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Year 2009

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Nonprofit Organizations

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December 2009

Senior thesis submitted in partial fulfillment
of the requirements for a
Bachelor of Arts degree in Economics
at the University of Puget Sound

Introduction

Corporate social responsibility has taken on an increasingly prominent role in the business world in recent years. CSR has grown so popular that nearly every major company in the U.S. now integrates a significant commitment to social and/or environmental programs into its business model. CSR can be loosely defined as the adoption of socially beneficial and environmentally sustainable practices by corporate actors. The rise of CSR can be attributed to growing public disenchantment with traditional business practices that degrade the environment and compromise worker wellbeing, and resulting pressure from consumers and nonprofits on the private sector to reform itself. Instead of simply complying with government regulation, a company that is “socially responsible” adopts more stringent self-regulation ensuring that it is acting to minimize negative impact on the environment, its employees, its customers, and the community.

The attitude that the corporate world should be responsible for adverse production effects has expanded into a broader conception of its responsibilities. It is now common to expect corporations not only to be accountable for their actions, but to contribute to solving the world’s problems. That is, corporations are now pressured to contribute to the creation of public goods like a healthy environment and poverty reduction as well as to absorb their own production externalities. Combined with the growing demand for “green” products, the private sector’s newfound conscience has caused many companies to build or redefine their goals to produce only socially responsible, environmentally friendly products that satisfy, or appear to satisfy, the goals of externality absorption and public good creation. This translates into the for-profit world’s engagement in issues that are traditionally left to nonprofits. This doesn’t just refer to the for-profit firms that compete with non-profits to provide semi-private benefits like nursing

homes and hospitals (Salamon, 54). More and more proprietary firms are building the provision of public goods into their business models.

Why would a for-profit firm concern itself with doing good? The answer to this question may result in some useful observations about what the effects of a socially responsible private sector may be on the provision of public benefits as well as the success of important environmental and social goals.

There is a growing literature examining the benefits to firms of implementing CSR policies. Many authors have found that CSR contributes to a company's bottom line in various ways. This advantage can come from improved image and reputation, increased efficiency of production due to sustainability programs, or the increased sales and higher prices that the demand for responsibly-made products allows. Corporations frequently implement socially responsible policies because they are under pressure from consumers and nonprofit groups, and their reputations and sales are suffering. Nonprofits may also bring lawsuits costing millions against companies involved in serious abuses.

Other authors find that CSR has a neutral effect on financial performance because the types of actions taken in the name of CSR are often cost-saving and would have been taken anyway. Or there could be a negative effect, since some CSR policies can compromise firms' profit-making ability because of their production of public goods. Authors rooted in classical theory rail against the idea that corporations should have a social conscience. A corporation's contribution to society is to add to national income; it is the role of the government to guard against social and environmental abuses.

Although there is still some debate in the literature, it is likely that profit-seeking entities engage in CSR because it has some profit-generating function. The profit motives behind CSR,

however, may create limitations in its effectiveness in achieving social and environmental goals. This paper develops a simple theoretical model to explain for-profit participation in social welfare programs in which the image of being socially responsible increases demand for a firm's products due to public concern about social welfare. It argues that CSR is subject to limitations and that the participation of nonprofits in CSR programs helps mitigate these limitations and increase the effectiveness of CSR.

Review of Literature

The literature on corporate social responsibility is not in agreement regarding the reasons a for-profit firm would voluntarily provide public goods, although a significant number of authors find that CSR improves a firm's financial performance, suggesting a profit motive for CSR. Lev, Petrovits, and Radhakrishnan (2006) find that for firms serving markets sensitive to consumer opinion, philanthropy can help the bottom line by creating a positive image for the firm that increases sales growth. Starr (2007) also finds firms can increase revenue through CSR by improving reputation. Henderson and Malani (2008) posit that firms engaging in such activities are satisfying the demand for altruism; they donate or produce socially responsible products because there is market demand for these activities. They suggest that current tax policy favors nonprofits and should be readjusted to allow for more efficient production of altruism. Hiscox and Smyth (2008) ran an experiment and found that socially conscious buyers are willing to pay a significant premium for goods that are produced under fair labor conditions, suggesting that firms adopting CSR would be able to profit from increased consumer demand for responsibly made products. Navarro (1988) conducts an empirical study of for-profit firm motivations in contributing to charity and finds profit maximization to be a significant driver of donations.

