The Paragon Corporation
– Exploring Corporate Responsibility and Shared Value for Profitability

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Abstract

This thesis is a two-part exploratory inquiry into how actions of Corporate Responsibility (CR) create economic value for the company performing them, in addition to social/environmental value. The purpose of the thesis is to describe the CR initiatives of a theoretical “paragon corporation”: a corporation that excels in its CR initiatives and sees financial gain in it. The report starts by going over literature, describing the CR context that companies operate in today, and similar work. A model for describing CR activities as business activities is drawn from Nancy Bocken’s concept Business Model Archetypes, and it is proposed as a possible tool for describing economic value creation from CR activities. The first part of the study is a word frequency analysis of the annual financial reports of the companies listed on the FTSE 100, where words connected to CR are counted. The sustainability reports of the five companies that have mentioned CR terminology most in the first study are analyzed in detail during the second study, and are characterized using Bocken’s archetypes. Findings show that the paragon corporation should have CR initiatives that can be modeled after the archetypes, enabling the CR initiatives to create direct economic value for the company. The archetypes can be used when formulating a CR strategy from the ground up, or evaluating existing CR strategy. The thesis ends with suggestions for how this can be explored further.
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1. Introduction

In this master thesis, I will describe how corporate responsibility initiatives can be used to create mutual value for environment/society, as well as the corporations. The topic was suggested by the Swedish consultancy firm Allies, who have an interest in the subject since a large part their work is about assisting clients with corporate responsibility strategy. The purpose of this thesis is to describe the corporate responsibility initiatives of a theoretical “paragon corporation”, a corporation which stands out in their social responsibilities but more importantly recognizes that corporate responsibility can be used to create value mutually for the company and shareholders, its stakeholders, and society in general through its initiatives. Note that corporate responsibility will be denoted “CR” throughout this report, though the term “CSR” that stands for Corporate Social Responsibility will also occur. However, CR and CSR are for this intent and purpose the same thing and can be used interchangeably.

I will develop the paragon corporation concept throughout the literature study. The subsequent inquiry will be performed through quantitatively investigating how corporations use their annual financial reports to communicate their CR intentions to investors and other parties interested in the company’s performance. If the company is very active in communicating its CR initiatives, there is a good chance that the company recognizes CR as something that could create value for customers and shareholders. I will then look at the companies’ Sustainability/CR reports through a qualitative study of how the companies characterizes their CR initiatives and how these may create value in detail. The idea is that these investigations will enable me to identify a number of corporations that provide social returns as well as shareholder value.

To help understand the context of this work, I am first going to discuss the basic premises behind it. Allies, the firm, has the idea that if a company makes money from improving conditions in the world, it will have an incentive to do it, leading to further investments in CR. Right now, the interest in corporate responsibility increases due to heightened demands from consumers and perhaps more importantly, more standardization like ISO 26000 and Integrated Reporting (<IR>). But also because more rigorous legislation for mandatory reporting and increased governmental control
over business ethics (Crane & Matten, 2013) forces companies to be more serious about their CR activities. If done wrong, these increased demands could bring tremendous costs. If done right, added CR efforts could create synergetic effects that gives benefits for the company, even financial ones. This is beginning to be recognized even by corporate executives, who are becoming more aware of the bottom line effects of CSR and how it can add to the company’s value (Baraka, 2012; Godelnik, 2013).

The consultancy firm is interested in the idea of a paragon corporation because part of their business concept is to review the sustainability strategies of client companies, and help them to improve these. To contribute to this, I have chosen the research question: “What characterizes the sustainability work that a paragon corporation is performing?” The research described in this thesis will answer this question in order to achieve a greater understanding of what characterizes a company that excels in creating value through its CR activities. The consultancy firm should be able to use these findings when working with developing CR strategies for clients.

The general contribution to knowledge that will come from this thesis is a better understanding of how CR activities can create value for companies, and an understanding of how companies that actively promote CR activities are using them to their advantage.

This report will be structured as following: The literature study will be presented below. The processes of quantitatively and qualitatively studying the companies will be presented in the methodology section. After that, the results of the quantitative study will be presented, and then the resulting companies will be qualitatively studied. The findings from the qualitative study will then be discussed. Then, there will be some concluding thoughts, a brief ethical discussion, an overview of the limitations of the study and lastly suggestions for future research.

2. Literature Review

Traditionally, business is based on the notion of a “win-win” situation, where buyer and seller both stand to gain from the transaction. Businesses that want to be perceived as responsible are performing actions of social responsibility, but this has
long been focused on so-called “philanthropic CSR” where businesses donate money or resources for a cause. This is a practice that has been criticized due to cultural differences in expectations and a perceived waste of company resources (Godelnik, 2012; Aakhus & Bzdak, 2012). The criticism has in general been about CSR being counter-productive and irresponsible to shareholders with the argument that the company’s plight is to maximize shareholder profit. The most famous example of this kind of critique against corporate responsibility is the one that Milton Friedman (1970) wrote, but also by many others using similar arguments (Bilson 2009; Corporate Watch, 2006). This may very well be the case with companies that commit to CR just because others do it, and those who strive to green-wash the brand (Milmo, 2007; Hamann & Kapelus, 2004). However, corporate responsibility can be much more than that. Today, there’s an increasingly common perception that corporate responsibility performed strategically, tightly integrated with the daily activities, can help both a third party and the long-term financial results of the company performing it (Husted & Allen, 2011; Porter & Kramer, 2011; Borglund, 2009). These ideas have paved the way for what Allies call the “win-win-win” model. This model is similar to the triple bottom line idea where profit, people and planet all are affected positively (Elkington, 1997; The Economist, 2009) and the notion of Creating Shared Value, CSV: by having social responsibility at the core of the company, financial results for the company will increase, as well as the societal benefits (Porter & Kramer, 2006; 2011), since the activities are performed deliberately and strategically. Porter & Kramer argues that:

_A company should carefully choose [...] one or a few social initiatives that will have the greatest shared value: benefit for both society and its own competitiveness._

- Porter & Kramer, 2006, p. 5

In other words, the initiatives should create real value for the company as well as society, they should not be pure corporate philanthropy. This means that these initiatives must be chosen carefully so that they provide strategic value for the company. Care must also be taken so that the company doesn’t overreach by working with such a wide range of activities that they won’t be able to commit to them fully (Porter & Kramer, 2006).

For characterizing the activities that create value, I will use Nancy Bocken’s (2012)
Sustainable Business Model Archetypes. The idea is that these archetypes can describe ways for businesses to create shared value similar to Porter & Kramer’s concept. By adopting Bocken’s archetypes, I will be able to describe the way in which the companies create environmental/social value as well as value for the company, in a sorted, standardized way. Bocken’s model is presented as fig. 1 below.

![Sustainable Business Modelling](image)

**Fig. 1 – Sustainable Business Modelling (Bocken, 2012, p. 7)**

The archetypes are business models for creating value that are generated through the Business Model Canvas (Osterwalder & Pigneur, 2010). Hence, the Canvas can be used to generate additional archetypes that characterize the creation of social/environmental as well as economical value for the company.

