists that have played an important role dealing with environmental and social issues, from NGOs to private companies.

Waddock (2009), mentions that three core elements must be present in a social movement: framing processes, political opportunity structures, and mobilising structures; regarding the concerning issue of the present research, is the second element -political opportunity structures- where the instruments to implement CSR are considered, and the author remarks that this is the element most distinguishable within the Corporate Social Responsibility movement, and around this element the other two elements can be found.

At the end, the author concludes that CSR has the three core elements of a social movement, and it is a movement that, as her evidence suggests, will remain over time. In addition, she emphasizes that it cannot be denied that this movement has had a positive impact on the companies where it has been implemented as well as in their groups of interest (Waddock, 2009).

In contrast, the study “Corporate Social Responsibility: a trend and a movement, but of what and for what?” (Sahlin-Andersson, 2006) enquires the purpose of CSR, and raises the possibility of it being just a trend without solids effects on sustainability. More than criticize the CSR movement, the aim of the author is to clarify the role of the actors playing around this phenomenon, such as business, corporations, NGOs, governments among others.

The approach taking for Sahlin-Andersson (2006) becomes relevant to our work as she brings up questions regarding the regulatory role of CSR, about how regulations should be developed and who should control them. Thus, although she recognizes the importance of the role that NGOs and other private entities, as well as multilateral organisms, have within this movement, she puts into question the fact that it is not very clear the role of the regulator and the regulate when is time to evaluate the mechanisms used to implement CSR.

In her quest to understand and find out what CSR actually is, Sahlin-Andersson, (2006) concludes describing this trend -as she call it- from three perspectives: as a regulatory framework that places new demands on corporations, as a mobilization of corporate actors to assist the development aid of states, and as a management trend; she does not claim that one of these perspectives is more accurate than other, but rather she remarks that these multiple approaches which involve different actors and interests, could be what drives the success of this trend, but also is there where could be the fragility of the movement.

As it can be seen, nowadays the discussion around Corporate Social Responsibility is oriented to trying to understand how the movement works itself, the relationships between the involved actors and their roles, and the implications that it has for the companies who implement it as well for their shareholders and groups of interest. In this matter, the contribution of our work to the existing literature is focused on trying to understand how implementing a CSR mechanism impact the companies.

2.2 Soft Law in CSR

The definition of the concept Soft Law can be found in Kirton & Trebilcock, (2004) where the authors define it as “regimes that rely primarily on the participation and resources of nongovernmental actors in the construction, operation and implementation of a governance arrangement.”

Andorno (2007), explains in his article that soft law is a third source of international law (he mentions treaties and customary law as first and second) which has been rapidly developed in the last decades, especially to deal with delicate issues as could be environmental protection, human rights or bioethical problems. He remarks that while soft law mechanisms are classified by definition as non-binding instruments, this classification could be misleading because even though the soft law does not have a binding effect by itself, it is considered to have this effect in the long run. At some point, the author converges with Gjølberg (2011), as both see the soft law as the first step in a gradual process where additional steps are needed to turn soft law mechanisms into hard law ones.

After describing the key points of what soft law is, the existent relationship between Corporate Social Responsibility and the soft law could be perceived as obvious. Nevertheless, there is limited research about how and why these two concepts are actually

linked. Hence, our study seeks to document this relationship and in this way contribute to the scarce literature about it.

One of the researchers made around CSR, and soft law is the one proposed by Gjølborg (2011), her starting point is the existing assumption that firms are often reluctant to social and environmental regulation, and they prefer to adopt soft law mechanisms to deal with these matters. Nevertheless, she found through a survey to Nordic companies that there is actually some degree of skepticism towards voluntary instruments in CSR, and in under certain conditions businesses show a strong preference for an increase in international formal regulations of environmental and social issues. She explains that the increasing interest from the companies in CSR exhibits a change in norms from companies that are voluntarily accepting responsibility for their social and environmental impact through existent mechanisms of soft law and self-regulation, towards mandatory regulations where the regulators are external entities.

This issue related with regulatory organisms in CSR is also brought up in the previously mentioned work of Sahlin-Andersson (2006). She indicates that an extensive regulatory framework around CSR implementation mechanisms have been developed, mostly voluntary and self-regulatory -soft law mechanisms-, however it is far from clear who is responsible for controlling, developing and monitoring those instruments. The author points out that although there are some CSR initiatives supported by multilateral organisms such as the UN or the OECD, those initiatives are still self-regulated. Therefore, she considers that this is a weakness of the CSR “trend” as she calls it, because at some point it can affect the reliability of the implementation instruments and the whole CSR movement.

There is also the research of Buhmann (2006), who is one of the few authors that explicitly links Corporate Social Responsibility and soft law. He identifies the whole concept of CSR as a mechanism of soft law; thus, he explains CSR as a reflexive form of law, and in his work he tries to find out what is the role that law principles play in Corporate Social Responsibility.

