

CSR and the quest for profitability – using Economic Value Added to trace profitability

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ABSTRACT

Management scholars have for a long time disagreed on whether or not there is a correlation between Corporate Social Responsibility (CSR) and profitability. One of the reasons behind the disagreement is the complexity in measuring CSR. Some scholars however claim that Economic Value Added (EVA) is an indicator that can be used to measure the correlation between CSR and profitability. The goal of our study is to find out if there is any correlation between CSR and profitability. The empirical data consists of interviews with respondents from five companies and the calculation of the selected companies EVA-value from historical financial statements. The EVA shows a low positive correlation between profitability and CSR. But previous research and the practical examples from the selected companies show a strong positive correlation between CSR and profitability.

Keywords: CSR, EVA, profitability, management control

1 INTRODUCTION

Corporate Social Responsibility (CSR) is not a new concept; it was first coined in the scientific literature by Bowen in 1953. He described CSR as follows: *"it refers to the bond of the businessmen to pursue those politics, to make those decisions, or to follow those lines of actions which are desirable in terms of the objectives and values of society"* (Bowen, 1953). However, it took until 1967 before the company was included in the concept of CSR. This was a key development, which allowed the company to use responsibility issues in business (Falck & Hebllich, 2007). Increased globalization has also increased competition and therefore companies try to create competitive advantage by taking greater responsibility. It's no longer enough for companies to have the best products and the best service. Instead values and responsibility have become increasingly important elements of competition which means that it has recently become fashionable for companies to work with CSR (Burke & Hodgson, 1996). Different stakeholders also require companies to work with CSR, which has helped companies to be more aware of their impact on society (Sprinkle & Maines, 2010).

Windell (2009) believes that there are three reasons why CSR has become so popular in recent years. The first explanation is that there has been a series of triggering events that have highlighted aspects of corporate social responsibility. The other possible explanation is that CSR has increasingly come to be associated with a recipe for success. The third explanation is that experts have started to become more involved in issues of liability, thus spreading information about the accountability of companies (T. Nilsson, 2009). The concept of CSR has therefore been discussed in theory and practice, but the definition is not entirely clear. A common and often used definition is the EU Commission's definition: "Corporate Social Responsibility is essentially a concept whereby companies decide voluntarily to contribute to a better society and a cleaner environment ... which means that the companies integrate social and environmental considerations into their activities and in their interaction with their stakeholders " (European Commission, 2001, p. 4, 6). CSR therefore deals with the social responsibility companies take in addition to what they are forced to by law (Sprinkle & Maines, 2010).

As the concept grew more popular among companies there was also criticism. According to Friedman (1970) companies should not work with CSR because it is not consistent with their primary goal, "... the social responsibility of business is to increase its profit" (Friedman, 1970, p. 1). When companies engage in economic responsibility, then the social responsibility follows naturally: companies make a profit, pay taxes and hire people which all secure economic growth. CSR critics also state that it is the profit motive that allows long term businesses thinking and makes management care about their reputation (Grafström, Göthberg, & Windell, 2008). Despite the criticism voiced, Falck and Heblich (2007) say-the trend of CSR work has not arisen without a cause, it is a reaction to the social and environmental needs that exist. The debate on CSR is both timely and provocative but there is no consensus in research (Weber, 2008). Companies are torn between social awareness and profit demands of shareholders and other stakeholders (Lynes & Andrachuck, 2008). John Mackey, founder of Whole Foods, even claims that CSR represents a new form of capitalism, a capitalism that promotes good. (Sprinkle & Maines, 2010). Kofi Annan, the UN's former Secretary General, expressed the following about corporate citizenship, "We have to choose between a global market driven by calculations of short-term gain and a market that is humane. From a market, this condemns a quarter of people to starvation and squalor, and one, which offers everyone the chance for prosperity in a healthy environment. Between a selfish market that ignores the fate of the vanquished, and one in which the strong and successful accept their responsibilities and show the world the wisdom and leadership" (T. Nilsson, 2009, p. 35).

