



Ethics and corporate social responsibility integrated into knowledge management and innovation technology

Ethics and
corporate social
responsibility

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A case study

Fátima Guadamillas-Gómez and Mario J. Donate-Manzanares
University of Castilla-La Mancha, Toledo, Spain

Abstract

Purpose – The main purpose of this paper is to offer an analysis of how firms could integrate ethical values and corporate social responsibility (CSR) initiatives into its corporate and business strategies, especially in relation to its knowledge management (KM) strategy, technological innovation and human development.

Design/methodology/approach – A model for the “strategization” of ethics and CSR – i.e. their integration into a firm’s strategies – is put forward in this paper. In addition, this model is evaluated through a case study of a Spanish innovative company, Indra. Data were generated based on interviews with various managers involved in the development of CSR, KM and corporate strategies.

Findings – The paper provides evidence of the efforts this company is making in order to connect CSR initiatives with competitive advantage through the development of intangible assets such as human capital and innovation capacity, for which KM is an essential tool.

Research limitations/implications – The case study is limited to one company in order to go deeper into the “strategization” of CSR process. Future studies will focus on a larger and more diverse sample of firms.

Practical implications – Important factors of influence, which have been observed in this process, have been extracted from the case study, such as the necessity of promoting the company’s ethical principles through its corporate culture, the human resources practices which encourage the access to and the transfer of knowledge, and relationships with its stakeholders that allow the creation of knowledge, innovation and human development.

Originality/value – The paper provides a model of integration of ethics and CSR into the company’s strategy through four stages: establishment of CSR vision, diagnosis of CSR problems, development plan of CSR development, and communication. This model can provide a roadmap for managers in other firms in order to formulate and implement a CSR plan in accordance with the company’s strategies and mission.

Keywords Corporate social responsibility, Ethics, Corporate strategy, Knowledge management, Spain

Paper type Case study

1. Introduction

The integration of ethics and corporate social responsibility (CSR) into a firm’s strategies (Sharp and Zaitman, 2010) is a key aspect for technology-intensive firms, as innovation has been proved an important factor in explaining the influence of CSR on firm performance (McWilliams and Siegel, 2000). One result of this integration is the creation of human capital, along with other intangibles such as reputation or culture (Surroca *et al.*, 2010).



The selection of one strategic alternative about CSR in an innovative company depends, to a great extent, on stakeholders' perceptions of the problem, and on a decision process which is based on a complex network of relationships among internally and externally affected groups (Mitchell *et al.*, 1997). Moreover, certain ethical requirements also exist in relation to dignity and human rights, work conditions or environmental respect (Werhane, 2008, p. 471). Another issue to consider is the role played by knowledge management (KM) and culture as powerful tools to make the integration of CSR decisions into strategies possible (Donate and Guadamillas, 2010).

In this paper the integration of ethics and CSR in the innovation strategy is analysed. We present a conceptual model that integrates the stakeholders' influence, the CSR strategy and ethical principles for human development into the firm's strategy. We argue that the main result of this integration process is the development of valuable intangible resources for the firm and that these relationships operate in both directions – i.e. that CSR influences innovation and vice versa. We show how this integration could be an opportunity to generate and sustain the competitive advantage of a company.

The process is studied through a case study in a Spanish technology-intensive company, Indra. This technique was used as qualitative research methodology in order to analyse exploratory questions (Yin, 1994). The case study shows the links among aspects such as KM and CSR along with the innovative initiatives that have been used by this company in order to generate intangible assets such as the firm's reputation and legitimacy from the integration of ethics into its strategy.

The structure of this paper is as follows. First, we analyse the integration of CSR in the business management of a firm with the aim of establishing an overview of this question. Second, we conduct the case study of the integration of CSR into Indra's strategies. Finally, we conclude with some reflections and lessons extracted from the qualitative analysis, which show the opportunity for innovative companies of generating and sustaining competitive advantages from the implementation of strategies based on CSR.