The business model archetypes that are presented by Bocken are present in level 5 of the figure, and they are:

- Adopt a stewardship role
- Develop scale-up solutions
- Integrate business in community

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**Key Partners/Suppliers**

<table>
<thead>
<tr>
<th>Adopt a stewardship role</th>
<th>Develop scale-up solutions</th>
<th>Integrate business in community</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eco-friendly Resources</td>
<td>Alternative ownership models</td>
<td>Social regeneration base of operation</td>
</tr>
<tr>
<td>Consumer care</td>
<td>Social enterprises, cooperatives, partnerships</td>
<td>Social regeneration base of operation</td>
</tr>
<tr>
<td>Choice editing</td>
<td>Inclusive carbon</td>
<td>Social regeneration base of operation</td>
</tr>
</tbody>
</table>

**Key Resources**

<table>
<thead>
<tr>
<th>Maximize resource efficiency</th>
<th>Purpose for society/environment</th>
<th>Create value from waste</th>
</tr>
</thead>
<tbody>
<tr>
<td>Last Low carbon</td>
<td>Not-for-profit hybrid businesses</td>
<td>Sustainable, closed-loop</td>
</tr>
<tr>
<td>Dematerialization,双赢慢生产</td>
<td>Bio-industry, slow manufacturing</td>
<td>Value network change</td>
</tr>
<tr>
<td>Home-based work</td>
<td>Eco-industry, closed-loop</td>
<td>Value network change</td>
</tr>
</tbody>
</table>

**Key Activities**

<table>
<thead>
<tr>
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<th>Deliver function, not ownership</th>
</tr>
</thead>
<tbody>
<tr>
<td>Eco-industry, closed-loop</td>
<td>Value network change</td>
<td>Encourage sufficiency</td>
</tr>
<tr>
<td>Sustainable, closed-loop</td>
<td>Value network change</td>
<td>Consumer education</td>
</tr>
<tr>
<td>Social regeneration base of operation</td>
<td>Value network change</td>
<td>Supplementary services, customer loyalty, retention, value network change</td>
</tr>
</tbody>
</table>

**Delivery Channels**

<table>
<thead>
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</tr>
</thead>
<tbody>
<tr>
<td>Eco-industry, closed-loop</td>
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<tr>
<td>Social regeneration base of operation</td>
<td>Value network change</td>
<td>Supplementary services, customer loyalty, retention, value network change</td>
</tr>
</tbody>
</table>

**(Customer) Relationships**

<table>
<thead>
<tr>
<th>Purpose for society/environment</th>
<th>Create value from waste</th>
<th>Deliver function, not ownership</th>
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</thead>
<tbody>
<tr>
<td>Eco-industry, closed-loop</td>
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<td>Consumer education</td>
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<tr>
<td>Social regeneration base of operation</td>
<td>Value network change</td>
<td>Supplementary services, customer loyalty, retention, value network change</td>
</tr>
</tbody>
</table>

**Case - Triple Bottom Line**

<table>
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<th>Revenue Model: Economic, Environmental, Social</th>
</tr>
</thead>
<tbody>
<tr>
<td>Economic</td>
<td>Economic</td>
</tr>
<tr>
<td>Environmental</td>
<td>Environmental</td>
</tr>
<tr>
<td>Social</td>
<td>Social</td>
</tr>
</tbody>
</table>

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The business model archetypes are presented by Bocken are present in level 5 of the figure, and they are:
- Maximise resource efficiency
- Purpose for society/environment
- Pursue disruptive innovation
- Create value from waste
- Deliver function, not ownership
- Encourage sufficiency

These will be used to classify the value-creating, value-capturing actions of the companies: instances where value is created through the business operations, and where routines are in place in the organization so that the it can absorb the value created and benefit from it. Value can also be completely missed (through overcapacity, waste streams or under-utilized assets/resources/capabilities, for instance) or destroyed (through negative social impacts from the operations, depletion of non-renewable resources or environmental damage) which is shown in level 3 in figure 1 and discussed by Bocken (2012). However, I am only interested in the cases where value is successfully captured. Note that these existing archetypes can be limiting since they are narrow: for example, there is no mentioning of inclusion, even though it may provide a competitive advantage (Holt, 2008; Schawbel, 2012).

Nonetheless, the working hypothesis is that a large part of the activities that the paragon corporation performs will fit into the Business Model Archetypes that Bocken proposes. If this shows to be true, it indicates that the archetypes could be used when formulating CR strategy that provides financial benefits for the company. Of course, this would need to be proven more carefully in future studies since the scope of this study is exploratory.

Another tool helpful for understanding how social responsibility can create value for the organization is the model that the International Organization for Standardization (ISO) has adopted in their ISO 26000 Guidance on Social Responsibility. It can give an understanding of the context in which CR works and how it is integrated within the organization (International Organization for Standardization, 2010), as seen in fig. 2.
According to Steinholtz (2012), the basis for this model is the process of how a company recognizes its social responsibilities and then contributes to sustainable development. This process is inspired from the Creating Shared Values notion that Porter & Kramer (2011) has developed. The intersecting circles, describing how the organization and stakeholders engages each other, is derived from the Dow Jones Sustainability Index partner Social Asset Management Corporation’s model for describing interaction (Steinholtz, 2011). The model in can also help understand how Nancy Bocken’s business model archetypes work. The engagement is where value is created in the interaction between organization and stakeholder, as seen in Fig. 2, and described on p. 69 of the Guidance of Social Responsibility (ISO, 2010). The business model archetypes fit in as a “Core Subject” under the “Recognizing social responsibility” phase since these subjects encompasses “the activities of the organization itself and of the organizations within its sphere of influence” (ibid, p. 71). Ideally, the paragon corporation should see the archetypes as important.
components in the core subjects of their operations, and these will increase the value created in the engagement with stakeholders, which here is defined as any party with a relation to the company (ibid, pp. 17-18).

I made the decision to look at the constituents of the FTSE 100 index since it provides a cross-section of successful large European corporations, while still being on a stock exchange that has not yet made sustainability reporting mandatory (except for CO2 emissions reporting, which was made mandatory in April 2013 (Environmental Leader, 2012)). A low-regulated sustainability reporting is desired for the purpose of this study since this is the case on the majority of markets today. However, mandatory sustainability reporting will likely get more common since there has been a surge in Integrated Reporting (<IR>) recently. This is a form of reporting that fuses the financial and sustainability reports into one, which also indicates the trend in connecting profitability to sustainability (The Guardian, 2012).

2.1 Similar Work

The history of investigations into whether corporate responsibility initiatives create value for the company performing them is long and complicated. There has been a seemingly never-ending stream of inquiries into whether corporate responsibility increases the profitability of the company, but it has shown to be near impossible to prove if it actually does so. In a presentation by Glachant (2008), he explains that there should be a positive relationship between CSR and profitability thanks to the three market mechanics he suggests: a) reducing pollution reduces production costs, since pollution often correlates to a waste of resources according to Porter’s Hypothesis, b) consumers are willing to pay a premium for environmental friendly products, because the products often give the consumer health benefits and reduced energy consumption, and c) shareholders are willing to pay a premium for a share in green firms, leading to lower costs of capital for the firm and contributes to better financial performance.

However, he claims that these mechanisms do not hold up. According to studies he brings up, “abating pollution tends to reduce productivity” (Glachant, 2008, p.14), consumers are unwilling to pay for “pure public environmental benefits” (ibid, p. 19)
and that 15 different studies of the results of ethical funds have come to the conclusion that there were no signs of a “clear-cut difference between ethical funds and the others” (ibid, p. 22.) The three arguments are subsequently debunked.

Robins (2011) discusses another issue with CSR performance. He reviews current CSR research and summarizes studies, and compilations of studies, on the matter. Unlike Glachant, he finds a small positive correlation between CSR and profitability. This may be because Robins’ studies are focused on the company performance, not specific strategies like those Glachant examined. Robins finds a positive relationship between social responsibility and profitability, but finds other issues: “there is another unanswered problem, and that relates to causation. Do high profits enable greater spending on CSR, or is it that CSR itself creates higher profits?” (Robins, 2011). This question goes unanswered. However, that does not stop businesses from performing CSR activities with the perception that demonstrating a dedication to corporate responsibility will increase their profits, at least by companies that are consumer-oriented (Fisman, Heal & Nair, n.d.). From the consumer perspective, CSR can involve a wider range of activities. It is not limited to acts of social or environmental responsibility – the consumer can see it as advantageous if the company takes bold risks and put up demands towards e.g. suppliers in their CSR strategies; even offering a product that is of substantial gain to the consumer can be regarded as an act of CSR (Levick, 2012). This can help the company image and increase financial performance: “CSR is extremely useful in corporate identity-building because of its ability to facilitate corporate image attractiveness and thereby increase competitive advantage and overall company performance.” (Arendt & Brettel, 2010, pp. 1485-1486).

Although related, this thesis will not focus on the correlation between the company’s profitability and its CR efforts. I will instead look at how the companies regard their CR activities and the value these activities create overall, in order to build a model. Thus, I am not primarily interested in how much shareholder value is created. However, I am interested in which activities are perceived by the company to create value, and what type of value is created: value of use to the company, stakeholder value or societal value. In order to do so, I need to go over the sustainability reports of the companies. While analyzing sustainability report does not seem to be too
uncommon, it is often done in order to find a correlation to the economic value created by the company, as in a study by Ameer & Othman (2012). This study did find a correlation between monetary profit and sustainability activities. However, analyzing the creation of social and environmental value is, by the nature of it, not as easy since it’s harder to measure.