In recent years, however, the debate on CSR has come to focus on its link to profitability. Today, CSR is an accepted concept and well established but the debate continues about whether it is profitable or not (T. Nilsson, 2009). There are mainly three contradictory views of the relationship between CSR and profitability: CSR is at odds with profitability, CSR can be profitable or that CSR does not have any impact on profitability. Those who believe that there is a negative relationship between CSR and profitability, say among other things, that companies practicing CSR get a competitive disadvantage because they have higher costs, which they otherwise would not have had. Costs reduce profits and therefore reduce shareholder value (Waddock & Graves, 1997). Examples of researchers who have found a negative correlation between CSR and profitability are Hill, Kelley and Agle (1990) (also see Griffin and Mahon (1997), Holman, New and Singer (1990), and Coffey and Fryxell (1991) . Those who instead believe that there is a positive relationship between CSR and profitability often base their view on the company's stakeholders. CSR advocates also believe that the costs are minimal and the benefits potentially large (Waddock & Graves, 1997). Falck & Heblich (2007) believe that the process of CSR can contribute to the profitability of the business while they do well for society. The researchers therefore believe that CSR is a way for both companies and society to flourish and that the main benefits arise when the company is working with CSR long-term (Falck & Heblich, 2007). Orlitzky, Schmidt & Rynes (2003) reviewed 52 previous studies that had examined the relationship between profitability and CSR. They concluded that CSR has a positive impact on profitability. Orlitzky et al. (2003) found that the costs of CSR are minimal relative to its benefits and it is therefore profitable to invest in CSR. Finally, proponents of the neutral relationship between CSR and profitability argue that there are too many variables between them and therefore there is no reason to believe that a relationship exists between the two, except possibly by accident (McWilliams & Siegel, 2000; Waddock & Graves, 1997).

Despite the varying views, a positive link between CSR and profitability is commonly agreed on. However, there is still disagreement as to whether CSR has a relationship with a company's profitability. One reason is that measuring CSR is difficult and the results therefore vary widely. Many measurements of CSR's connection to profitability have been made using the traditional measure of profitability such as ROA, ROE and ROI (Waddock & Graves, 1997). According to Mittal, Sinha & Singh (2008) EVA is instead a more relevant performance measure. They claim that EVA is a modern measure of profitability that shows a firm's real profit (Mittal et al., 2008). EVA describes in a modern way a company's true profitability because it is a measure of value creation, that is, how much value the company creates for its stakeholders (Grant, 2003). Previous studies have been simplistic and many researchers have focused on the statistical and mathematical approaches. Russo and Fouts (1997) argue that there is a much broader context that provides benefits for the company than just profit. These advantages then contribute indirectly to the company, which increase its profitability (Russo & Fouts, 1997). Whether or not there is a positive correlation between CSR and profitability, the profitability argument is central to CSR spreading in the corporate world. Therefore we find it both relevant and interesting to study the link between CSR and profitability. In light of this reasoning, it is therefore interesting to study the extent to which EVA can be used as a method of demonstrating the link between CSR and profitability, and how companies are looking at the link between CSR and the ability to create competitive advantage. We however want to point out that the performance of EVA may be due to effects other than just the company's CSR work.

2 THEORETICAL FUNDAMENTALS

Companies are getting increasingly involved in social problems and thus shoulder greater responsibility. Corporate responsibility is a responsibility for a company's direct impact on its surroundings and a voluntary commitment to the community at large. CSR has become prevalent among larger companies and is not just a focus for companies within a specific area (Smith, 2005). CSR means that companies must not only meet shareholders' needs, but also take into account other stakeholders (Moir, 2001).

2.1 The CSR concept

In recent decades, Corporate Social Responsibility has grown from being a narrow concept that is often marginalized to a concept that is complex and multifaceted. CSR has a relatively long history, but it is in recent years that it got its big break in practice (Cochran, 2007). The concept of CSR includes various social and environmental areas such as relationships with employees, human rights, ethics and community relations. Carroll and Shabana (2010) argue that the various definitions of CSR can be categorized in different dimensions. By using a content analysis of the various definitions of CSR, they identified five dimensions. They have been identified based on which ones are used most frequently in the context of CSR in Google searches, and researchers have thus been able to calculate the relative use of each dimension. The study found that the following CSR dimensions were the most common: interest dimension, social dimension, economic dimension, the voluntary dimension and environmental dimension (Carroll & Shabana, 2010).