Webb and Farmer (1996) argue that the good image produced by corporate giving can help increase demand or reduce costs. Videras and Alberini (2000) examine firms' participation in the EPA's voluntary environmental program. They find firms are motivated participate so that they can increase profits by appealing to environmentally conscious consumers, gaining a competitive advantage, avoiding some regulation, and preempting upcoming government regulations. Publicity about a firm's participation turns out to be an important motivator, supporting one of my primary assumptions that an important benefit of CSR to a firm is the improvement of image.

Other authors are more skeptical of CSR's contribution to growth, and offer alternative motives for corporate social responsibility. Baron (2005) finds that socially responsible firms compromise profit-maximization in order to create a "warm glow," but that shareholders do not bear the costs of this reduction in potential profit growth because they prefer some profits to be given to socially responsible causes. They are aware that the CSR firm they own will give away some profits and want it to act this way. This also implies that, though the firm may participate in CSR that increases profits, it will do so past the point of profit maximization because shareholders value the CSR and not just the profits.

Applying Williamson's (1964) model of discretionary behavior, Galaskiewicz and Colman (2006:186) argue that corporate contributions could be explained by manager utility. Whether or not it is good for the company, managers themselves may gain utility by satisfying moral, religious, political, or personal interests through corporate contributions to a nonprofit.

McWilliams and Siegel (2000) claim that previous studies finding positive correlations between corporate social responsibility and financial performance overestimate CSR's effect on profitability because they do not correct for the correlation between CSR and research and

development, another variable found to positively affect profits. Companies investing in R&D are more likely to experience increased financial performance due to product innovation, they argue, so this variable must be taken into account. They find when the models are respecified to account for R&D, CSR has a neutral effect on profitability. Their findings suggest that CSR may be a type of cost-saving or product innovation in line with other R&D investment. When put this way, their findings actually support the hypothesis that CSR can improve a firm's financial performance.

It may be that some companies genuinely wish to promote social welfare. In a 1993 survey of corporate philanthropy programs nationwide, Marx (1999) found managers cited improvements to the community and racial harmony as major goals of their giving programs.

Friedman (1962) vehemently argues against business executives taking on any social objective other than increasing profits for shareholders, labeling such executives as thieves of stakeholder money. This argument, however, precludes the possibility of socially responsible production that is still profitable for the firm. Friedman also argues against the exercise of social responsibility by firms on the grounds that it is essentially replacing legitimate government actions with illegitimate (not-elected) ones. I do not, as he does, treat socially responsible corporations as "taxing" stakeholders to enact subversive "legislation." Rather I treat them as producing a product to satisfy market demand, a purpose perfectly compatible with even Friedman's strictly capitalist interpretation of a firm's responsibilities.

Authors finding financial gains due to CSR are more numerous than those who do not, although CSR does overlap with other kinds of business innovations; CSR may be R&D by another name in some situations.

Whether or not one agrees with it, CSR has entered into mainstream corporate culture. The Harvard Business Review whole-heartedly endorses sustainability as a “key driver of innovation,” and many other business sources emphasize the myriad benefits of CSR to a company’s bottom line. Newly conscientious companies see CSR as a win-win situation, since profits do not have to be lessened and can be enhanced by it. Whether or not CSR is actually all that beneficial to firms, it appears to have become an significant trend in corporate culture; a business is not considered progressive or cutting edge without CSR.