In this study, I will analyze financial reports to provide a base for examining the sustainability initiatives. According to my knowledge, there have not been any previous studies where this methodology has been used. However, there is a ongoing trend that will result in a closer connection between profitability and CR. Measuring Shared Value (Porter et. al., 2012; FSG, 2013) is something that could make shared value more tangible and easily graspable by making its results visible for those performing CSV activities. I previously discussed <IR>, and a natural next step would be to merge this reporting process with the reporting methods of Measuring Shared Value. This could make the benefits of the creation of shared value visible for shareholders and company management.

3. Methodology

The reason for choosing to look in annual reports is that they are focused on financial matters, and the nature of this study is to look for businesses that connect responsibility to their financial results. Ultimately, profitability plays an important part in being sustainable, as it is needed for operations and expansions, and to get financing through loans or selling shares. Having profitable CR initiatives implies that the company has a long-term commitment to CR, one that can create value for the company by doing good. This is what I want the paragon corporation to be characterized by. If a company uses terminology related to social responsibility in its financial communication to stakeholders – such as shareholders who are traditionally primarily driven by economical motives – it implicitly links social responsibility to financial results. It indicates that social responsibility is regarded as more than just a sideline that is decoupled from the primary activities. It shouldn’t be decoupled, and there is no reason for it to be since CR can strengthen the corporate identity if actively promoted, as shown by Levick (2012) and Arendt & Brettel (2010).
The research question, which as previously mentioned is “What characterizes the sustainability work that a paragon corporation is performing?” will be answered in the second part of the study, through doing a qualitative study of the sustainability reports of the corporations that expressed commitment to sustainability in their financial reports during the first part of the study. This first part, which includes going through financial reports, will be performed by indexing and counting each word in each annual report of every company of the FTSE 100. I must then choose a set of basic keywords that should be instrumental for businesses that want to communicate typically “responsible” intentions: words used by a company that wants to convey their work with corporate responsibility. The frequency by which these occur in the financial reports will be noted. The companies that use most of these indicative words in their annual reports are consciously or subconsciously connecting their corporate responsibility activities to the financial review they are presenting to stakeholders.

This is significant since the traditional view on corporate responsibility often says that it’s equated to charity or philanthropy work and has a negative result on shareholder value, a notion that Friedman (1970) and Bilson (2009) expresses. These views, and other issues with CSR, are discussed by Godelnik (2012), Aakhus & Bzdak (2012), Milmo (2007), and Hamann & Kapelus (2004). However, the purpose of the annual report is to present the company’s results and activities to its shareholders, and it is in its best interest to look as good as possible to draw new investors and sustain or increase the share value (Leviticus, n.d.). Therefore, by connecting corporate responsibility to the financial report, the company demonstrates a belief in corporate responsibility as a value creator.

The qualitative part of the review will be to evaluate the sustainability reports of the five companies identified during the first part of the study as the ones most frequently mentioning CR terminology in their financial reports. The reason for evaluating the sustainability reports is that I want to get a detailed look at how the companies are expressing the sustainability activities they are performing. I will look at their value creation divided over three areas: those that create a value for stakeholders (for clarity’s sake, I have decided to regard shareholders separately from the stakeholder notion), those that create value for the company and its shareholders, and those that
create value for the society and environment. This value is not necessarily monetary. When this mapping has been done for each company, a comparison will be made to identify similarities and differences in the activities that the companies are performing. I will be identifying some commonalities between the companies that stand out in their work. I will also use the sustainable business model archetypes of Bocken (2012) to describe the work that they perform. Identifying these initiatives will give me a basic framework that the model for the paragon corporation should contain in order to create shared value.

This will be an explorative study, since there is a lack of similar studies, and because I am looking for patterns instead of e.g. testing the applicability of a theory or hypothesis (Collis & Hussey, 2009). The study is divided into two parts, where the first is characterized by a quantitative approach to help narrow down the selection of companies to a subset. However, the data that will help answer the research question that is addressed comes from the second, qualitative part. This second part will be where most of the explorative work will take place, where I attempt to develop a blueprint for the sustainability activities of a theoretical company with CR prominence. It is a study with the aim to solve an existing problem; hence it should be classified as applied research (Collis & Hussey, 2009) using an inductive logic, since I will generalize the findings from studying several companies into a general model for the paragon corporation. As discussed in the literature study, the archetypes fit well into the context of the ISO 26000 model described by fig. 2. I aim to describe the sustainability activities using the archetypes.

The hypothesis is that companies using a lot of corporate responsibility terminology will have a similar attitude towards corporate responsibility: that they have an elaborate strategy with long-term goals, that they explicitly express that corporate responsibility is not only important but beneficial to the company, and that they express that they can gain financially from performing actions of corporate responsibility. Moreover, they will fit into Bocken’s business model archetypes.

Hopefully, the results of this study will provide some interesting conclusions that can help the firm and provide a basis for future studies.
3.1 Limitations

There are some limitations in this study. One is in the quantitative analysis. The words that I use to sift out the five “best” companies has to be chosen carefully by selecting words to reflect the most common terminology in corporate responsibility today, since they will have a big impact on the end result. However, that is not a very big problem, since I only need some lowest common denominator terms. Advanced CR concepts and terminology will likely not be used in external communications such as the financial report anyway. The terminology chosen should be commonly used in the sustainability discourse in order to be well substantiated. If this methodology is to be used in future studies, please note that relevant literature must always be carefully studied beforehand in order to get a fair selection of terms.

It is also important to note that there is no comparison made between the five companies, and with companies that mentions CR terminology less frequently in their financial reports. However, this is not in the scope of this thesis, since I’m only interested in those with a high word frequency to depict the CR initiatives of these companies.

Another limitation that has to be kept in mind is that this study does will not take actual performance into account. It is solely an explorative study that examines the relation that the corporations have towards CR, in order to find identify CR practice among companies that connects CR to financial results in order to build a blueprint of the CR activities of the “paragon corporation”. This blueprint can then be applied by real companies.

What is also important to remember is the scope of the study: As mentioned, the study is only exploratory, and in these investigations, I’m taking a “snapshot” of the state of CR today in the companies of the FTSE 100, and in particular the five companies included in the qualitative study. There is not much regard to the past or the future. I have not studied the performance of the companies in the past, since it would prove to be take too much time to study for one person, but is should be investigated in future studies.
3.2 Execution

The annual reports were downloaded in PDF format. Around 90 of them were indexable. 10 were protected, and could thus not be indexed. By searching around from other sources, I found 8 more indexable PDFs. After contacting the remaining two companies and requesting a non-protected version of their annual report, one company complied. This leads to a population of 99 documents out of the 100 that are included on the FTSE 100. These 99 documents were indexed into an Excel sheet by the means of a software tool, through which each word was counted. Companies that didn’t have a separate sustainability or CSR report but instead had a brief sustainability section in their annual report were excluded from the selection, since I am looking for companies with a higher level of ambition to report their sustainability strategies and results, those that are thoroughly explaining their CR activities. Then, word frequency per page was calculated for each word and each report. The decision was made to look for some basic, lowest-common-denominator responsibility terms that are closely interconnected to CSR but not too advanced to be communicated to shareholders. The reason for this is that annual reports cater to laymen, who may have a limited interest in sustainability work and/or are unaware of complex responsibility terminology and concepts, hence, advanced terminology will most likely not used by companies in their communication. If they are, these will most likely show up in the sustainability reports. I chose the words “Sustainability”, “Responsibility”, “Accountability”, and “CSR” since this is terminology commonly used in CSR literature in general, and in a summary of CR terminology by Sage Publications (2011).

The number of occurrences of each term was divided by the number of pages in the report, since the length of each report can vary by a lot, sometimes by a factor of ten. The average frequencies for each term were then summed into a “frequency of all terms, per page” ratio for each report, and from this ranking, the top five companies were selected.
4. Results

From the top five companies, it was clearly shown that the terms mentioned the most were “Sustainability” and “Responsibility”, while “Accountability” and “CSR” were not nearly as popular. There was a large spread between the companies in the average use of CR terminology, even among the top five. The all-terms ratio for these companies was as follows:

- Johnson Matthey plc: 1.163 CR terms per page
- Aviva plc: 0.882 CR terms per page
- WPP plc: 0.862 CR terms per page
- Smiths plc: 0.787 CR terms per page
- Intu plc: 0.785 CR terms per page

The average of these five numbers were 0.896, which is more than the second best company’s frequency, meaning that the top company increases the mean value drastically. The median value for the whole set of 99 companies was 0.300.