Carroll (1991) has also tried to identify those areas that characterize CSR. In a model called the Pyramid of Corporate Social Responsibility, he suggests that CSR consists of four different types of responsibility: economic, legal, ethical and philanthropic. These four components are then a pyramid that is designed to show which parts contribute to the overall corporate social responsibility. The financial responsibility has been placed at the bottom of the pyramid because it is the foundation for running a business. The next level is that companies must follow the laws that exist because the law is society's codification of behaviors that are accepted and not accepted. The third level of the pyramid is ethical responsibility. Basically it is a duty to do what is right and fair, and avoid or reduce the damage the company might do to its stakeholders. Finally, the company is expected to be a good citizen and the last level of the pyramid is therefore covered by philanthropic responsibility. On the philanthropic level, the company is expected to contribute financial and human resources to the community and thereby increase the quality of life for those living in the community. Although the four different levels of the model are treated separately, they do influence one another. Carroll's pyramid of CSR has had a very wide distribution and has been cited by many, both empirical and theoretical researchers.

Moir (2001) believes that CSR's big impact in business may depend on two different causes. The first reason is associated with a kind of necessary ethics and morality. As companies have the resources, it is their role to solve social problems. Holmes (1976) examined this role and came to the following conclusion: "in addition to making profits, business should help to solve social problems whether or not business helps to create those problems ... even if there is probably no short-run or long-run profit potential " (Holmes, 1976, p. 36). The second reason for CSR's impact is that companies have a vested interest to apply CSR. They have discovered that CSR can be used to strengthen their position in the market. By working with CSR, companies are getting a better reputation and achieving greater loyalty among employees (Moir, 2001). Martin (2002) believes that companies today face increasing demands to implement CSR from consumers or market forces, partly due to globalization and increasing demands for corporate responsibility. Smith (2003) also argues that various corporate scandals such as Enron and WorldCom have further damaged public confidence in the economy. A further reason for the requirement of Corporate Social Responsibility has increased is the growing realization among the public that government sometimes fails to resolve social problems. In the light of globalization and mistrust of large companies, there is increasing pressure on executives and their companies to deliver wider social values (Martin, 2002). Globalization has also meant that large companies have spread their operations to countries with lower living standards than in Western countries, places where there is no democracy and developed laws. In these countries, companies have an opportunity to compensate for the lack of laws by working with CSR (Smith, 2005). The evolution of journalism and information technology has enabled us to more rapidly and more extensively have access to alleged company abuses, even from the most remote parts. Two companies that have experienced the consequences of media coverage is Shell, for its oil spills in Nigeria and Nike for working conditions at subcontractors in Asia (Smith, 2003).

Despite companies increased involvement in social issues, they are prisoners in a moral dilemma. Customers want, for example, that their companies should take social responsibility but they are not always willing to pay for it. The customers also affect businesses in that they control companies with their actions and may for

example boycott companies that are not doing the right things. Working with CSR is complex with many different aspects to consider. First, companies must be aware of the difference between corporate commitment to CSR in order to do good for society and corporate self-interest. Most companies, whether they admit it or not, are using a mix of the two different motives for avoiding conflict between profit and social responsibility (Smith, 2005). Companies have increasingly realized that if they are being environmentally and socially conscious, they can get a good deal (Lynes & Andrachuck, 2008). The founder of The Body Shop, Anita Roddick is probably the most famous social entrepreneur of her generation. She created a company that changed the makeup and retail sectors by being responsible. The Body Shop is an example of a company which, while taking responsibility for society and its profits, proves that it is possible to run a company that rewards shareholders and makes good for society. Roddick said that although the company has a financial responsibility, it couldn't be at the expense of the environment. Furthermore, she believed that all employees should feel a pride for the company for which they work (Smith, 2005). It is not only The Body Shop who works with CSR but now many large companies are involved in CSR and their initiatives are continually expanding. Smith (2003) says that the CSR debate is no longer about if companies should implement CSR, but rather about how companies should use it.