2. The integration of business ethics, CSR and innovation

CSR includes a broad array of practices and strategies that a company develops in its efforts to attend their stakeholders objectives (Waddock, 2004). The strategic management literature poses the question of whether ethics and CSR may be a source of a competitive advantage by differentiating the firm (McWilliams and Siegel, 2001). It connects the social dimension with the development of intangible resources and firm performance from the stakeholder perspective and the resource-based view of the firm. This latter approach supports the statement that intangible resources such as innovation capacity (Klassen and Whybark, 1999), organizational culture (Howard-Grenville and Hoffman, 2003), human resources (Russo and Harrison, 2005) and corporate reputation (Strong *et al.*, 2001) may enhance a CSR strategy and explain its performance owing to these intangible resources having a strong relationship with ethics and the social dimension of the firm (Surroca *et al.*, 2010).

The concerns and objectives of the stakeholders are key aspects to consider how to integrate CSR into innovation. As Norris and O'Dwyer (2004, p. 174) assert, a new paradigm for business has emerged, which accentuates firms' responsibilities to stakeholders, in addition to the oft revered shareholder (e.g. Freeman, 1984; Clarkson,

1995; Donaldson and Preston, 1995; Mitchell *et al.*, 1997; Friedman and Miles, 2002). The way the company applies its ethical principles and how these are diffused through the organizational network affects the relationships with all stakeholders (Donaldson and Preston, 1995).

The relationship between innovation, CSR and firm performance can also operate in reverse. The most profitable firms have more opportunities to create new knowledge and innovate (Helfat, 1997), enhance corporate culture (Denison, 1990), reputation and legitimacy (Roberts and Dowling, 2002) and develop human resources in companies (Wright *et al.*, 2005).

The application of CSR can lead to legitimacy. Legitimacy can be understood as the social justice through which an action is publicly validated; this is to say that it is recognised that the firm possesses a distinctive competence to provide a product or a service (Perrow, 1961). This is not an end in itself, but it can become a strategic resource (Dacin *et al.*, 2007). The firm could be considered as a coalition in which the different stakeholders participate to gain their own benefit (Freeman, 1984). Managers progressively renounce the idea that CSR distracts them from their objectives (Freeman, 1984). They promote its integration in business (Donaldson and Preston, 1995). But there is still a lack of models or frameworks that show the way CSR can be integrated in corporate strategies on a permanent basis.

In this paper a model is built that includes organizational innovation features over which ethical decisions influence, highlighting the significance of these on performance and competitiveness. It is suggested that the ethical conception of managers and their perception of stakeholders' requirements influence ethical organizational principles, and the results of managerial decisions and environmental changes lead to the evolution of both the demands and the ethical perception of managers.

Ethical principles may be compatible with the best long term economic performance (McWilliams *et al.*, 2006) and with the company's profits (Steiner and Steiner, 2000, p. 129). This is only possible if these actions are developed from a previous knowledge of their advantages and the way these should be integrated into the strategies (McWilliams and Siegel, 2001). This integration would imply the development of the stages included in Figure 1.