If there is indeed a profit motive behind CSR, what does that imply about CSR’s effectiveness in achieving the social and environmental goals it is aimed at? Starr (2007) finds that CSR is most effective when information on a firm’s actions is available, so that observers may hold it accountable. While CSR may be effective in improving certain types of social/environmental problems, there are major issues with relying on the private sector to be the main driver of public good provision. When an issue is not one a company may profit from, when it is too large and/or complicated to be dealt with on an individual business scale, or when it is too ambiguous or complicated to motivate public pressure for change, CSR becomes ineffective. Therefore, in many cases voluntary corporate actions fall far short of what is needed to enact important social and environmental reforms.

Kotchen (2006) considers an economy with a “green” market in which consumers may purchase impure environmental public goods – which provide both private utility and public goods – along with pure public goods and pure private goods. He finds that, if the economy is small, the introduction of a green market may actually reduce the total private provision of environmental public goods. In a large economy, direct donations are crowded out by consumption of impure public goods when these are available, but the total level of public good

provision is higher. Besley and Ghatak (2007) predict that firms using CSR will produce public goods at the same level as predicted by the standard voluntary contribution equilibrium for public goods describing private provision of public goods through donations.

Maniates (2002) does not dispute that firms can benefit from being socially responsible, but observes the contradictions in the fact that sustainability is now a growth industry and objects to the attempt of consumers to buy their way out of issues that are more appropriately dealt with by the government and nonprofit groups. Since overconsumption is a major cause of environmental degradation, it is paradoxical to claim that buying more things will help the environment.

A Model of CSR Motivation

Classical economic theory holds that profit-seeking firms acting in their own self interest generate the most benefit to society: in their attempt to maximize profits, they compete with one another, selling at the lowest price possible and generating both innovation and consumer surplus. There are certain scenarios in which the free market does not provide the optimal amount of certain goods. Such market failures result when the desired products or services are public goods, when there are externalities, or when a monopoly prevents competition.

Non-profit organizations exist because these certain services are underprovided by the market; for-profit firms are unable to profit from them due to market failure situations. Nonprofits often have equity in mind also, a goal that profit-maximizers do not take into account. Nonprofit theory also suggests that the reason nonprofits are needed is that even if a company were to provide charitable services, there are problems with accountability if the services are not consumed by the individual who purchased them. A for-profit organization has the incentive to cheat customers buying services (such as charitable donations) for people other than themselves

because the customers will have trouble verifying that the services were delivered, and cutting corners increases profits. Unless barriers to cheating exist, such as strictly enforced laws, watchdog organizations, or the importance of good reputation, a nonprofit is needed to provide such services (Hansman, 1990). A nonprofit firm has no incentive to cut corners in the delivery of goods and services because it cannot legally distribute profits, so the nonprofit form sends a signal of trustworthiness to potential supporters of charity.

Nonetheless, the private provision of public goods through CSR exists, and its popularity has expanded throughout the private sector. There are several different types of CSR. It can be separated into a few main categories based on different approaches to public good provision:

Sustainability: Corporate efforts to improve sustainability usually include measures such as efficient resource use, recycling, and waste reduction. It can also mean the purchase of sustainable energy or carbon offsets. This is a mechanism for absorption of production externalities by the producer, in the case of increased sustainability measures and unchanged or lower costs, going beyond what is mandated by environmental regulations.

Impure Public Goods: These are products that provide a private benefit and a public benefit, (known as “cause branding” or “cause marketing” in business literature). Fair trade coffee provides utility to the consumer (through the warm glow of having helped a good cause and through the consumption of the actual product) but also helps poverty alleviation in coffee-producing countries. This is also seen in co-branding with non-profits: buy a pair of reading glasses with a pink ribbon on them and a portion of the proceeds goes to breast cancer research. Impure public goods can be explicit (“a portion of the proceeds”) or implicit. For example, organic cleaning supplies provide a private benefit to the consumer and a public benefit by reducing dangerous toxins in the environment, which is not directly stated but is understood.

While collaboration with nonprofits is common in cause branding, firms frequently undertake this form of CSR without nonprofit input, too.

Corporate Foundations: These organizations are owned by a for-profit firm but are set up to contribute to charitable causes. The company makes tax-deductible contributions to the foundation, which manages the funds and makes grants to nonprofit organizations.