Porter and Kramer (2003) argue that companies should choose CSR activities with care and not just throw money at good causes. "Most companies feel compelled to give to charity. Few have figured out how to do it well" (Porter & Kramer, 2003, p. 57). If a company has a competitive advantage in a particular field, it is likely that all the investments it makes in the field will have little or no long-term effect. Companies should concentrate on their core competencies and not be distracted by other areas where they have little or no expertise. The company should instead focus on those areas that not only benefit society but also benefit the company. That means for example that a computer manufacturer will not devote itself to building shelters, but instead offer computer solutions to the poor for free or at low cost. Building shelters would rather suit construction companies. Companies that focus CSR work in their field of expertise are likely to be more effective in terms of their social responsibility. Porter and Kramer (2003) argue that companies should take advantage of the synergy that exists between social and economic aspects, instead of trying to minimize it.

2.2 Profitability

A company that takes corporate responsibility offers products that attract customers and have values that create motivated employees. This in turn contributes to an increase in production and cost savings (Öhrlings PricewaterhouseCoopers, 2008). Cost savings through CSR have been discussed (Weber, 2008) and both costs and risks can be reduced through a continuous commitment to CSR activities (Caroll & Shabana, 2010). Weber (2008) argues that CSR creates a higher level of efficiency where the material cost can be saved. Companies can thus have long-term financial advantages when investing in efficient technologies that reduce emissions and hence cost. Environmental efficiencies, for example by reducing waste, can also be achieved, which contribute to lower costs (Lynes & Andrachuck, 2008). It is both economically efficient and environmentally responsible for companies to efficiently use their resources and avoid unnecessary waste (De Schutter, 2008). "In general, one can reduce the environmental impact by reducing consumption of resources and emissions and waste. It can also be good for businesses to reduce their bills for energy and waste disposal, and lowering input and decontamination. Individual companies have found that less use can lead to increased profitability and competitiveness" (European Commission, 2001, p. 10). Scientists therefore believe that if companies care about the environment, it will lead to a reduction in production costs as companies save on various costs, such as oil, water and various materials. This care for the environment can also result in less legal fees because the risk of litigation is reduced. By working with CSR, companies can therefore reduce the risk of disasters and scandals (Sprinkle & Maines, 2010). CSR efforts can contribute to better contact with company stakeholders, which among other things lead to improved access to capital from investors (Weber, 2008). Often researchers also argue that CSR increases revenues. It can be achieved indirectly through improved brand recognition by consumers or directly by CSR products and market development.

To determine whether CSR is profitable, there have been a variety of measurements of the link between CSP (Corporate Social Performance, a measure to capture CSR) and CFP (Corporate Financial Performance). The methods have been inconsistent with many different approaches and results have varied. Margolis & Walsh (2003) present a report based on 127 empirical studies on the relationship between CSP and CFP. They argue that there is sufficient evidence to suggest that there is a positive relationship between CSR and profitability, and that there is very little evidence to suggest that there is a negative relationship (Margolis & Walsh, 2003). A meta-analysis by Orlitzky et al. (2003) provides support for a positive correlation. Furthermore, a recent study by

the EIU that most executives have accepted that there is a clear positive relationship between CSR and financial performance (Caroll & Shabana, 2010).

3 RESEARCH METHODS

This study is based on a combination of quantitative and qualitative methods. The quantitative part of the study is the calculation of Economic Value Added, EVA, based in part on five Swedish companies annual reports. The qualitative part of the study consists of conversations with respondents, which are then analyzed and transformed into descriptions. The reason we have chosen to make this methodological combination is to broaden the empirical data and thus have a stronger support for our reasoning and conclusions. Perhaps it would have been more natural to only work with a qualitative study because the subject we have chosen is abstract and difficult to measure. A qualitative study, in our case was necessary for it to be possible to express the complexity of the topic and thus a prerequisite for the reader's understanding. However, it is often the case that quantitative studies have a tendency to give more reliable results (Denscombe, 2010). There are many advantages to doing a combined study. One of the biggest advantages is that if we use different approaches and get the same result, it indicates that the information collected is valid.