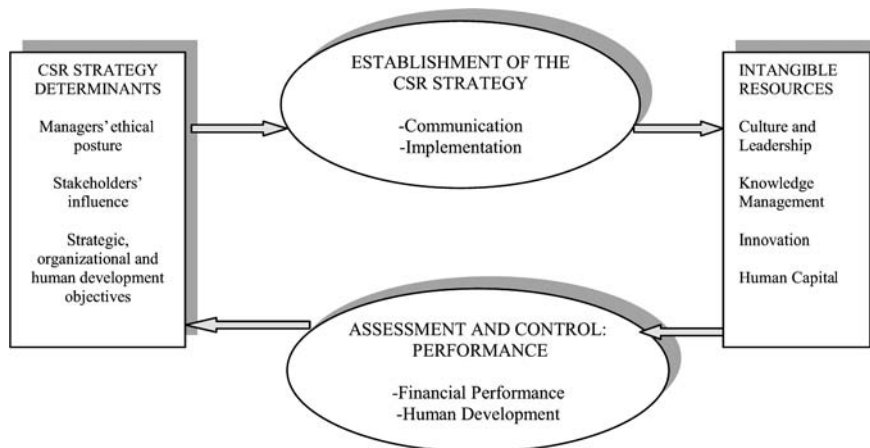


Figure 1. Model of integration of CSR, intangible resources and firm performance

As Figure 1 shows, formal CSR plans are established from the ethical posture of managers, the influence and relative power of the stakeholders and the organizational and strategic objectives of the company. Thus the first step for CSR “strategization” (Sharp and Zaitman, 2010) is a strategic approach based on ethical leadership, stakeholders’ analysis and the consideration of general firm-level objectives. The next step is the communication of these initiatives to the stakeholders involved and affected by the consequences of them. Then these actions are implemented, resulting in outcomes regarding environmental, economic and social ambits. These results have to be assessed to justify their benefits and costs (Steiner and Steiner, 2000). The assessment should be based on criteria related to economic performance and intangible resources that have been developed or improved. These assessments can be made through audits, or measurement indexes developed by independent institutions. These institutions, such as the Global Reporting Initiative (GRI), are endeavouring to unify and homogenise indicators in order to create a group of CSR and ethical measures, which can be universally adopted.

This is a dynamic and cyclical process. Due to changes in strategic objectives, the stakeholders’ needs and their influence in corporate strategy may alter as well (Mitchell *et al.*, 1997). Thus, an ongoing learning process is carried out which should help future decisions to be efficient, from economic and ethical points of view (Argandoña, 2008).

3. A high-tech company case: integrating innovation technology, ethics and CSR

For a firm, problems regarding the implementation of CSR mainly come from aspects such as human resources and cultural values, the adaptation of the organisational structure to the new situation and the generalization of CSR in processes and procedures. In this implementation process, knowledge management (systems) is an essential instrument because it allows the firm to propel, diffuse and channel knowledge flows about CSR initiatives throughout the company and beyond (stakeholders).

Our main proposition is that CSR can contribute to the development of valuable intangible assets for the firm by improving its competitive context, which in turn depends on its (ethical) relationships with stakeholders. The following subsection shows how the implementation of CSR along with the use of KM for its generalization can contribute to the strategic objectives attainment of an innovative company.

3.1 CSR implementation in Indra

To illustrate this process of implementing CSR in innovative companies, we conducted an exploratory case study of a Spanish technology-intensive company, Indra. This technology-intensive firm has developed a specific plan to integrate ethical values and CSR into its corporate and business activities and seems also successful as a result of such positive engagement with their stakeholders and business context. Our methodological framework consisted of qualitative primary data collection (using semi-structured interviews with two corporate managers). We also collected secondary data from other company documents such as internal reports, the company’s web site and additional relevant information from financial and economic press.

Indra is a leader corporation in information technology (IT) development in Spain and holds a strong competitive position in Latin America and Europe. Its path of

growth clearly corresponds to a related diversification through IT knowledge. Indra aims to meet its stakeholders' needs and expectations using a structured plan. To carry out this plan, it has considered four stages:

- (1) the establishment of a CSR vision;
- (2) the diagnosis of CSR problems;
- (3) a plan for CSR development; and
- (4) a plan for CSR communication.

Vision: the innovation responsibility. For Indra the application of CSR in the company means: "To be an innovative and knowledge intensive company in our relationships with internal and external groups, with other institutions that cultivate and develop knowledge, and with the communities in which we operate" (Indra, 2007, 2008).

Indra describes CSR as "[...] the honest behaviour of the firm in relation to all the groups with which it operates, in line with an idea of sustainable profit. This should be understood in a three-fold way: economic, social and environmental" (Indra, 2006).

The essential elements are innovation, knowledge, human development, ethical values and responsibility. Thus, Indra maintains its CSR objective to consolidate its position as an innovative and knowledge intensive company, which offers value to its stakeholders. Indra's values are customer satisfaction, excellence, human capital development, integrity, innovation and profitability.