Donations or sponsorships: In this form of CSR, firms simply make donations to nonprofit organizations or sponsor nonprofit events. Public goods are then provided directly by the nonprofit, and the firm making the donation takes partial credit by publicizing information about its donation or event sponsorship. Both the nonprofit and the for-profit can benefit from this arrangement: nonprofits gain increased funding for programs and greater publicity, and the firm gains an improved image.

CSR takes many forms, but why is there provision of public goods by for-profit firms? Given the observations of Hansmann's model of trustworthiness in public good provision, it is useful at this point to explore the possible explanations of CSR, and to use this understanding of firm motivations to predict the usefulness of CSR as a tool for the provision of public goods and the role of nonprofits in the implementation of CSR. This expands the theory of nonprofits summarized above, which predicts for-profits will not participate in the provision of social benefits because it is not possible to profit from them.

CSR can be useful to a firm as a risk management tool. By voluntarily enacting socially responsible policies, a firm can avoid a potential public relations mess following the discovery of social or environmental abuses. Negative public opinion can affect sales, and could expose the firm to costly legal action by nonprofits or the government. Even if the firm's actions are not technically illegal, the negative press surrounding socially detrimental company practices can

seriously damage its image. In this case, the voluntary adoption of CSR programs can be a way to preempt a PR scandal.

Some forms of CSR can be cost-reducing. Sustainability measures especially tend to involve using resources more efficiently and investment in technologies that will reduce costs in the long run. Many companies are making the transition to more fuel efficient vehicles, for example, which is good for the environment but also saves the company money.

Incorporation of CSR into a firm's business model may also help the company create innovative new products, move into new markets, improve its image, and draw talented employees who are attracted to the firm's progressive stance.

As the public becomes increasingly conscious about social and environmental problems, corporate social responsibility can function as a demand-increasing device. People want to help solve the world's problems, so they will wish to purchase goods and services whose producers express a commitment to CSR. In this paper I focus on the demand-increasing function of corporate social responsibility. A simple model of the demand-increasing capabilities of CSR explains why for-profits might choose to become involved in public goods provision:

The public is conscious of social and environmental problems and concerned about solving them. Their concern makes them view more favorably products made by socially responsible firms. Corporations can increase demand for their products by implementing CSR programs and making their contributions to social welfare known to the public. The public has some information about firms' CSR measures, but specific information is costly to obtain. Consumers know, however, there is some limited regulation regarding truth in advertising that keeps firms from completely fabricating their CSR activities, so they respond to a firm's publicized socially conscious image by buying more of the firm's products. Socially responsible

firms increase demand for their products primarily by promoting an image of themselves as socially responsible, rather than by achieving welfare goals.

Implications of the Model

In this model, corporate social responsibility is consistent with profitability and there is not necessarily a tradeoff between the two. The profit motive of participation behind CSR, however, calls into question the effectiveness of CSR in providing social and environmental benefits. The model yields several implications about the value of corporate social responsibility as a vehicle for social and environmental progress. A firm's involvement with a nonprofit in its CSR efforts can be a way to determine the real effectiveness of the CSR in the absence of mandatory regulation.

Popular Causes

An important implication is that without nonprofit prompting, firms will only address social issues that are mainstream enough to increase demand. If the public is unaware of an important issue, a for-profit firm will not waste its resources contributing to a solution since this will not help increase profits. Causes that are already well-known and enjoy a significant amount of support will attract even more money. Extra contributions to a cause that already has plenty of support will not be as helpful as they would be to a less well-funded cause. A good example of this is the prominence of co-branding with the Susan G. Komen for the Cure breast cancer organization. Products of all kinds bearing the pink ribbon symbol of this organization are ubiquitous because it is such a popular and well-marketed cause. Companies want to profit from the public's interest in promoting breast cancer awareness. Even though contributions to breast cancer awareness and research are helping to do good, some of those contributions might be better spent on similarly good but less popular causes.