For our empirical study, we selected five different companies working actively with CSR. To obtain a high quality of our empirical data we chose to interview people with great insight and participation in their respective company's CSR work. The following companies were selected:

ITT Water and Wastewater AB is owned by the U.S. company ITT Corporation, and has been owned by ITT since 1968. ITT Water & Wastewater is currently the leading manufacturer and supplier of submersible pumps and mixers. *Respondent*; Ingemo Fahlstedt

OKG is a limited company since 1993; it is a subsidiary of EON. OKG is one of three Swedish nuclear reactors. *Respondent*; Henrik Eriksson

Kährs is one of Europe's top wood flooring manufacturers with a long experience in the industry. The floors are found in homes, offices, shops, hotels, concert halls, theatres and sports arenas worldwide. *Respondent*; Bruce Uhler

Atlas Copco is a world-leading provider of productivity-enhancing solutions for industry. Their products and services include compressed air equipment, generators, construction and mining equipment, industrial tools and assembly systems. *Respondent*; Annika Hermansson

Södra Skogsägarna is a business association with about 51 000 members. Members together own more than half of all privately owned forests in southern Sweden. Södra deals with everything from forest management and environmental conservation to finance, sales and product development. *Respondent*; Roine Morin

The quantitative study has been based on the selected companies' annual reports from 1997 to 2009. From these, we compared the companies' average EVA value from 2000/2001 with that of 2008/2009. The reason for choosing those particular years is that the comparison will show EVA before and after CSR had its big breakthrough with the companies.

4 RESULTS

CSR contributes to a long-term thinking and a holistic approach, which reduces the focus on short-term results. Through CSR, companies are forced to think long term and take responsibility for the impact they have on the environment. A long-term thinking can help companies make investments that pay off in the long run.

4.1 Profitability

During the interviews there were several examples of CSR actions that benefited both society and corporate profitability. Uhler talked about one of them. He said Kährs has its production plant in Nybro and previously had its stock in Kalmar. The company decided to move to a central warehouse and built it according to LEAD (leadership, energy, environment and design). Previously, Kährs had 1800 trucks that went between Kalmar and Stockholm each year to carry flooring to and from the warehouse. The relocation of the store helped Kährs save 450 tons of greenhouse gas. It is an example of eco-efficiency, which helped Kährs save money by consuming less energy. "If you do these things right then the profits will come from it, it's about doing well by doing good" (Uhler, Kährs). In a similar way ITT had made use of eco-efficient solutions when it adopted a group of holes in

the ground to reuse a large portion of the excess heat the company produces. ITT takes excess heat from its foundry, stores it in the ground and reuses the heat during the cold season, thereby saving energy which in turn leads to reduced costs. This is an example of ITT taking advantage of its resources and thus reduces the negative impact on the environment while lowering costs. Morin gave us another practical example of CSR and environmental activities in which the company acted proactively which proved to be profitable. The example involves chlorine gas, which previously was a common chemical used for bleaching paper. The chlorine gas contains many toxic substances and impurities, and therefore affects the environment negatively. In the mid 90's, Södra decided to become chlorine free and bleach with another substance that was gentler on the environment. It did not know with certainty that the change of bleach would help profitability, but the outcome was positive. Customers were paying a higher price for Södra's environmentally friendly bleaching and they also attracted new customers. Through a proactive action various high costs were avoided and they experienced many advantages by being proactive in CSR. "Being proactive is always an advantage" (Morin, Södra). Hermansson talked about an environmental and energy-efficient CSR investment when Atlas Copco built the ground cooler system for its heat treatment. Traditionally, cooling towers use a lot of energy and contain substances that are not good for nature. A ground cooler takes cold water from the ground, leads it through a system, which in turn cools the ovens at Atlas Copco's. It is a closed system consisting only of water. Hermansson also gave an example of how the company increased revenue from waste disposing by sorting the waste. Once sorted, the waste goes from being unusable to raw material which Atlas Copco can sell. For example, it can sell the different materials, such as magnesium at a better price than if it had been classified as scrap. By being environmentally friendly, the company increases its income.