Buhmann (2006), demonstrates through the analysis of existing mechanisms of CSR, that although it seems to work as an informal law -soft law, according to the previous definition of the concept-, its bases are in the fundamental principles of law. The author concludes that the main factor that is going to drive the shift from soft law to hard law is the fact that CSR

is a phenomenon that is rapidly spreading around the globe, which in the long run it will require more uniform, formal and mandatory mechanisms that could be implemented and monitored at an international level. He also highlights the importance to start looking at CSR from the perspective of law, in addition to the social and business approaches that are the most used ones when it comes to studying this topic.

On the other hand, while Buhmann, (2006) expects a shift from soft law to hard law in CSR as a consequence of the globalization of this phenomenon, the proposition of Kirton & Trebilcock (2004), takes the same fact of CSR globalization to justify that the concept of soft law will acquire more relevance through the time. Kirton & Trebilcock agree with Andorno (2007), and also highlight the currently growing importance of non-governmental actors in the achievement of goals that involves the integration of environmental, economic and social aspects. These non-governmental actors who are not recognized as a legal subject by the international legal doctrine will lead policy makers to turn sustainable policies into soft law mechanisms instead of hard law regulations (Kirton & Trebilcock, 2004).

Taking away the main points of this Chapter, we can say two things. First, the CSR movement is far from being a fleeting “trend” as Sahlin-Andersson (2006) call it, on the contrary it is being acquiring more and more importance through the time around the globe. However, this results in the CSR movement being closely analysed from different perspectives and with many questions about its truly benefits, and the way it works in the companies and the society. Second, without a question the instruments to implement CSR - and CSR itself- are soft law mechanisms, and it is worth it to start looking at Corporate Social Responsibility from the law point of view as Buhmann, (2006) suggests in order to have a better understanding and application of CSR.

3. The Case of ESR Distinction as a CSR Soft Law Mechanism

This Chapter is meant to describe and present the relevant characteristics and facts about the ESR Distinction which as it has been mentioned before, it constitutes our case of study with the aim of analyzing how CSR soft law mechanisms impact the companies who adopt them. Also along the chapter you are going to notice an interesting phenomenon around this particular mechanism which is how it shifted from being an exclusive distinction awarded for a few companies, to become a mechanism generally adopted to implement CSR in Mexico and some parts of the rest of Latin America.

The ESR Distinction is an annual award given to Mexican companies committed to address the labour rights, community development, bribery and corruption, and environmental standards by both the Mexican Centre for Philanthropy (Cemefi) and the Alliance for the Mexican Corporate Social Responsibility (AliaRSE). AliaRSE is a corporate alliance conformed by 19 organizations with significant antecedents in the promotion of good corporate practices and corporate social responsibility (Cajiga Calderón).

This CSR instrument was implemented in 2001 and in that year only 11 companies were recognized with the ESR Distinction. Nowadays, the ESR Distinction has been received by more than 1,126 Mexican companies and organizations where 360 of them are small and medium enterprises (SMEs) and the rest are considered large corporations. In addition, there are also 28 companies from 5 countries in Latin America such as Peru, Ecuador, Colombia, Honduras, and Uruguay (Olvera Hernández, 2010).

The procedure to obtain this Distinction is based on a self-assessment process which implies the evaluation of 143 indicators. The assessment is documented by the applicant companies through an electronic system, and verified by The Mexican Centre for Philanthropy (Cemefi). The Cemefi, established in 1988, is a non-profit association that aims to promote a culture of philanthropy and social responsibility in Mexico -the last years also in Latin America-, and strengthen the organized participation of the society (Cemefi, 2016).

The ESR Distinction must be renewed each year, or every two years for those that have received it for the 6th year. In order to be recognized with the Distinction, the companies must exceed 75% of the 143 CSR indicators contained in the self-assessed questionnaire

developed by Cemefi. These 143 indicators support socially responsible guidelines related with the four strategic pillars established by the Mexican Centre of Philanthropy:

1. Ethics and corporate governance, which refers to the principles of respect for human dignity, ethical business performance and preventing illegal business.
2. The life quality in the company.
3. The company's involvement with the community and its development, aimed to encourage the participation of the company in the community in which is immersed.
4. Environmental care and preservation, which promotes respect for the natural resources and the environment for future generations.

Choosing the ESR Distinction as a case of study was driven by its increasing importance in the last years, and the several features that this instrument share, which makes it a sine qua non in the analysis of CSR implementation. First, the list of the companies that have awarded the ESR Distinction has increased 67% in the last five years -from 676 companies in 2012 to 1,126 in 2016-. Second, the ESR Distinction assists to spread CSR practices as it encourages that corporations reformulate their processes to expand their social and environmental performance (Iatridis, 2011). Third, it incorporates the core principles and guidelines promoted by international frameworks and organizations such as the OECD, UN, GRI, and ISO26000. Fourth, the ESR Distinction can be given to small and medium enterprises as well as large corporations which make it a universally available instrument in the region to implement CSR (Bonilla Villarreal, 2009).