In the following sections, I will provide an overview of the characteristics of the sustainability initiatives of the top five companies, as identified in their sustainability reports. I will do this for one company at the time, in descending order.

4.1 Characteristics of Johnson Matthey plc

Johnson Matthey plc is a multi-national company founded in 1817, organized into three global divisions: Environmental Technologies that supplies catalysts for pollution control and cleaner fuel; Precious Metal Products that refine and sell precious metals and precious metal products; Fine Chemicals, that supplies active pharmaceutical ingredients and specialty chemical products (Johnson Matthey, n.d.).

Compared to the FTSE 100 index, Johnson Matthey’s stock has followed the index closely for the last five years. It had a larger-than-index dip in the systemic economic collapse during the fall 2008, but started recovering and followed the FTSE 100 closely in the fall 2010. Since last year, its results have been much better than the index. This has led to its stock overshooting the 5% growth that the FTSE 100 index has had in total since five years with a wide margin: it has grown by about 20%.
In its annual report, Johnson Matthey mentions the term “sustainability” very frequently. “Responsibility” is also mentioned, but not as much. “Accountability” is rarely mentioned, but “CSR” is more commonly brought up, most of any of the sustainability reports. See table 1.

<table>
<thead>
<tr>
<th>Term</th>
<th>Occurrences</th>
<th>Occurrences per page</th>
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<tbody>
<tr>
<td>Sustainability</td>
<td>113</td>
<td>0.837</td>
</tr>
<tr>
<td>Responsibility</td>
<td>30</td>
<td>0.222</td>
</tr>
<tr>
<td>Accountability</td>
<td>3</td>
<td>0.0222</td>
</tr>
<tr>
<td>CSR</td>
<td>11</td>
<td>0.0815</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>157</strong></td>
<td><strong>1.163</strong></td>
</tr>
</tbody>
</table>

Table 1. Word frequency in Johnson Matthey’s annual financial report.

The qualitative study of Johnson Matthey’s 76 pages long sustainability report showed that Johnson Matthey sees a number of ways of how value can be created from working with sustainability.

The sustainability report starts with the chairman’s statement, where it’s mentioned that they have identified a number of global sustainability trend that they are going to pursue during the next ten years. He describes this as taking their sustainability initiatives to the next level: The company is “now at the stage in our sustainability journey where incremental resource efficiency savings are becoming harder to find and so I am shifting my emphasis further towards applying our innovation to develop sustainable solutions, both in manufacturing technology and products.” (Johnson Matthey, 2011, p. 4)

The traditional key indicators for sustainability are present throughout the report: reducing occupational illness and incident rates, reducing CO2 emissions, reducing electricity use, reducing waste to landfill: i.e. reduction of environmental footprint, which is obvious to bring up in a sustainability report. This work is something that Johnson Matthey recognizes as mutually beneficial since it means lower costs for the company as well.
They also bring up how better routines and better integration of corporate responsibility activities can make its performance in those areas better. Implementing ISO 14001 can drive improved performance for the company since it increases efficiency. Having stakeholder engagement integrated within the decision making process formalizes the way in which the company communicates with stakeholders.

They also co-operate with industry organizations and trade organizations where knowledge and best practices are shared, which helps both Johnson Matthey and the members of the organizations to improve their sustainability activities, making them more profitable and resource efficient. Johnson Matthey also performs activities of corporate philanthropy by engaging with local communities in close proximity to its factories, and let employees take time off to work as volunteers. The company also encourages that employees make Johnson Matthey aware of charities and initiatives that they want the company to support.

Johnson Matthey stands out in the way it describes the advantages of working actively with corporate responsibility. As previously mentioned, Johnson Matthey develops products that will be put in greater demand if the sustainability trend continues. It describes itself as “a world leader in sustainable technologies”, (Johnson Matthey, 2011, p. 1) and that “the key global trends that will support growth in our business over the next decade are linked to sustainability and thus will drive the development of products that directly benefit the environment, society and human health” (ibid, p. 4). In other words, Johnson Matthey sees business opportunity in the sustainability trends. They also state that “climate change presents many opportunities for Johnson Matthey” (ibid, p. 22), “sustainability is a key element in growth strategy” (ibid, p. 4) and that “our products and technologies have an environmentally beneficial effect and generate a significant proportion of the group’s profit” (ibid, p. 22). Moreover, “The sustainability trend will drive the development of products that directly benefit the environment, society and human health” (ibid, p. 4), products that the company manufactures.
These statements invoke a lot of thoughts on what defines corporate responsibility. Does the notion of corporate responsibility extend to making a profit off sustainability and having it as a strategic activity in order to make money? The short answer to this is that while that may not be encompassed by the CSR concept, it is encompassed by CSV. This will be brought up further in the discussion section of this paper.

Overall, Johnson Matthey’s activities are focused on environmental sustainability, but also at being a good corporate citizen in the local communities they are active in. They see environmental problems as challenges that can be counteracted through working actively against it, both by the means of reducing environmental footprint and with the help of the products and innovations that they are developing. It will also drive increased growth.

4.2 Characteristics of Aviva plc

Aviva is a large actor on the insurance market that works mainly with life insurance for end customers, general insurance and asset management. It’s been around for over 300 years (Aviva, 2012, p. 4). Since the market collapse during the fall 2008, Aviva’s stock has generally fared much worse than the FTSE 100 index. While the FTSE 100 index has gone up by circa 5% in total over the last five years, Aviva’s stock has lost around half its value.

Aviva talks, in average, as much about responsibility as Johnson Matthey does about sustainability. Sustainability takes a minor role in Aviva’s report, while accountability and CSR is very rarely mentioned, see table 2.

<table>
<thead>
<tr>
<th>Term</th>
<th>Occurrences</th>
<th>Occurrences per page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability</td>
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<td>0.108</td>
</tr>
<tr>
<td>Responsibility</td>
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<td>0.758</td>
</tr>
<tr>
<td>Accountability</td>
<td>3</td>
<td>0.00806</td>
</tr>
<tr>
<td>CSR</td>
<td>3</td>
<td>0.00806</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>328</strong></td>
<td><strong>0.882</strong></td>
</tr>
</tbody>
</table>

*Table 2. Word frequency in Aviva’s annual financial report.*
When looking at the sustainability report, this becomes apparent immediately. It is not even called a sustainability report: Aviva has named it a Corporate Responsibility Report, and it takes up 99 pages.

The chairman’s statement stresses the importance of doing business responsibly and with a long-term focus in mind, including the social purpose of the company, while environmental issues are pushed into the background: perhaps because they have no production, pollution is seen as a lesser issue. That’s not to say environmental aspects are totally excluded: Traditional key indicators are present, such as CO2 emissions, waste to landfill generated, proportion of reused waste, percent of women in senior management positions etc. They move on to delve into the motives of working responsibly, such as building trust and demonstrating sustainability to customers and other stakeholders since it “underwrites our ability to deliver on our promises to our customers” (Aviva, 2012, p. 2) and “promote good practice among the companies we invest in” (ibid, p. 88). Its large size also enables Aviva to influence the action of others in the value chain, involve NGOs to get help with shaping strategy on key challenges, improving sustainability reporting in a multitude of businesses through the coalition it’s a member of. Aviva also performs actions of corporate philanthropy to help reaching street-connected children, and financing the development of innovations that can lower CO2 emissions in developing countries.

Aviva also sees the ways it stands to gain from the corporate responsibility activities it performs. Building trust in long-term relationships will help them keep customers over a longer time span. According to the company, the insurance sector has traditionally not been well regarded by the general public, having low levels of trust. However, its CSR program has increased pride in the company among its employees by 3% in a year. It also motivates the employees through volunteering initiatives, which has increased employee self-confidence, helped them apply for more senior jobs, increased happiness, and made them perform better on their jobs, according to surveys performed by the company.
The most tangible examples of how they stand to gain from working with CSR comes from environmental and social initiatives. Aviva involves themselves in other companies through investments, and through coalitions and partnership with other companies, leveraging their size and resources to promote sustainability from the inside out. They also follow the UN Principles for Responsible Investment.