Diagnosis: company situation in CSR. The diagnosis was made through interviews with top and middle managers, and union representatives. Also, discussion groups with employees were created, using data on stakeholders and financial information. The company calls them "focus groups", and up to 40 employees participate in each.

The diagnosis of Indra's situation in relation to CSR was reflected in the "corporate social responsibility report". This document is made up of two main components: Indra's stakeholder map; and CSR objectives of the Indra's performance regarding these groups, which has to do with relationships framework (with these groups), and to being an innovative company (in relation to them).

Following this methodology, the company tries to attain knowledge with the aim of achieving innovations, based on its stakeholders' necessities, motivations and aspirations. It then selects priority areas of CSR in which it could reach a leadership position from the application of its knowledge base.

The management plan: CSR intervention areas. Knowledge obtained from the diagnosis allows the company to establish a "corporate responsibility management plan", which is used as the axis to develop the activities pointed out above. In this document the advances of the firm with regards to KM and CSR are planned, taking into account three variables: relationships with stakeholders, KM and innovations obtained – especially from external groups.

The objective of the plan is to strengthen CSR by:

- promoting a responsible culture among the groups and involving them in CSR;
- creating a framework to transform CSR into a development engine for; and
- developing the CSR Report following the global reporting initiative (GRI) directives (Indra, 2007).

This plan allows the company to assess activities with stakeholders, establish standards to reinforce these relationships, improve its objectives, fulfil deadlines, improve the performance of individuals in charge, and assume reasonable economic and social risks.

Communication Plan: internal and external sensitisation and CSR report. The Communication Plan disseminates news about CSR activities and achievements. All the stakeholders are aware of these aspects and this contributes to their involvement and helps Indra promote its culture of responsibility, reinforcing its image as a firm committed to the stakeholders' interests. The following initiatives are carried out (Indra, 2008): CSR annual reports, detailed information through the company's web, articles in general and specialized publications, conferences in several forums and contacts with institutions in the ambit of CSR.

3.2 Specific actions of CSR

Several CSR objectives and actions related to innovation, intangible resources and performance have been developed for each of Indra's stakeholders.

Customers. Knowledge exchange with customers to develop *ad-hoc* solutions is an essential task. Indra selects customers considered as highly innovative and with greater growth potential, for which the development of trust (based on cooperation) is critical. Thus, Indra establishes alliances to obtain knowledge about customers' needs.

Indra is carrying out other KM initiatives, such as the commercial observatory or some extranets to exchange information. Thus, a two-fold aim can be fulfilled: improving its knowledge on needs and expectations of this group and intensifying relationships.

Suppliers. Indra maintains stable agreements with suppliers for the development of specific technologies. The results obtained are exploited in training and performance assessment. It has developed a survey of suppliers to obtain knowledge to improve its supply management chain and the communication with this group.

Employees. Indra has implemented an Employee Code of Conduct to instil its cultural principles concerning ethics and KM. It promotes and extends training, and the development of trust and talent. The objective is to motivate employees with incentives such as their participation in work teams.

Indra has a Performance Assessment and Internal Search for Talent Program, which is run twice a year. This consists of three activities: the General Development Plan, to manage employees' talent; the investment in actions to identify employee potential; and plans to identify successors in critical working posts. This allows the establishment remuneration systems by results to reward the highest performance of employees in relation to KM. Moreover, small work groups are established to promote transfer of tacit knowledge.

Indra has more ambitious CSR goals, such as diversity policies, labour insertion actions for the disabled, the "Equilibra" program to balance the private and working life of the employees, the promotion of flexible work such as teleworking, and an equality plan. Moreover, actions are being implemented to promote participation in KM, such as discussion forums.

Shareholders. Indra protects the interests of shareholders in corporate governance decisions. It promotes information transparency and best practices of corporate governance, included in the Spanish reports on good corporate governance practices:

the Olivencia Code, the Aldama Report and the Conthe Code. Indra has been awarded the prize to the best company included in the IBEX 35 index in relation to practices in corporate government and information transparency.