Nonprofit organizations can help mitigate this problem. Since profit-maximizing entities will only act if it is profitable to do so, one way to convince a firm to provide public goods is to identify social and/or environmental issues they wish to address and popularize them enough that public concern for them is strong enough to affect the demand for products made by a firm that addresses them. Nonprofits lobby corporations in much the same way they do the government: by convincing them that a significant enough portion of the public is concerned about a cause that action taken to help address the issue will increase votes, in the case of the government, or demand, in the case of a firm.

Unaddressed Externalities

CSR is voluntary and corporations are able to pick and choose which issues to address. If an issue is not profitable, it will remain ignored. This could translate into a firm ignoring a negative externality it imposes because it would be costly to address it. Nonprofits can help here, too. In the same way that nonprofits can popularize a little-known cause so that firms will address it, they can force a firm to address negative production externalities by making the damage the firm has caused known so that demand for the firm's products is negatively affected. This can force the firm to take action to fix the problem.

Untrustworthiness

If firms are motivated by profits to enact CSR, they will have the incentive to mislead or even lie to the public about the actual benefits and level of their CSR programs. A firm claiming it is socially responsible should be viewed with skepticism unless it is working with a nonprofit. Nonprofits collaborating with corporations perform the important function of holding firms accountable to their CSR commitments. One of the most important roles a nonprofit can play while collaborating with a firm practicing CSR is to hold a firm accountable. This is an

important role for two reasons: first, CSR is only important to firms in that it increases demand for their products, so really only the image or perception of CSR is necessary. There is a strong incentive to adopt only marginally beneficial programs and claim they are saving the world.

Second, CSR is a relatively new phenomenon and there is nothing but voluntary regulation to ensure that corporations are really doing what they say they are doing in terms of being socially responsible. There are many informal agreements, certifications, associations, et cetera, but there is not yet a comprehensive set of rules to regulate CSR.

When the interests of non-profits are aligned with the success of CSR, their oversight helps keep firms honest. A firm claiming to be CSR and not working with a non-profit organization is suspect. Oversight can occur whether or not the firm is collaborating directly with a nonprofit. Some nonprofits exist solely as watchdog groups to perform the oversight function without necessarily having direct collaboration with the firm.

The oversight function of nonprofits participating in CSR may be damaged if the nonprofit is too reliant on corporate donations from a single source, however. In the same way that for-profit external verifiers are likely to decrease the stringency of regulations on firms that they rely on for profits, a nonprofit organization that relies too heavily on a company's contributions may not be a reliable supervisor. For this reason nonprofits should be careful not to rely too heavily on donations from any one source. Some nonprofits will not accept donations from corporate donors they believe to be unscrupulous. They may have this policy in part because they recognize the potential influence large donors could have and do not wish to be manipulated.

Other Issues

There are some other issues surrounding CSR's ability to further social welfare, which nonprofit participation may not be able to mitigate. For-profit firms may try to use CSR to influence or avoid regulation (Videras and Alberini, 2000). If a firm is seen to voluntarily participate in some sort of social welfare or sustainability program, regulatory bodies may be less inclined to punish it for abuses elsewhere. If it was one of the first in its field to voluntarily adopt CSR, it may also be able to influence legislation to its advantage. Its good reputation could make it seem trustworthy and give it extra leverage as regulations are formulated.

Another issue is that company's production of public goods depends in some cases on consumers' willingness to pay extra for responsibly produced goods. While a significant portion of the population is conscious of environmental damage and human rights abuses caused by consumption and therefore willing to pay extra to correct the problem, not everyone is. Therefore, some companies specialize in more expensive socially and environmentally friendly goods, and some continue producing low-cost goods for consumers free-riding on the public goods produced by the former type of firm.

Some Illustrative Examples

A couple of examples can help illustrate the conclusions drawn by the model. Computer hardware manufacturer Intel has an extensive CSR portfolio. Among its many programs are direct donations to Kiva.org, an online microfinance nonprofit, and Save the Children, a nonprofit providing healthcare, education, and various forms of aid to children in need. Intel's donations to these nonprofits represents one of the most trustworthy and accountable varieties of CSR. It is the nonprofits who are carrying out the good deeds Intel is funding, and their lack of profit motive makes them more trustworthy than if Intel had set up its own programs.