While the words “award” and “distinction” make one thinks about something distinguishable from the crowd and exclusive, the currently use of the ESR Distinction is clearly far from that. As the Cemefi explains, the idea behind the ESR Distinction when it was established, was to honour those companies that stood out for their socially responsible practices in a moment where CSR was not a very common practice in the region. Thus, this instrument was the first of its kind in Mexico. The Cemefi mentions that in its first years of implementation, the Distinction remained being a symbol of distinction for the pioneer companies in CSR matter. However, in less than a decade as this topic was acquiring relevance and popularity, the ESR Distinction became a generally accepted mechanism for implementation of Corporate Social Responsibility. Currently, this is the only CSR mechanism of its kind in Mexico, and actually the ESR Distinction is rapidly spreading to Latin American countries.

In this way, according to the classification proposed by the European Commission in its work “ABC of the main instruments of Corporate Social Responsibility” (2004), and also adopted in the OECD document “Guidelines for Multinational Enterprises” (2008), this instrument is classified within the *Codes of Conduct* and *Label* instruments.

As the Cemefi describes, the previous classification is given because, on one hand, the ESR Distinction aims to provide purchasers (consumers and businesses) with what is viewed as reliable information to make responsible purchasing decisions. On the other hand, the Centre have established general codes of conduct that provides companies the bases to develop their own codes. In addition, the Cemefi have set a minimum list of standards that companies must cover in order to address the four strategic pillars mentioned above. These minimum standards are:

- Promote a culture of responsible competitiveness aimed to meet the goals and the success of the business, contributing at the same time to the community’s well-being.
- Fight against internal and external corruption practices, and develop operations based on an ethic code.
- Promote favorable labour conditions to improve life quality, and human and professional development of the entire community.
- Preserve the environment in each of the activities performed by the company.
- Identify the social issues of the community where the company operates, and collaborate in their solutions.
- Invest time, talent, and resources in the development of the community.
- Participate in alliances that allow the company to help in satisfying the social needs.
- Involve the employees and shareholders in its investments regarding social development programs.

4. Theoretical Framework

This Chapter is meant to present the relevant existent research about the impacts of soft law CSR implementation instruments on the companies that decide to implement them, which is the medullar matter for our study. As it was mentioned before, the existent literature about CSR and its implementation mechanisms is focused on the assumed pros and cons of the movement as well as the description and development of instruments to implement Corporate Social Responsibility. Nevertheless, there is scarce knowledge about how these instruments affect the firms when they decide to adopt them.

In this way, the researches described further constitute our motivation for this study as they are some of the few studies that approach the effect that one particular kind of instrument has on the business that use it. In this case both works analyse the impact of using the instruments within the classification of management standards.

First, there is the study made by Iatridis (2011) where the case of study strategy is also used in order to analyse the implementation practices of CSR. According to the author, his research objective was leaded to explore the influence of CSR on business practice. In order to succeed in his aim, he takes as a proxy of CSR practices the International Certifiable Management Standards, focusing his analysis on this kind of instruments which according with the classification of the European Commission (2004) are part of the Socially Responsible Management group.

The study of Iatridis is performed through a combination of quantitative and qualitative methods, and he uses both a survey and a semi-structured interview as a mean to collect his data. His research findings revealed that CSR practices have a stronger impact on the legitimacy and reputation of the companies rather than on their core business practices. Nevertheless, he highlights that it is strongly related with the fact that the firms' main motivation for adopting CSR mechanisms is to improve their positive recognition and distinguish themselves from their competitors. As a result, they do not give much importance to deeply change their business practices and just accomplish the minimum requirements to be part of the standards.

Finally, another finding in the research of Iatridis is related with one of the base topics of our research previously explained, which is soft law. Iatridis concludes that the implementation of truly CSR practices cannot be ensured through soft law and self-regulated mechanisms.

On the other hand, there is the study of Filip, Iamandi, & Munteanu (2012), which also approach the use of Management Standards, but they do it in the specific geographical region of Romania. The aim of their work was to find out the relationship between corporate culture and CSR management standards as well as financial power and CSR management standards. In their research they analyse the implementation of six management standards in 40 Romanian companies.

Due to their research purpose, they divide their findings into two categories. On one hand, they found out that regarding the corporate culture, the implementation of CSR practices through management standards has different impact depending on the fact whether the company is a multinational or a local firm. While multinational firms spread their CSR practices to all their subsidiaries, local firms -Romanians in this case- have to adopt those practices by themselves which at the beginning of the adoption could drive deep changes in their corporate culture.