They are performing activities that create direct economic value for the company itself as well as its stakeholders by selling micro-life insurance in India. Because of this, Aviva can reach a customer base that they would not otherwise reach. Since micro life insurance is aimed at people who would not otherwise been able to afford it, they are creating value for those people as well. Another is developing flood-mapping software that will help their policyholders to protect themselves against floods. That means less costs for Aviva, since they don’t have to give out as much compensation.

Overall, the company expresses that they perform a lot of different activities that does good. They are mostly aimed at creating value for the society and taking responsibility, not as much towards the environment, perhaps because it is a non-producing company. They are also performing activities that are of economical use to themselves as well as their stakeholders.

4.3 Characteristics of WPP plc

WPP plc’s sustainability report is 96 pages long. WPP is a large multi-national corporation that works with communication: It’s comprised of 150 different companies within the group, each under different brands, but sometimes as a sub-brand under the corporate name. Two of the more famous are Ogilvy and brand equity database BrandZ. They are active in advertising, consumer insight, PR and public affairs, branding and identity, marketing and communication, among others. They market themselves towards a wide customer base, from Fortune 500 companies to start-ups (WPP, 2012, p. 10).
Its stock has fared well over the years, following the FTSE 100 closely while dropping around as much as the index during the fall 2008. It recovered and has since then been valued much higher than index. Over these last five years, the stock rose by around 80% while the FTSE 100 index rose by only 5%.

WPP’s annual financial report contained a lot of talk about sustainability, but less about responsibility. Accountability and CSR was very infrequently mentioned. See table 3.

<table>
<thead>
<tr>
<th>Term</th>
<th>Occurrences</th>
<th>Occurrences per page</th>
</tr>
</thead>
<tbody>
<tr>
<td>Sustainability</td>
<td>134</td>
<td>0.684</td>
</tr>
<tr>
<td>Responsibility</td>
<td>30</td>
<td>0.153</td>
</tr>
<tr>
<td>Accountability</td>
<td>3</td>
<td>0.0153</td>
</tr>
<tr>
<td>CSR</td>
<td>2</td>
<td>0.0102</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>169</strong></td>
<td><strong>0.862</strong></td>
</tr>
</tbody>
</table>

*Table 3. Word frequency in WPP’s annual financial report.*

The report starts with words from the CEO, where he recognizes how important sustainability is for the company, since they have a business imperative. “In 2011 at least $1 billion of our revenue came from clients who had checked on our sustainability performance” (WPP, 2012, p. 4), adding that they are leading because they were early movers into sustainability in the sector. $1 billion is around 10% of their total yearly revenue. The CEO sees the role of the company as one that can “work with leading companies on sustainability strategy and we aim to influence all our clients to view their operations in the light of sustainability issues” (ibid, p. 5) Sustainable products should be marketed through “bring[ing] them out of a ‘green niche’ and into the mainstream” (ibid, p. 5) The CEO believes that by cutting carbon footprint and running the company sustainably, they can set an example and enhance the credibility of the company further.

The review of the sustainability report showed that they work with the usual activities: reducing waste to landfill, water use and CO2 emissions. WPP also
performs philanthropic CSR through contributing to charities and doing pro bono work, since this reinforces their reputation of making a positive contribution to society. They also mention their volunteering efforts and how it contributes to employee development and job satisfaction, and that even executives contribute with pro bono advice and support by serving as charity trustees and advisors. Together with their initiatives to embed environmental issues into the decision-making process, this indicates that their sustainability efforts have a high priority.

They are members of organizations that are working to improve sustainability best practice. Initiatives are also performed on a local level: supporting local communities in order to build long-term relationships in important geographical regions, and offsetting carbon emissions by supporting renewable energy projects in local markets. They have as a goal to “support education and skills development beyond WPP to [...] contribute to long-term economic prosperity in the countries where we operate” (ibid, p. 35)

As previously mentioned, the company sees a lot of business value in its sustainability operations, as they mention that $1 billion of the yearly revenue in 2011 came from clients that had checked the company’s sustainability performance prior to engaging them. They attribute their success in sustainability marketing to being early movers into the market. They argue that by committing to diversity and inclusion, it is easier to recruit people from different backgrounds, and having close contact with stakeholders enable them to identify emerging risks and opportunities. By working with making the company more environmentally sustainable, and taking social responsibility, they are able to convey their dedication to CR, heightening their credibility.

To sum up: WPP mainly makes use of their CR initiatives to promote themselves as sustainable towards their customers, in order to maintain environmental/social credibility and attract new clients. They have been able to niche themselves as a leader in marketing and sustainability communication, and acting responsibly helps them maintain that standing: given that 10% of their yearly revenue came from customers interested in WPPs environmental performance, they cannot afford a
tarnished reputation. They also seem to value diverse recruitment – important since they have subsidiaries worldwide.

4.4 Characteristics of Smiths plc

Smiths’ sustainability report (named “Corporate Responsibility Report”) is merely 20 pages long. It is more concise than similar reports but manages to bring up the most important aspects. It only mentions sustainability twice. As the name of the report implies, the main focus is responsibility. Smiths is an engineering company with five divisions, all working with technological innovation and production in different areas such as sensors, communications, energy, medical equipment, etc. One of its largest divisions is John Crane, which provides products and services for the process industry: oil and gas, power generation, chemical, pharmaceutical, pulp, and mining sectors. Another is Smiths Medical that supplies medical devices, consumables and equipment for medication delivery and vital care (Smiths, 2012, p. 2).

Smiths have fared well over the years. Its stock has always been higher than the FTSE 100 index. It did not drop nearly as much as index during the collapse in the fall 2008, and has subsequently performed well and been relatively stable. Over five years, the stock has grown a little over 25%, compared to the index, which has grown by 5%.

As mentioned, the main focus of the CR terminology in Smiths’ financial report is responsibility. Sustainability is apparently not a focal point, while accountability is mentioned a few times. CSR is never mentioned. See table. 4.

| SMITHS, 150 pages                                                                 |
|------------------------------------------|-----------------|-----------------|
| Term                              | Occurrences | Occurrences per page |
| Sustainability                 | 2           | 0.0133          |
| Responsibility                 | 110         | 0.733           |
| Accountability                 | 6           | 0.0400          |
| CSR                              | 0           | 0                |
| **TOTAL**                       | **118**     | **0.787**       |

*Table 4. Word frequency in Smiths’ annual financial report.*
Smiths’ CEO’s statement at the beginning of the CR report proclaims that “conducting our business responsibly is one of our fundamental values and a key element of our five-part business strategy. Behaving ethically, working safely, reducing our environmental impact and contribution to our communities creates long-term value for our shareholders and our wider stakeholders.” (Smiths, 2012, p. 1). In other words, CR is seen as something that creates value for stakeholders. In the following text, their code of business ethics is mentioned as something that enables Smiths to meet obligations to stakeholders and “deliver real business benefits. It protects our reputation and our ability to grow, enhances our efficiency” (ibid, p. 1), and that “sustainability is also a business opportunity” (ibid, p. 1). He argues that “many of our products and services also benefit the environment and contribute to the safety, health and security of people around the world ” (ibid, p. 1). Business ethics is seen as a “cornerstone of our culture” (ibid, p. 1). It is also mentioned that they are member of the FTSE4Good index.

The report then starts accounting for CO2 emissions, energy use, water use, waste to landfill, and incident data: they also have targets for improving these aspects. Smiths also perform philanthropic CR activities, such as charitable donations and local community initiatives.

More interestingly, Smiths puts high expectations on its CR strategy. It’s proven both by the CEO statement, where it is mentioned explicitly that CR creates value for shareholders, and described throughout the report as beneficial for the company. Through funding university labs, providing scholarships and working with increasing youth interest in technology, their corporate responsibility initiatives help Smiths to both profile themselves as responsible, and let them market themselves towards the youth, as a long-term investment in what could potentially be future employees: “Smith’s Group encourages its businesses to support the building of highly-educated and trained technological workforces” (ibid, p. 15). They also write that “Building strong community links also benefit our business. It helps enhance our reputation, foster employee engagement and attract new employees” (ibid, p. 15). They also have a system of sharing best practice and actions plans for CR across their subsidiaries.
Overall, Smiths does not disclose anything controversial regarding CR but they see CR as important for creating value for shareholders.