4.2 Calculating EVA

According to EVA a company earns a real profit only when revenues are sufficient to cover its operating costs and its cost of capital (Young, 1997). Unlike traditional financial measures of earnings such as EBIT and EBITDA, EVA is based on profit after adjustments and capital costs. This means that EVA reflects a modern measure, as it is closely linked to shareholder value (Grant, 2003). In the calculation of EVA a comparison is done, of economic performance for a company in a given period with the capital cost of the capital employed in operations during the same period (Landelius & Treffner, 1998). EVA thus measures the difference between the return on the capital and the cost of it. From an accounting perspective, EVA is the difference between NOPAT (Net Operating Profit After Tax) and the weighted average cost of capital. Based on a literature review, we have chosen the most frequently used adjustments and those that are easy to understand, given their impact on earnings. The following adjustments are therefore relevant for our study: research and development, deferred taxes, provisions, goodwill and tax.

The above descriptions and adjustments, therefore, lead to the following models of NOPAT and invested capital:

NOPAT:	Invested Capital:
Net Income	Assets
+ Research & Development (R&D)	- Non Interest Debts
- Depreciation R&D	+ Capitalization of R&D
+ Depreciation Goodwill	+ Accumulated Goodwill Depreciation
+ Increase in Deferred Income Taxes	+ Deferred Income Taxes Debt
- Increase in Income Taxes Recovery	- Deferred Income Taxes Recovery
+ Increase in Depreciation	+ Depreciation
- Taxes	= Invested Capital
= NOPAT	

Figure 1 NOPAT

When calculating the average cost of capital we take into account both shareholders and lenders' required rate of return (H. Nilsson, Isaksson, & Martikainen, 2002).

WACC (Weighted average capital cost) = $[(E/(E+S))*CAPM]+[(S/(E+S))*rs*(1-taxes)]$

E = Share Capital

S = Debts

CAPM= Share Capital Cost

rs= Cost of Interest Debts

Taxes = 26,3 % (Corporate Taxes)

To calculate the WACC, CAPM cost of equity and the rs are needed the cost of interest-bearing liabilities. CAPM (Capital Asset Pricing Model) is a model used to calculate the required return on a company's equity (H. Nilsson et al., 2002). The model is based on a risk-free rate, market risk premium and the company's beta (Landelius & Treffner, 1998).

CAPM (cost of equity) = Risk-free rate + Beta

The risk-free rate assumed to be usually the same as the yield on a Treasury bond with a maturity of between 3 to 10 years. In light of this, we used a 10-year government bond as the risk-free rate. The CAPM model must also take into account the market risk premium. It can be described as the premium an investor requires to invest in an asset with an average risk (H. Nilsson et al., 2002). PwC conducts annual estimates of how big the risk premium is in the market. We therefore decided to get the market risk premium from the PwC March 2011 study (PricewaterhouseCoopers, 2011). The third aspect we must take into account in order to calculate the CAPM, is corporate beta. A beta value indicates the return on a company's shares, which will vary in relation to average market returns. Beta shows therefore what level of risk an investment is associated with. It can be summarized as follows:

$\beta = 1$ Mean level of risk

$\beta > 1$ severity rating above average

$\beta < 1$ severity rating below average (Nilsson et al, 2002)

Since we could only find beta values for two of our respondents, we estimated the other three. For unlisted companies, one cannot get beta, but according to Damodaran (2002), one can estimate a beta for an unlisted company based on the average for similar listed companies. Therefore, we have calculated for every company an average of three listed companies, whose activities are similar to our study companies.

ITT beta value: 0.89 (Nasdaq, 2011)

ATLAS COPCO beta value: 1.24 (Avanza, 2011)

Södra Skogsägarna EK beta value: 0.773 (estimated) based on:

Rörvik Timber beta value: 0.85. Holmen AB beta value: 0.8. Bergs Timber AB beta value: 0.67 (Avanza, 2011).

OKG AB beta value: 1.47 (estimated) based on:

Alliance Oil SDB beta value: 1.2. Lundin Petroleum beta value: 1.44. PA Resources beta value: 1.76 (Avanza, 2011).

AB Gustaf Kähr beta value: 1.4 (estimated) based on:

SCA beta value: 0.84. Stora Enso beta value: 1.22. Billerud beta value: 2.16 (Avanza, 2011).

The last step in the WACC is the development cost of interest-bearing liabilities. Based on the company's credit rating, an estimation of the cost of the loan capital is calculated by summing the company's risk-free interest rate with a credit rating. Nilsson et al (2002) argue that if it is not possible to estimate the cost of foreign capital to the company's credit rating, you can use the interest on a recently concluded a loan. The average interest rate for new loans in March 2011 was 3.44% (SCB, 2011).