Oil giant BP also claims that it is a socially responsible company. Rebranding itself as “Beyond Petroleum,” the company emphasizes its commitment to alternative energy technology like wind, solar, biofuels, and hydrogen. Its investment in alternative energy sources, it claims, is good for the environment and is helping to make the transition to cleaner fuels. BP’s emphasis on sustainability is a less trustworthy variety of CSR because it does not involve donations to a nonprofit (BP does make donations to nonprofits, but they are unrelated to its sustainability measures, which involve investment in alternative energy). While it claims to be committed to helping the environment, the proportion of its total investments going to alternative energy is a tiny fraction of the amount spent on its main business – oil. When we consider the high profile environmental incidents BP has been a part of in the last few years, the motive behind its highly publicized interest in the environment becomes clear. There have been several oil spills as well as a plant explosion in which 15 workers were killed. The “Beyond Petroleum” campaign may simply be an effort to improve the company’s image rather than a real commitment to social responsibility.

Limitations of the Model

There are several assumptions which, if untrue, invalidate the implications yielded by the model. I assume that the primary motive of a firm for being socially responsible is to increase profits. There may be other reasons for a firm to commit resources to CSR. Alternative motives for CSR participation are included in the literature review.

Second, it could be that the most important way CSR enhances profits is through means other than by increasing demand for the firm’s products. I discuss some of the most likely alternatives in previous sections. In summary, CSR can draw talented employees, create innovation and new markets, lower costs, and preempt public relations scandals involving

discovery of environmental or workplace abuses. It is likely that CSR does all of these things, but I assume the major contribution of CSR is an increase in demand.

I also assume in this model that consumers respond to marketing by companies wishing to be known as socially responsible, since they know there are some truth in advertising limitations and they reason that some CSR is better than none, even if it is actually less than the company claims. The conclusions drawn from the model do not hold if consumers are more discriminating than this. If they are willing to spend time thoroughly investigating the quality of a company's CSR before they buy anything, then the company cannot get away with misleading them.

Conclusions

Recent years have seen an expanding role for businesses in the provision of social and environmental benefits. While there may be many motives, (profit-based and otherwise) for a firm to participate in CSR, the focus of this paper is the motive I consider the strongest. Commitment to corporate social responsibility can enhance financial performance by increasing demand for a firm's products. Given the profit motive of CSR, the private provision of public goods is not trustworthy unless a firm is involved with a nonprofit organization. Nonprofits have no profit motive, so they can help mitigate the untrustworthiness and other limitations of CSR. Whether or not a firm's CSR programs involve partnership with a nonprofit can also help the public determine the quality of that firm's CSR.

It is interesting that the apparent desire of such a large segment of the population for increased transfers to social and environmental causes has not translated itself into political action. Such a comprehensive move on the part of the private sector toward CSR was obviously motivated in a large part by public pressure. Starr (2007) thinks this may indicate a government

failure, but it may be temporary because public concern for human rights and the environment has only recently become widespread. It seems that, possibly due to frustration with the sluggishness of the political process, consumers and especially nonprofits have chosen to increase pressure on the private sector, which can respond more quickly, if not as comprehensively, to the wishes of consumers. If public interest in social and environmental improvements prevails, however, we can expect the government to assume a larger role in addressing the negative impacts of industry.

It is heartening to see a fraction of the considerable resources of the economy's private sector devoted to solving social problems, even if CSR is motivated by profits. Since CSR's rise to prominence is a fairly recent trend, a comprehensive and binding set of regulations have yet to arise, but it is possible that some sort of a broad protocol will arise to provide some regulation and increase the trustworthiness of CSR, reducing the nonprofit sector's oversight role in this area. Considering the probable profit motives behind this phenomenon, it will be interesting to see whether the "corporate social responsibility" era is a lasting phenomenon that will have permanent implications for the provision of public benefits, or if it is a transient fad to which companies will cease to adhere if consumers begin to lose interest.

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