4.5 Characteristics of Intu plc

Intu’s sustainability report is referred to as a “Corporate Responsibility Report” as well. As with Smiths’ report, it is also a bit shorter, 26 pages in all. The company is a large property owner that builds and runs a number of shopping centers all over the UK, letting out retail space for businesses. Its share price dropped more than index during the fall 2008, and has not since recovered. The stock has lost half its value over the last five years, compared to the index, which gained 5%.

Intu mentions responsibility almost exclusively throughout the financial report: sustainability is very rarely mentioned, neither is accountability. CSR is not present. See table 5.

<table>
<thead>
<tr>
<th>Term</th>
<th>Occurrences</th>
<th>Occurrences per page</th>
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</thead>
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<tr>
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<tr>
<td>Responsibility</td>
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<tr>
<td>Accountability</td>
<td>1</td>
<td>0.00694</td>
</tr>
<tr>
<td>CSR</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td><strong>TOTAL</strong></td>
<td><strong>113</strong></td>
<td><strong>0.785</strong></td>
</tr>
</tbody>
</table>

Table 5. Word frequency in Intu’s annual financial report.

Intu mentions their initiatives to achieve zero waste to landfill (which they have accomplished), reduction in water use and carbon emissions etc. They support a number of projects aimed at the local communities they are present in, such as providing placement opportunities for people attending vocational skills courses in local schools, having a fund that can support charities important to the employees, offering free assistance for personal problems to employees, and supporting various
philanthropic projects. Their community support amounts to the equivalent of £2 million in cash.

Their motivation is that by having a long-term focus, they can provide future growth. They see a business imperative in this and perform their CR initiatives as a strategic activity. “Corporate responsibility must be driven by the strategic aims of the company and subject to the same types of governance controls as other areas of the business” (Intu, 2012, p. 7). The company’s shopping centers are “support[ing] local and national charities and NGOs that address fundamental issues in modern society which are important to the long-term success of our business” (ibid, p. 8) The idea is that “maintaining strong relationships with groups and individuals that are part of, or influence the success of our business, is vital to our ongoing success” (ibid, p. 18).

The company seems to see a value in strategic CR activities, even if the initiatives themselves aren’t bringing anything new to the table.

5. Discussion

It was predictable that “Sustainability” and “Responsibility” would be the most common terms out of these four. Sustainability has become somewhat of a buzz-word to show off environmental or social consciousness, and has become commonplace even in annual financial reports. “Responsibility” is a word that has less connection to doing environmental or social good, and could instead be used in a financial context, but even so, it’s a good indicator for sustainable thinking in an organization. In the case of e.g. Aviva plc, they use the word in a similar context to how “sustainability” is used in other reports. This is likely because Aviva is an insurance company that doesn’t face the same environmental issues as manufacturing companies, and being sustainable in the long term is, for them, more about treating stakeholders with respect and having high operational standards (Aviva, 2013). This perspective may be perceived to be more accurately described using the word “responsibility”.

Meanwhile, “accountability” and “CSR” were very rarely mentioned, but it is hard to draw any conclusions on why. “Accountability” may be too bureaucratic, while using the acronym “CSR” could go over the heads of shareholders. However, even if the
frequency of the term “CSR” is low, it is interesting to see which companies mention CSR in their annual reports, and those who do not.

By looking at the five companies that talk most about corporate responsibility in conjunction with the company’s financial report, I have sifted out a smaller set of companies where the assumption is that they see an economic potential in corporate responsibility. Note that I will not draw any conclusions on the connection between financial performance and the terminology frequencies. There was no detected correlation among the top five companies, and either way, these wouldn’t be enough for a statistically significant conclusion. Instead, I am focusing on what characterizes the work that they do.

I chose to divide the number of CR terms by the number of pages in the financial report. This is because there can be a lot of variation in the report length. Even so, this could penalize the companies that are more meticulous than average in describing their economical activities, so I also looked at what the outcome would be if I hadn’t divided by the number of pages. Here, Aviva placed first, followed by Lloyds Group, Old Mutual, WPP and Petrofac. Johnson Matthey placed sixth. The three first companies are insurance or banking companies, and the dominating term in their reports was “responsibility”. I think this is due to the fact that “responsibility” is a word that financial institutions use frequently in other contexts than CR, and it is possible that this term wasn’t very suitable for finance companies since it introduces a bias.

I could also see that there were some other companies on the top. This was interesting to see, but these top-placing reports were also longer than average – the top five companies’ financial reports in this alternative list were 372, 371, 300, 196 and 176 pages long, correspondingly, while the list implementing an average had a top five where the reports were 135, 371, 196, 144 and 150 pages long. Since I don’t want to favor reports that just contain vast amounts of text, I chose to stay with the method where term frequency was divided by page count.
Three out of the five companies: Johnson Matthey, Aviva and Smiths, seemed to have the relation to CSR that I was looking for. They all see a business opportunity in corporate responsibility and how they stand to gain from working with improving environmental or social conditions. They work with the issues that they claim have a strategic value for them, benefitting both the company’s competitiveness and society.

Since I am looking to describe the CR initiatives that the companies work with and how these creates value for them, I am also going to describe the Business Model Archetypes that can be identified in the sustainability reports.

5.1 Archetypes
The most apparent common trait between the five companies is that everyone seems to be doing some sort of basic environmental/social reporting according to the “Maximize resource efficiency” archetype. The most common key performance indicators in use here are CO2 emissions and energy use. Since these two factors lead to more pollution and therefore destroys environmental value, it must be minimized, something that all of the five companies does. However, this does not create value for the company, and to a certain point, reducing pollution will provide diminishing returns since it’s going to be more complicated and costly to reduce CO2 emissions when you’ve already undertaken all apparent measures to reduce it. This is e.g. something that Johnson Matthey expresses, and claim that they will shift focus to reducing environmental impact through their technological innovations in their future work with sustainability.

• Johnson Matthey is maximizing resource efficiency by using Lean in its operations, which creates value for the company.
• Aviva works actively with reducing environmental impact. This is important not only because it’s perceived as the right thing to do, but the company also recognizes that climate change will result in property damage, something you don’t want as an insurance company.
• WPP voices the fact that they are not a producing company, so they don’t have much emission, even though they are trying to reduce carbon emissions and waste to landfill. One of their larger posts is associated to travelling. They have cut back flying by using video-conferencing, which gives the company
the benefit of increased savings, credibility as communication advisors on climate change, and meeting changing regulations. They support renewable energy projects to offset their carbon emissions.

- Smiths are reducing CO2 emissions since it adds “value to our business and enable us to fulfill our corporate responsibilities” (Smiths, 2012, p. 17). They have targets to reduce water consumption, CO2 emissions, and waste generation.
- Intu has achieved zero waste to landfill by recycling 100% of their waste, which they say has decreased their costs.

Re-using waste can create value as well, through the archetype “Creation of value from waste.” This is done through reuse/recycling.

- Johnson Matthey claims to have come far in their reuse of rare metals, which they strive to do since it’s an expensive, depletable resource. This reduces environmental footprint while giving the company economic benefits since they don’t have to buy the same quantities.

“Adopt a stewardship role” can be done through sponsoring projects or initiatives. These can provide an advantage for the company as well.

- Johnson Matthey takes on a stewardship role by supporting educational projects and science. This provides value for them through goodwill and enforces a positive attitude towards the company, which can help recruitment. They also work with initiatives where employees are paid to work as volunteers in society. This imparts a better attitude towards the company in society, as well as empowers employees.
- Aviva is working with highly profiled initiatives to reach street-connected children. They use CR strategies to motivate employees, through e.g. paid volunteering, which as previously mentioned have increased employee happiness and self-confidence. The company also co-operate actively with sustainability rankings and indices since it helps the company to identify how they can improve and show stakeholders how the company’s performance measures up.
• WPP performs charity work for organizations and pro bono assignments for non-profit organizations. The company notes that pro bono assignments is often valued higher than monetary contributions by non-profits, and the cost for the company itself is likely lower than monetary contributions would be. The gain for WPP with doing pro bono work is that it upholds its status as a company that puts corporate responsibility high on their list of priorities.