Our empirical material shows that it was in the beginning of 2000 that the work with CSR really took off. Some of the companies had previously been working with some elements of CSR in varying degrees, but not as a whole. We therefore decided to calculate an average EVA for 2000/2001 and compare it with the average of EVA 2008/2009. If EVA increases between those time periods, then the inclusion of CSR had a positive impact on the company's value creation, e.g. profitability. Below is a presentation of our calculations and results.

Insert Table 1 here

The result shows a slight positive correlation between CSR and EVA as 3/5 of the companies show a positive development of their EVA value.

5 DISCUSSION

Cochran (2007) argues that positive relations with the media can be crucial for an organization's existence and success. The perception of the respondents was that CSR could be used to promote the company as a good corporate citizen when CSR measures show stakeholders that the company takes responsibility for its impact on society. In other words good reputations contributes to value creation in terms of reduced negative rumors and indirectly to profitability as companies with good reputations are likely to attract more customers. Falck and Hebllich (2007) also believe that a good reputation is essential to attract and retain employees. In light of this we argue that CSR also in this aspect may contribute to a profitable company since CSR contributes to a good reputation, when it comes to attracting skilled staff, thus contributing to a successful business. Our study has shown that corporate reputation is positively affected by CSR. Falck and Hebllich (2007) argue that a good reputation also contributes to the company's brand being strengthened and thus the company's goodwill. Eriksson (OKG) also said he believed that CSR creates goodwill. In light of this, we believe that a company's market position becomes stronger through CSR activities, because its brand is strengthened.

Both in our theoretical study and from a variety of practical examples the study has shown that CSR activities can lead to profitability through eco-efficiency. We believe it highlights the merge of profit and social responsibility. During our interview with Uhler (Kähns) he stated the idea of "doing well by doing good", which reflects the other industry research by Falck and Hebllich (2007). We believe that the practical examples that the respondents have described, that CSR investments have been profitable, are clearly linked to the company's core operations. In light of this, we believe it is important that corporate CSR activities are linked to the original business to provide as much benefits as possible. It also supports Porter and Kramer (2003), as they point out that companies should devote themselves to their core competencies, when they work with CSR. Lynes & Andrachuck (2008) argue that eco-efficiency can be achieved by reducing waste, less energy consumption or sorting waste material. Hermansson (Atlas Copco) talked about this during the interview when she explained how the company is sorting the waste, which resulted in a new income stream from raw material. The practical examples once again prove that the link between eco-efficiency, as part of CSR contributes to lower costs for companies and thus higher profitability.

Based on our EVA calculation, we have produced a weak positive correlation between profitability and CSR among other things, which also Margolis & Walsh (2003) and Orlitzky et al. (2003) supports based on other measurement methods. The positive correlation between CSR and profitability in our study using EVA calculation is also supported by practical examples and experiences in which CSR has proven to be profitable. In our study it was found that there were three out of five companies that had a positive growth in EVA. It would be clearer if all companies had shown an increase in value but given that it was emphasized during the interviews that CSR is a long-term measure, we think that it can take time for CSR measures to have an impact on earnings. Previous research has also found an overwhelmingly positive link between CSR and profitability (Margolis & Walsh, 2003; Orlitzky et al., 2003), which supports our position. We want to point out that the performance of EVA can be traced to other external factors than just the implementation of CSR. But with the support of Mittal et al. (2008), we can assert a link between CSR and EVA as the components of EVA are affected by CSR.

6 CONCLUSIONS

This study is based on a curiosity and a willingness to try and sort out the connection between CSR and profitability. CSR creates competitive advantages from many different points of views. The problem is that CSR often provides indirect competitive advantages that can be difficult to relate to CSR. An enhanced reputation and motivated workers are difficult to directly link to CSR. That in turn makes it difficult to measure CSR's connection to profitability. Another cause of measurement problems is that CSR is often perceived as difficult to define, which makes it hard to justify various CSR related investments. It is a general understanding that what

gets measured really counts (Anthony & Govindarajan, 2006). We therefore believe that since it is hard to measure CSR, it is also hard to use it as a motivator. In order for CSR strategies to get more appreciation the “fuzzy label” needs to be removed and the concept needs to become more clear and measurable. It has, despite measurement problems, proved to be a strongly held belief, among the respondents, that CSR can be profitable.