On the other hand, regarding financial power, the findings of the authors emphasize that implementation of management standards is driven mostly due to financial power of the companies rather than its corporate culture.

It is worth to mention that although the previously described researches pursue the same objective as ours, the instruments analysed are quite different. While management standards enable an organisation to address specific social and environmental considerations according with the industry in which they operate or their core business, the codes of conduct and label address sustainability in general. So that, codes of conduct and label instruments can be adopted for all kind of companies and industries, as it is the case of the ESR Distinction (European Commission. Directorate-General for Employment, 2004).

Since not all CSR implementation instruments pursue the same objective and the way how they work inside the companies is quite different, it is important to have insight about the different existing instruments in a separate way. That is why the studies described in this chapter represent our inspiration and starting point to analyse the effects of Codes of Conduct and Label instruments.

5. Methodology

In this part, we present the methodology used in this study. The research design of the investigation is presented in the first section. Thereafter, we will discuss the research method and strategy chosen for the analysis. In section 5.4 we will describe the sources and procedure to collect the relevant data. Finally, we will present the ethical considerations taken into account regarding data collection and analysis.

5.1 Research Design

As Saunders, Lewis, & Thornhill, (2009) pointing in their book, the research design is the plan that leads how to proceed during the study in order to answer the research question. According to the authors, the choice of the research design will depend on the investigation purpose, as well of how big is the existing research related with the studied topic.

When the research purpose is focused on having more insight about how the relationships within a determined phenomenon work or identify causes and effects, the explanatory research design is the most suitable (De Vaus, 2001). As the author highlight, the explanatory design is highly recommended in social sciences and case study approach.

5.2 Research Method

The research method chosen to answer the research question is the qualitative method. Due to this study is based on non-numerical data, and the outcomes of it are also non-numerical, the qualitative method is the most appropriate to conduct the research. Also, due to this method is flexible and partially unstructured, it fits better for studies which seek to understand a determined phenomenon better, and analyze the interaction of the different components involved in the case of study (Saunders et al., 2009).

Nevertheless, according to Saunders et al. (2009), the main limitation of the qualitative research method relies on the fact that the findings could be generalized although the study is performed within a limited population. However, for the present research this does not represent a significant problem due to the purpose of our study is limited to the analysis of the specific case of the ESR Distinction as an instrument of soft law. Therefore, our research

does not pretend to generalize the findings to all soft law instruments used to implement CSR in the companies, but it could be used as a reference for related studies.

5.3 Research Strategy

In order to answer the research question, we have chosen the case study strategy. According to Saunders et al. (2009), this strategy helps to generate answers to questions as “why”, “what” or “how”, and because the answers to these questions are oriented to enrich the understanding about a particular situation, that is why this strategy fits very well with the objective of explanatory studies.

The definition of case study proposed by Yin’s (1994), gives us another reason to use this strategy in our research:

A case study is an empirical inquiry that investigates a contemporary phenomenon within its real-life context, especially when the boundaries between phenomenon and context are not clearly evident.

Thus, according to this definition, a case study strategy is suitable when the research is focused on a specific current phenomenon. Consequently, is not surprising that most of the studies related to Corporate Social Responsibility are performed using the case study strategy since it is a quite new phenomenon. Therefore, the theory about CSR is constantly changing as a result of how companies, regulators, and society embrace the adoption of CSR.

Compared with other research strategies, the case study strategy is not mainly oriented to generalize the results of the investigation to a population, but rather to find and analyze relationships between variables within certain phenomena (Woodside, 2003).

5.4 Data Collection

The collection of primary data was done through a structured set of questions (Appendix 1) made to 50 companies that own the ESR Distinction. The questions were aimed to find out mainly three aspects regarding the experience of the companies in obtaining the ESR

Distinctive. First their motivation to do it, then the changes inside the company implied in obtaining and maintaining this recognition, and finally the benefits driven as a consequence of being a company recognized by the ESR Distinctive.

The interviewed companies were chosen randomly from the list published by the Cemefi on its website (Cemefi, 2016) and we included in the sample companies with different time of being awarded with the ESR Distinction, different sizes, and service oriented companies as well as product oriented ones. From the 50 companies contacted we received answer from 32, however among these 32 participants the variety that we were seeking regarding the different characteristics mentioned previously -size, industry, time of having ESR Distinction- were accomplished as it can be seen in Appendix 2. It is important to mention that some companies decided to keep their identity anonymous, and for a matter of consistency, we decided to keep all the companies in the same way.

Due to the companies where abroad, we contacted them first by telephone and then give them the choice to answer the questions through e-mail or by phone. Because of these two ways of answering the questions, we decided do not to consider the set of questions as an interview, but as a questionnaire; other than that we could say that we used the structured interview as a means of data collection (Saunders et al., 2009).