• Smith’s makes charitable donations to organizations and drive community initiatives where they are active, to encourage a positive attitude towards the company. They also leverage their role as a technological company through funding university labs, providing scholarships/internships, and increasing youth interest in technology.

• Intu supports community projects and working in close interaction with them. They also make charitable donations, and the employees are able to influence the choice of initiative that Intu should support.

“Deliver function, not ownership” means providing a service as a product instead of manufacturing, which puts less strain on the environment since this means that customers can have access to services when they need it, instead of owning.

• Aviva provides the function of insurance against unforeseen events, and since they are a big capital owner, they are also a big investor. But their primary operation is insurance.

• WPP develops marketing campaigns and provides guidance. They have no physical manufacturing done.

• Intu owns property and let its customers rent them.

“Purpose for society/environment” means working actively with social or environmental organizations to provide a benefit for society/environment, enforcing a positive public image and helping those at the bottom of the pyramid.

• Johnson Matthey are working in alliances with other companies and organizations with goals such as disseminating environmental best practice between members, in order to improve their performance in these areas.

• Aviva has created a coalition with the mission to improve sustainability reporting.
• WPP is a member of organizations working with improving sustainability practices.

Pursue disruptive innovation can be done by pushing technological innovation and changes in value that are of gain to society/environment and the company.

• Johnson Matthey is working with this through developing innovations that they can sell, which will improve the state of the environment, and that gives direct economic profit for the company.

• Aviva is developing technological innovations to mitigate the damages of climate change, such as flood-mapping tech, since reducing property damage is important for an insurance company. Mitigating climate change is called “fundamental to our business”.

• WPP does research into the implementation of sustainability and where it fails, and distributes this over its divisions through an online tool and handbook to encourage cooperation on sustainability between the divisions.

“Integrating business in the community” is often done at the “grass roots”, as a way to empower the bottom or the pyramid and at the same time helping them.

• Aviva works with partners to provide cheap micro life insurance in India. This enables the company to widen the customer base, monetary value created for the partners and the company, as well as value for the customer who would otherwise been uninsured. They also run community investment projects for lowering CO2 emissions in developing countries.

• WPP claims that that the skills development that they provide for their employees can contribute beyond WPP, to long-term economic prosperity in the countries that they operate.

• Smiths nurtures bonds with local communities to enhance the company’s reputation, foster employee engagement and attract new employees.

• Intu supports local initiatives to help homeless and students. They provide placement for college courses, giving the company inexpensive labor while the students get a vocational placement. Another initiative is the donation of clothing to support homeless people looking for jobs. These initiatives provide a social benefit to the local community through empowerment, and Intu
explicitly says that helping these “charities and NGOs that address fundamental issues in modern society […] is] important to the long-term success of our business” (Intu, 2012, p. 8).

To conclude which companies followed which archetypes, see table 6 below.

<table>
<thead>
<tr>
<th></th>
<th>Johnson Matthey</th>
<th>Aviva</th>
<th>WPP</th>
<th>Smiths</th>
<th>Intu</th>
</tr>
</thead>
<tbody>
<tr>
<td>Maximise resource efficiency</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Adopt a stewardship role</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Integrate business in community</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
</tr>
<tr>
<td>Purpose for society/environment</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Pursue disruptive innovation</td>
<td>Yes</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Deliver function, not ownership</td>
<td>No</td>
<td>Yes</td>
<td>Yes</td>
<td>No</td>
<td>Yes</td>
</tr>
<tr>
<td>Create value from waste</td>
<td>Yes</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Encourage sufficiency</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
<td>No</td>
</tr>
<tr>
<td>Develop scale-up solutions</td>
<td>No</td>
<td>No</td>
<td>No</td>
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Table 6. The archetypes identified in the sustainability reports.

The archetypes for “encourage sufficiency” and “develop scale-up solutions” were not mentioned in the sustainability reports. These types of business models are not typical for these kinds of companies. Sufficiency, meaning working against quantitative consumption, is probably not something that Johnson Matthey or Smiths would commit to: they have a business model that make them dependent on selling their technical products to as many customers as possible. The other three companies
provide services, so the archetype is not applicable to them. Scale-up solutions means having a resource efficient core business that uses outsourcing when demand is increased. None of the companies are claiming to be doing that, and this may be because it’s more of an operative question, something that the companies likely regard as a matter that doesn’t belong in a sustainability report.

Note that the archetypes do not include all positive effects that spring from an active CR management. The archetypes are business models, i.e. value creating activities (Bocken, 2012, p. 14). While CR can improve the company’s reputation, which in turn increases its number of customers, this is an indirect effect and not an activity that creates shared value in itself. This is discussed further in the results section.

The review has shown that the business model archetypes are easily identifiable in our example companies. They are used in widely by the top companies: I could tie 5 archetypes to Johnson Matthey, 6 to Aviva, 6 to WPP, 3 to Smiths and 4 to Intu. The companies that followed a larger number of archetypes gave the impression that they have a more elaborate view on sustainability, and appeared to see sustainability as something that provides a competitive edge and strategic advantage. The business model archetypes concept seems to be a good fit when describing how shared value is created through activities – but any aspect that was missing from the archetypes was that of inclusion. Inclusion is a win for society, since it leads to a better acceptance for minorities, and a win for the company since it effectively grows its recruitment base. I propose that an inclusive dimension should be added to the business model archetypes.

This takes me closer to describing the paragon corporation. Note that one company cannot, and should not, fulfill all archetypes: some of them are hard to implement for companies that uses conflicting business models i.e. delivering a function instead of ownership, so some archetypes wouldn’t be feasible for all companies. But the archetypes did evidently describe the activities of the leading companies well. Based on this fact, and fact that I’ve observed that the archetypes are well founded within CR theory, I draw the conclusion that Business Model Archetypes is a highly usable model that can be of great help when developing a sustainability strategy, together with processes that can identifying the archetypes that fits best with the company’s
character and aim. This improves how the company contributes to society and environment, and it improves the value returns from working with sustainability.

The research question was: “What characterizes the sustainability work that a paragon corporation is performing?” The investigations in this thesis show that the paragon corporation can’t be limited to having sustainability as activities separate from the everyday operations: they would start on the lower levels of business philosophy with a base in the Business Model Archetypes. To follow these, the paragon corporation should have a flexible, lean-like approach to production with maximized resource efficiency and outsource to suppliers if necessary. If waste is created, it should be utilized as far as possible. In order for the product to be sustainable, and not only the company, it should be quality focused with a long life span, and not put a strain on the environment when it’s put out of commission. The company would ideally pursue innovation that paves the way for better sustainability practices and more sustainable products, while having a well integrated role in the local environment where it can help while also getting something out of it, like manpower or profit. The initiatives that the company lacks knowledge to perform could be pursued with the help of partners such as NGOs or industry organizations. But it would be more than that: on an operative level, the company would be aware of how all their CR initiatives creates value and how to capture it. They would be attentive if new possibilities to create shared value showed up. It would generate new Business Model Archetypes when necessary.

This may be a utopic vision of the paragon company, but it provides a theoretical base that can be researched further. For a more practical example, you could imagine a hybrid between Johnson Matthey and Aviva’s initiatives. They both realize the potential profits of sustainability, and reap the benefits of it while creating value for environment and society, despite having totally different products. Johnson Matthey utilizes their technical knowledge to develop products that improve the world and making a profit while Aviva works for the environment and society in order to reduce insurance payouts.
This value creation is done with the help of Bocken’s archetypes, and they fit well in the context of ISO 26000, as described in the literature study section of this thesis. This context is illustrated by the model (fig. 2) from ISO 26000: the archetypes increase value created in the interaction between stakeholder and organization. It is important to note that the set of archetypes may not fit every shared value-creating model, and it can be expanded as seen fit by using Osterwalder & Pigneur’s (2010) Business Model Canvas.