Even among scholars a more positive perception of CSR has grown stronger. Therefore, we believe that CSR is now accepted as a business strategy but the work remains to make it a more concrete practice. In the future it is therefore of strategic importance that CSR activities are communicated through out the organization, that is how firms strategically implement CSR throughout the business operations. CSR is no longer a question of whether or not to work with the activities, but rather we believe that the issue is about how CSR should be applied. However, we believe that in order for CSR to be profitable, companies should choose the CSR activities with care. An action must be affiliated with the company's core competencies to enable it to maximize competitive advantage and also achieve the maximum benefit to society. Therefore it is not enough that CSR contributes to profitability, it must be done properly. Another aspect of CSR's strategic link to profitability is that it should be consistent with a long-term plan. One cannot look at CSR as a short-term business solution. When it comes to social and environmental action, it often takes time before there is an impact on earnings and therefore, companies need to have a long-term perseverance for CSR to be profitable.

CSR is the future and will be a prerequisite for companies acting in a society and trying to survive in the market. We strongly believe that development is moving in the direction that CSR is becoming an integrated and natural part of business practice. Today there is greater awareness among businesses of their influence on society and media opinions. As innovation and research is growing this awareness is also growing, as we develop more knowledge, which helps us not to consume resources in vain. Nowadays, information technology has made it possible for media to expose abuses of resources crucial to society, regardless of where the company is located. The disclosure may result in serious consequences that could threaten the company's existence. Therefore, CSR is a prerequisite for companies in the future in order to be able to attract and retain employees, sell products and services and maintain good community relations.

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Table 1. Calculating EVA

2000 MKr	Nopat	Invested Capital	WACC	EVA
Gustaf Kähr AB	142,988	567,816	0,045171	117,3393
ITT Water and Wastwater	407,0154	1833,4626	0,069347	279,871
Atlas Copco AB	6511	56641,6	0,059122	3162,249
OKG AB	349,6	9479,4	0,026419	99,16375
Södra Skogsägarna	3063,8	11172,2	0,058252	2412,997

2001 MKr	Nopat	Invested Capital	WACC	EVA
Gustaf Kähr AB	-13,426	639,165	0,0423	-40,4624
ITT Water and Wastwater	444,705	1761,2176	0,071228	319,2566
Atlas Copco AB	6156,6	59854,2	0,063077	2381,171
OKG AB	288,5	8793,9	0,026513	55,34558
Södra Skogsägarna	52,2	10997,5	0,060198	-609,825

2008 MKr	Nopat	Invested Capital	WACC	EVA
Gustaf Kähr AB	-48,780	602,607	0,092819	-104,713
ITT Water and Wastwater	586,0028	1421,5766	0,07405	480,7351
Atlas Copco AB	9139,2	53830	0,054669	6196,358
OKG AB	341,6	5943	0,027342	179,1035
Södra Skogsägarna	474,6	14032,2	0,059998	-451,431

2009 MKr	Nopat	Invested Capital	WACC	EVA
Gustaf Kähr AB	-23,683	560,852	0,096204	-77,6394
ITT Water and Wastwater	885,3902	1666,4828	0,07405	761,9871
Atlas Copco AB	6836,4	52485,4	0,058683	3756,421
OKG AB	1057,5	7682,4	0,026894	850,8871
Södra Skogsägarna	300,2	12527,6	0,059941	-366,511

MKr	Average EVA- 2000/2001	Average EVA- 2008/2009	Deviation	% Deviation
Gustaf Kähr AB	38,43845	-91,1762	-129,61465	-337,2 %
ITT Water and Wastwater	299,5638	621,3611	321,7973	107,4 %
Atlas Copco AB	2771,71	4976,3895	2204,6795	79,5 %
OKG AB	77,254665	296,2609	219,006235	283,5 %
Södra Skogsägarna	901,586	-408,971	-1310,557	-145,4 %