As the authors describe, “the structured interview comprehends questionnaires with a standardized set of questions in which the interviewer read each question and then record the response”, (Saunders et al., 2009).

Although for some people the questionnaire refers only to a set of questions where the respondent records their own answers, we will take the approach proposed by Saunders et al. (2009), where the term questionnaire have a more general meaning, and includes “all the techniques of data collection in which a person is asked to answer the same set of questions in a predetermined order”, (Saunders et al., 2009). In this way, the questionnaire includes structured interviews as well as those group of questions which can be answered without an interviewer being present.

One of the main advantages of doing questionnaires through e-mail or phone is that you have a high level of confidence about that the person responding them is the right one to do it, on the other hand, there is the possibility that the answers will be contaminated by distortion/invention of the respondents (Saunders et al., 2009).

5.5 Data Analysis

As a consequence of the varied nature of qualitative data, there is no standardized method to analyze it. Nevertheless, Saunders et al. (2009) propose three general processes in which this type of data can be analyzed: summarization, categorization and structuration.

The authors remark that this processes can be used on their own or also in combination with each other. However, for the purpose of our study, and in line with our research question, we decided to use the categorization as the process to analyse the data we collected. This process comprehends two activities: first, developing the categories and second, unitize the data, which means, assigning these categories to the relevant pieces of information (Saunders et al., 2009).

In order to develop the categories, we take as a starting point the work of Iatridis (2011), which has been previously mentioned as one of our theoretical motivations, and also using an abductive approach which according to Dubois & Gadde, (2002) it is a suitable approach for the case study strategy.

It is important to keep in mind the purpose of the research at the moment to establish the categories, in our case this purpose is oriented to identify how adopting a soft law CSR mechanism have impacted the companies. In accordance to that, we establish the categories by identifying which part of the company are the impacts affecting on: its external part or its internal part, thus, we named the following two categories:

- Impacts on Companies' External Relationships
- Impacts on Companies' Internal Processes

Impacts on Companies' External Relationships. - In this category will be all the impacts related with the outside of the company which have a direct repercussion in the relationship with its various external stakeholders such as suppliers, customers, investors, and in general the community where the firm operates as well as organisms related to the main activity of the company.

Impacts on Companies' Internal Processes. -In this category will be considered the impacts that have repercussions inside the company. Those repercussions could be in its operational

or organizational processes, business models, codes of conduct as well as in the relationship with its internal stakeholders such as the employees.

The second step of the process implied decompose all the information gathered and create what Saunders, et al., (2009) call “units of data”, where each unit may be composed of several words, a sentence, several sentences, a paragraph or any other chunk of information that fits the category.

In our case, from the answers of the participants we identified and grouped in the relevant category the impacts that they had experienced, after that we proceeded to identify relationships between those impacts and the size, industry or time of having the recognition. This process is further illustrated in Chapter 6.

5.6 Challenges in Quality of Data

Regarding the challenges about the quality of data and the process of data collection in general, the main issue we faced was the difficulty to reach the adequate person to answer the questions. This was because on one hand, not all the companies have the contact information of their CSR department in their web pages, and on the other hand the big corporations have some bureaucracy procedures and complex communication mechanisms that slow the process of speaking with the executives in charge of the CSR department.

About the validity and reliability of the data collected we faced the normal risk of human responses which sometimes they cannot be one hundred percent true or they are subject of the perception and subjectivity of the respondent. Also, it is important to notice that because the research is based in a case of study, the results derived from the collected information are not aimed to be generalized to an entire population as they do not constitute a statistical sample.

5.7 Ethical Considerations

Research ethics has been taken into account during all the process of developing this work. In the particular case of this study, previous to the interview, we have explained to the companies that they were free to refuse answering one or all the questions if these make them uncomfortable or constitute a violation of their internal rules or codes established in the

company. In addition, we gave them the choice to remain anonymous, this choice was taken for some companies, and we have respected that decision. However, although some interviewees decided not to be explicitly mentioned during the study, we have their full permission to speak about their answers.

It is important to mention that we do not have a direct relation with any of the interviewees, so our judgment did not affect the selection, participation or answers of the participants. Also, the companies were fully informed about the process of data collection -number and topic of questions, means of answering, etc.- the purpose of the research, how the data would be used and where it will be published.

In addition, we are aware about the possibility that further researches and studies will be based on our findings. Thus, it was important to ensure a correct and honest representation of our findings. To achieve that, we have asked open-ended questions in order to let the interviewees explain themselves as much as they considered necessary to make their answers clear and understandable. Also, at the end of Chapter 7 are detailed the limitations of this research in order to avoid a misleading of our results.

Furthermore, we have used a complete and substantial bibliography which has been carefully referenced throughout the study and also presented as a list at the end of the document. This recognize the credit of others writers for their work, as well as give the reader the opportunity to have an opinion about the sources we have used.