5.2 Ethical Aspects: Does Making Money from CR Create an Issue?

The ethical paradigm for this thesis has so far been simplistic: it is a bit more complicated than it seems. Take the business model of Johnson Matthey as an example. If climate change keeps getting worse and the attention to climate change stays constant, it’s reasonable to believe that the demand for mitigation strategies and technical innovations will increase. On one hand, this implies that Johnson Matthey makes money from climate change since they sell innovations that are used to reduce environmental footprint. On the other hand: what if they didn’t sell innovations that mitigates climate change? It is likely that either someone else would. Or perhaps someone else wouldn’t, and climate change would keep getting worse. The ethical aspect is difficult to survey. Not only does the company implicitly make money off climate change, it would also mean that it makes business sense for such a company to exaggerate the threat of climate change.

A more benign but not less problematic issue is that companies could “hide” behind doing good mutual good for company and society. It’s possible to claim that a company’s products are used to improve environmental or social conditions and maintain that this is an outcome of corporate responsibility, all while playing down the negative aspects of the company operations. In other words: greenwashing, as described by Milmo (2007) and Hamann & Kapelus (2004). To counteract this, regulations should not become more lax even through value driven corporate responsibility leads to a generally greater self-regulation among companies.
However, keep in mind that all kinds of corporate responsibility can be misused: it has always been criticized for that since Milton Friedman (1970). But creation of tangible value for businesses from sustainability activities will most likely result in a further increased investment in CR, thereby improving social and environmental conditions. It would most likely result in more positive effects than negative.

The concept that is of most support to the idea of the mutual creation of value for environment/society and corporation would be Creating Shared Value (CSV). I have previously discussed Porter & Kramer’s (2006, 2011) concept of CSV, and how it advocates that strategic corporate responsibility should act as a creator of value for the environment or society, and business performing the activities. It is something that is encouraged, necessary even, in order to uphold sustainability activities long-term – not pressuring companies into doing it.

*If governments, NGOs, and other participants in civil society weaken the ability of business to operate productively, they may win battles but will lose the war, as corporate and regional competitiveness fade, wages stagnate, jobs disappear, and the wealth that pays taxes and supports nonprofit contributions evaporates.*

- Porter & Kramer, 2006, p. 7

This is true if unreasonable CR demands would be imposed on the company. However, this does not mean that regulations as a tool for governance is rejected, as they also state that “Good government, the rule of law, and property rights are essential for efficiency and innovation.” (Porter & Kramer, 2006, p. 7). A balanced combination of regulations and value-creating CR is likely the best way to go in order to get economic returns from CR, while still maintaining oversight over companies. With this, the ethical discussion is ended for now but these aspects can be explored further. This should be done in future research, with a primary focus on business ethics.

**6. Conclusion**

This explorative study has examined the relationship between how companies talk about sustainability in their financial reports and the ways in which sustainability create value for them. As discussed in the Archetypes section of this thesis, the
The research question was: “What characterizes the sustainability work that a paragon corporation is performing?”. Through my studies, I found that the companies that talk most about sustainability in their financial reports are having a good idea of how value can be created from corporate responsibility initiatives. I also found that this value creation gains both the company and society/environment, according to the concept of Creating Shared Value, and that the process of value creation can to a high degree be characterized by the concept of Business Model Archetypes (Bocken, 2012), which fits into the ISO 26000 model of integrating social responsibility throughout the organization (ISO, 2010). The archetypes model is a good fit with the CR initiatives of the companies that I studied qualitatively, so it is reasonable to conclude that the paragon corporation should follow the models of Bocken (2012). This answers the research question. The Business Model Archetypes will also provide a good starting point when drafting up the sustainability strategy for a company, as my findings show that it is a suitable model for the paragon corporation that helps understand how CR can create direct economic value for the company performing CR initiatives. When formulating a CR strategy, the operations of the company should be analyzed in order to see the CR activities that fit into Bocken’s archetypes. The activities that don’t fit into the existing archetypes, but still generates value that is captured by the organization, can be reviewed using the Business Model Canvas (Osterwalder & Pigneur, 2010). If value isn’t captured but instead missed, the Business Model Canvas could be used to help analyze where the capturing fails in order to correct this.

Using the word “responsibility” in the quantitative study may have created a bias towards financial institutions, but other than that, my methodology seems to have been successful. By analyzing the financial reports of the companies listed on the FTSE 100 by looking at CR terminology, I used a novel way of checking the companies’ perceived attitudes towards CR. Of the five companies that discussed CR terminology the most, I could show that the top three companies have innovative ways of working with corporate responsibility that follows the Business Model Archetypes well, and these initiatives give them real benefits. It is not only the finding that Nancy Bocken’s model helps capturing CR value from operations that is of significance – the model is accurate but not without faults as previously discussed – it
is also important to recognize that the methodology I’ve found provides a way of qualitatively analyzing a company’s view of its CR initiatives that hasn’t been done before as far as I know, and it is just what I sought. This provides a great base for future research in order to take this further.

What will happen in the future of the paragon corporations? According to Baraka (2012) and Godelnik (2013), a tighter integration between the financial report and sustainability is expected in the future through Integrated Reporting. Since the studies performed in this thesis pointed out that companies demonstrating CR consciousness in connection to the financial report have a good ability to create value from CR initiatives, it’s possible that businesses in general will be better at recognizing this connection and creating value from CR activities in the future. And the theoretical paragon corporation is likely to lead the way in the implementation of Integrated Reporting since it’s already used to regarding CR as a value creator.

The critique that has followed CR since Friedman (1970) may have been justified in the win-win world existing back then – corporate responsibility may not have been as responsible towards the shareholder, given the assumption that all the shareholders care about is dividends. However, as CR gains legitimacy as a value creator for shareholders, this argument is rendered moot. This is proven by this study, as well as by authorities on the subject like Porter & Kramer (2011) and Husted & Allen (2011). I can conclude that the win-win-win world exists for the companies that can create shared value, and that Business Model Archetypes is a fitting tool for it.

6.1 Suggestions for Future Research

Because of the explorative nature of the study, it is possible to develop this subject in a large number of ways in future research. The most important one is to examine Business Model Archetypes further: if companies are consciously working with developing ways to work with sustainability that provides profit for the company, and how more archetypes can be developed from the Business Model Canvas in practice.
The ethical questions should be explored further, since there may arise conflicts of interests and moral issues as responsibility and value creation move closer together. The trend right now is that they will be more closely intertwined in the near future through new ways of looking at sustainability, like Integrated Reporting. <IR> will lead to a closer bond between sustainability and profitability in the communication of businesses (The Guardian, 2012). Another question is whether <IR> will lead to new practice and ways of dealing with sustainability long-term, or if it merely will be a corporate trend. Ghuliani (2011) suggest the former, and adds that companies must begin to adapt for this through better data collection routines and data robustness, while still letting companies maintain some leeway for additional, voluntary reporting. The results of this study indicate that corporations that are actively communicating their sustainability efforts to shareholders are performing activities that create mutual value for the company and the environment/society, meaning that they are already on the way towards the thinking that is promoted in CSV and <IR>. It provides even more reasons for examining how the intertwinement of responsibility and profitability will alter the behavior of corporations. This is a great opportunity for future studies.

It would also be very interesting to look at the correlation between the frequency of words related to sustainability in the financial report, and the profitability of the company. My set of five companies is not enough to draw any statistically significant conclusions on this correlation, so a bigger study would be interesting. It would also be possible to examine the sustainability reports for business model archetypes and see if these have any correlation to profitability, similar to what Ameer & Othman (2012) did but with focus on the archetypes. However, it could still be hard to determine if archetypes would be the reason for a company’s high profits, or if the company would fulfill the archetypes thanks to a sophisticated CR strategy made possible by the company’s high profits. It’s the same chicken-or-the-egg dilemma as discussed by Robins (2011).

Future studies could encompass more indices than only the FTSE 100. Another interesting comparison would be between the identifiable business model archetypes of the companies that mention CR terminology less frequently, and this study’s top
five. This would be done in order to see if, and how much, they differ. Another dimension is time. Throughout this study, I have depicted the state of the companies as they are today. It would be interesting to see how the CR activities of the top five companies have evolved over time, perhaps combined with interviews. This could provide a better understanding of how the CR strategies have developed, if any factors for success can be identified, and how they have been placed in relation to the other companies on the FTSE 100.
7. References


Johnson Matthey, n.d. *How we are Organised* [online] (Publication date missing) Available at: <http://www.matthey.com/whatwedo/howweareorganised> [Accessed 10 May 2013]


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