Finally, besides the considerations mentioned above, we are conscious that we act as NHH ambassadors, and because of that it is important to lead ourselves accordingly to the institution's ethical standards. In this way, we ensure a consistently professional image of ourselves and the research we have done.

6. Analysis of Results

The purpose of this thesis was to address the existing gaps in the literature regarding the impacts on companies in adopting soft law CSR through specific initiatives such as Codes of Conduct and Label instruments. This was done taking as an example of these kind of instruments, the ESR Distinction. The study has established that current academic research has been carried out with a focus on the real and alleged pros and cons of implementing CSR, but not on the specific instruments adopted by the firms.

This chapter aims to discuss the findings derived from the interviews made to companies listed in the Socially Responsible Companies list published by the Cemefi and is structured as follows: first, the chapter discusses the impacts on the companies accordingly with the categories developed in the previous chapter. Thus, the beginning of the chapter discusses the external and internal impacts that companies stressed to have by awarding the ESR Distinction. Later on, to enhance our understanding regarding the influence of the ESR Distinction on business practices, the chapter highlights companies' reasons to adopt this instrument, and how they integrate the CSR standards in their operations in order to obtain and maintain the ESR Distinction. Finally, it elaborates commentary on the study's contribution to knowledge.

6.1 Impacts on External Relationships and Internal Processes

As mentioned in section 5.5, businesses impacts that derive from the ESR Distinction have been analysed within two categories: *impacts on companies' external relationships* and *impacts on companies' internal processes*. As a remind from section 5.5, for the purpose of this study, impacts on companies' external relationships refers to the effects that affect outside the business organization which have direct repercussions on the interaction and dialogue with a variety of stakeholders. On the other hand, impacts on companies' internal processes are those that cause effects inside the company, either in its way of operate - operational or organizational processes- or in its business models and codes of conduct, that means the stakeholders within the firm.

Concerning to the external relationships impacts, the results of the interviews reveal that one of the most important impacts of the ESR Distinction on companies is the positive effect on business image and reputation. By awarding this Distinction, companies enhance customers' perception of the brand and increase the societal acceptance or "license to operate".

First, as the ESR Distinction is a label initiative, companies use the ESR logo in their brand name to promote their competitiveness and to communicate Corporate Social Responsibility to the public. Likewise, the ESR logo is used as a marketing tool to increase their attractiveness to stakeholders as the list of the awarded companies is published in the advertising and reporting material of the AliaRSE, Cemefi, and other related organizations. Most of the companies claimed using the ESR Distinction's logo to demonstrate the application of socially responsible practices and as a differentiation from competitors. Brand differentiation allows companies to retain customers and attract new ones. According to the Cemefi, 70% of the customers are willing to pay more for a brand that supports social and environmental causes (Cemefi, 2016).

Second, companies said to have increased customers' trust and credibility and enhanced their reputation and legitimacy as a consequence. Interviewees recognized that CSR activities strengthen the ability of the businesses to be seen as legitimate, more transparent and with a less risk of bribery and corruption through the disclosure of information regarding their performance on different environmental and social concerns. Managers identified reputation improvement as one of the major impacts since on it depends most of the other benefits such as customer acquisition and retention, employee motivation, risk management, and license to operate.

The relationship with the community and local authorities where firms operate has also been positively affected through the company's involvement in social concerns as is required to obtain the ESR Distinction. Interviewees affirmed that through social programs, especially those that support vulnerable groups and environmental concerns, firms have increased their participation in the community as well as the proactive communication with community leaders, groups, and organizations.

The results also showed that the ESR Distinction provides companies access to new markets as well as increases their opportunities for financing and funding. On one hand, companies have access to customers that require a CSR recognition as a part of the bidding process to

select new suppliers such as governmental institutions. On the other hand, the ESR Distinction gives companies access to new sources of capital. In this regard, small and medium enterprises (SMEs) interviewed said that they have had major financing opportunities since, in some cases, financial institutions are incorporating the Socially Responsible Companies list reported by the Cemefi as a tool to support the assessment of the risks of their loans. Likewise, large enterprises have increased their funding opportunities using the ESR Distinction to attract potential investors and funds focused on business that has demonstrable track record of social responsibility.

Regarding the impacts on internal processes, most of the companies interviewed affirmed that the ESR Distinction has influenced their business practices, as they implemented sustainable strategies and developed more efficient ways of operating in order to meet the requirements to gain the Distinction. Respondents said that the business processes into which sustainability has been mostly integrated were mission and values, operations, external and internal communications, employee engagement, and supply chain management. According to them, this has been translated into cost reductions, higher innovation, and higher levels of employee engagement.

Interviewees said that they have achieved cost reduction through CSR activities focused on mitigating their externalities and enhanced firm efficiencies such as reducing energy and water use in operations, waste management, and reducing packaging across their supply chains.

Executives also reported that the employees at all levels have shown a greater level of engagement because of the policies implemented are focused on ensuring better-working conditions, as well as the volunteering programs that companies have created to activate employees in community services. According to interviewees, by building a positive workplace environment, companies have improved the well-being of workforce and increased their productivity. On the other hand, by involving employees in different areas of community projects, companies build a sense of community and teamwork thus increasing the employee commitment. Firms have also identified that the reputation in the community provided by the ESR Distinction strongly affects employee loyalty. They argued that corporate image can directly contribute to make the employees feel proud of working in a company that is well perceived by the society and acknowledged for its social activities.

Regarding innovation benefits, companies stated that, in the process to obtain the ESR Distinction, they have created new business models and services, as well as developed more efficient methods. Therefore, the ESR Distinction enables companies to develop innovative ways to create value and new methods for increasing efficiency, e.g., by reducing energy or water use. Respondents said that they had innovated across different departments such as marketing and sales, product and technical processes.

Concerning to how the impact is different depending of the kind of company, the data shows that there is no difference depending of the size of the company as they have the same requirements to obtain the Distinction. However, there is a difference depending on whether the company is service or product oriented. The answers show that those companies that offer a service as their core business experience a higher impact in their external relationships rather than in their internal processes. On the other hand, companies that elaborate or offer products for its sale are likely to experience more impact in its internal processes.

6.2 Companies' reasons to adopt the ESR Distinction

According to the above results, the application of Label and Codes of Conduct CSR mechanisms enhances the relationship with stakeholders and corporate reputation, boost firm attractiveness to investors, reduce costs and improve the firm's operational efficiency. The results suggest that external impacts are higher than the internal ones, which is connected to the companies' motives to adopt CSR initiatives.

In order to enhance our understanding of the impacts of the ESR Distinction on businesses, we discuss the firms' reasons to pursue this award and how CSR is implemented in their operations according to the results of the interviews.

One of the interview questions addressed the firm's motivations when developing CSR practices to obtain the Distinction. Responses indicate that the primary motivation lies in the company's reputation, followed by the firm's differentiation from competitors. Additionally, companies recognized that external pressures – i.e., by the community, consumers, suppliers- were also a primary motivator in CSR-related decision making which confirms that an important link exists with the higher external impacts that companies have.

This is because they are more focused on readjust their business practices to meet CSR expectation existing in the society.

The study also reveals that early adopters are driven mostly by the competitive advantage that CSR initiatives offer, contrary to late adopters that are more influenced by external pressures and that adopt CSR practices for legitimacy purposes.

This, is in line with other empirical research. For example, the study “The Influence of Corporate Social Responsibility on Business Practice: The Case of International Certifiable Management Standards” highlights the influence that external factors such as shareholder demands, regulation or peer pressure have the in firms’ decision of being engaged in CSR practices (K. Iatridis 2011). Also, according to Garriga & Melé (2004), firms acknowledge the significance of maintaining their legitimacy and for that reason, they embody in their strategies the widely accepted practices supported by the institutional environment (Garriga & Melé, 2004).

In addition, companies responded that they engaged themselves in CRS initiatives because it helps to meet government regulations, creates personal satisfaction for the people in the company, reduces operational costs, to participate in public projects and, in the case of SMEs, large customers ask for it. Moreover, almost half of the companies said they are convinced about their responsibility to the community in which they operate, and they believe CSR will be a must in the future instead of an option.

Concerning to the practices that firms implement in order to obtain and maintain the ESR Distinction, the results indicate that most of the companies have adopted management procedures recommended by the ESR Distinction. In addition, they have supported programs that improve the quality of life in their community as well as those that push to create a more diverse workplace. SMEs converged in recognize that they have realigned their mission, vision, and codes of ethics in order to include CSR initiatives in their business models to meet the requirements of the Cemefi.

Regarding ethical business performance, companies have developed codes of conduct to avoid bribery and corruption, and they are communicating their results to the external and internal stakeholders to allow better transparency. To improve labour environment in the company, firms have invested in improving employee working conditions, health care and education, as well as they have created equal employment opportunity policies and practices.

To develop a greater involvement with the community and its development, companies are implementing community programs in their towns such as scholarships and volunteering programs. Finally, to demonstrate their commitment to the environment, firms implement environmental programs such as recycling and reforestation, energy efficiency programs, and water and waste reduction strategies.

6.3 Contribution to Knowledge

Our study contributes to the field in several areas of CSR research. A primary contribution of this thesis is to increase the knowledge about the impact of private CSR initiatives, in specific Label and Codes of Conduct mechanisms, through the analysis of the ESR Distinction. By analyzing a specific instrument, the study makes an important step toward taking the CSR research in a more practical direction. This dissertation expands the knowledge in this field by focusing on the external, and internal impacts that firms have experienced in their aim of obtaining and maintaining the ESR Distinction. Accordingly, the study's results contribute to knowledge by highlighting the importance of external pressures on companies' decision-making to adopt CSR initiatives as an explanatory factor of where firms put greater efforts to receive higher impacts.

The dissertation also contributes to the CSR literature by analyzing companies' reasons for adopting CSR practices. Contrary to views that businesses involved themselves into CSR practices to enhance their financial as well as social performance or due to altruism (K. Iatridis 2011), this highlights that nowadays, external pressures have more influence on firm's decision-making.

As an additional contribution, this research has documented the relationship between the concepts of CSR and Soft Law, contributing in this way to the scarce literature that expressly links these two concepts.

7. Conclusions

This research was aimed to analyse the impact that soft law CSR mechanisms have on the companies that implement them. Specifically, the study was focused on the ESR Distinction, an instrument that according to the European Commission classification is part of the Codes of Conduct and Label instruments.

The collected data suggested that the impacts could be analysed by separating them into two categories: *impacts on companies' external relationships* and *impacts on companies' internal processes*. Thus, the findings of the analysis point out that in general, the impacts on external relationships are higher than the ones on internal processes. This is linked to the fact that the primary motivation of the companies to adopt CSR instruments, lies on improving company's reputation, followed by the firm's differentiation from competitors, and external pressures from their customers, suppliers and the society in general.

Furthermore, the results show that there is not an existent relation between the size of the company with the way CSR instruments affect it, ergo large companies as well as medium and small ones are equally likely to experience a higher impact on their external relationships rather than on their internal processes.

However, the fact that companies are product or service oriented is a reason to determine whether they are likely to experience higher impact in an external or internal level. In this way, according to the responses of the companies, those that are service oriented experience a major impact on their external relationships and a minimum or inexistent impact in their internal processes. On the other hand, the companies that elaborate or offer products for sale are more likely to experience higher impact on their internal processes rather than on their external relationships.

Regarding the benefits driven by being recognized as a company that implement CSR practices, this study converges with the existent literature and identifies as main benefits enhancement of their stakeholder's relationship and corporate reputation, the increase in the company's attractiveness to investors, reduction of costs and improvement of the firm's operational efficiency as well as the labour environment.

In this way, this analysis provides an important addition to the existing literature regarding the impact that soft law CSR mechanisms have on companies as well as it contributes to the existing works that recognize the link between CSR and Soft Law.

7.1 Limitations and Further Research Opportunities

It is important to remark that this study does not pretend to generalize its findings to an entire population, and it should be reminded that it was based in the specific case of study of the ESR Distinction, an instrument classified within the Codes of Conduct and Label instruments (European Commission, 2004).

Unlike other instruments as management standards for example, Codes of Conduct and Label are not specific regarding different kinds of industries. In this way, the instruments studied in this research could be considered very general and because of that they could be leaving on the side relevant issues related with the type of industry. However, this issue could be approached for further studies.

The findings outlined in this research give the starting point to analyse closely the impacts of different kind of instruments on the companies by focussing on the specific case of a determined company. Additionally, a proxy of another kind of instrument can be taken to analyse the impact that this instrument can generate on companies, as we did in our research in which the ESR Distinction was the proxy for the Codes of Conduct and Label instruments.

8. References

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9. Appendix

9.1 Questionnaire

1.- ¿In which year did the Company got the ESR distinctive?

2.- What reasons motivated the Company to pursue the ESR recognition?

3.- Which major changes had to be made in the Company in order to get the ESR distinctive?

4.- Which major changes have to be made in the Company in order to maintain the ESR distinctive in the coming years?

5.- Which have been the benefits/gains for the Company as a consequence of being recognized as a Socially Responsible Company? (Concrete examples).

9.2 List of Participant Companies

Company	Product/Service Oriented	Size	Years having the ESR Distintion
1	Service	Medium	1
2	Service	Small	3
3	Product	Small	1
4	Service	Small	1
5	Product	Large	8
6	Product	Medium	4
7	Product	Small	2
8	Service	Small	1
9	Service	Medium	3
10	Service	Medium	3
11	Product	Medium	3
12	Service	Small	7
13	Product	Medium	5
14	Product	Small	2
15	Service	Small	9
16	Product	Large	1
17	Service	Small	9
18	Product	Small	7
19	Service	Large	11
20	Product	Medium	5
21	Product	Medium	3
22	Service	Small	6
23	Service	Medium	2
24	Product	Large	5
25	Service	Small	10
26	Service	Medium	3
27	Product	Medium	8
28	Service	Large	8
29	Product	Medium	5
30	Service	Medium	9
31	Product	Large	14
32	Product	Large	16

*Companies are ranked according to they response time. Thus, first companies in the list were the first in answer.