Indra considers the possibility of joining some sustainability indexes, which would reinforce its image as a responsible company and help in its raising of funds.

Communities: social action plan. Indra's initiatives to improve its relationships with knowledge institutions and local communities are included in the Social Action Plan. One of the actions was the creation of a network of special employment and development centres in 2004. In these centres the company trains and employs highly qualified personnel. These are often located far from major industrial areas, but are near to universities or training institutions.

Indra collaborates with nearly 40 universities and research centres in projects to share and transfer knowledge. Indra also includes – as a part of the Social Action Plan – stable working relationships with non-profit institutions. Indra offers these institutions funds, equipment and expertise on a permanent basis. Indra considers these entities as knowledge partners, because they contribute with external knowledge on highly diverse but relevant aspects for its strategy such as market tendencies, environmental issues, legal frameworks or specific necessities of the disabled. Partners obtain knowledge and resources from Indra, to improve the living conditions of individuals. Some of these partners are CEFAES, Integra and the Realiza Foundation (Spain) and the ONCE Foundation, Spain. It is based on the development of joint technological projects to aid the full integration of disabled persons into society (Indra, 2006).

All current and future initiatives on CSR are included in the Management Plan (Table I).

Two aspects are remarkable in relation to Indra's evolution in this matter (Table I). The first is related to the establishment of objectives. From 2005 to 2007, the objectives were unspecific, establishing declarations of intention (e.g. relationships improvements). Later they were addressed (future initiatives) in a more specific way (surveys, agreements, environmental certifications, etc).

This shows that, as soon as the stage of cultural dissemination of these initiatives has been achieved, CSR is integrated in strategic plans in a practical manner. The progress experienced is remarkable in placing CSR actions at the same level as the key strategic decisions (e.g. control at executive board level); and establishing and validating some indicators of progress (e.g. the Spanish standard SG21 for the Evaluation of Ethical and Socially Responsible Management in organizations). These efforts aim at extending the results among the stakeholders and defending progress from both ethical and performance standpoints.

The second aspect is related to the importance given in the two stages of the plan to knowledge and innovation initiatives, especially as regards employees. This fact shows KM as a basis for innovation and CSR.

3.3 Implementation factors

In the integration of CSR and strategy, organizational aspects should be coherent. The most important factors in this process are: culture and leadership, HR practices and the role of the company's KM as related to culture and HR management.

Table I.
Objectives, actions and
future initiatives in
Indra's Management Plan

Group	Objectives 2005-2008	Actions 2005-2008	Future initiatives
Employees	Relationships framework improvement KM improvement Innovation in human resources management	Working environment survey KM initiatives: forums Diversity policy "Equilibra": working conciliation program Teleworking Signing of the "Inserta" agreement Social Action Policy	Diversity: new recruitment Equality plan Conciliation KM initiatives New ways of working Indra Foundation Technologies for disabled persons Corporate volunteers Environmental certification in all centres
Third sector	Relationships framework (social action)		
Environment	Integral environmental policy	Integral environmental policy Certification of two work centres Communication study with shareholders	To appear in sustainability indexes KM initiatives: extranets Improvement of suppliers survey
Shareholders	Socially responsible investment		
Customers	Relationships framework improvement	KM initiatives: commercial observatory	
Suppliers	Relationships framework improvement	Principles in the relationships framework with suppliers Survey of suppliers	
Knowledge institutions	Formal framework of relationships	Coordination of relationships with universities	Intensification of relationships with universities TDC expansion
Local communities	Impulse to collaborate in the Social Action Plan	Establishment of technological development centres (TDC) Global Compact Signature	
Corporate area	To promote Indra's role as a corporate citizen	Corporate responsibility committee Corporate evaluation system Documents of communication Checking of CSR Report	Councillor assigned to the CSR follow-up Behaviour Code updating Revision and correction of the risks map To normalise the CSR system in accordance with the SG21 agreement To improve communication with stakeholders

Source: Own elaboration from Indra, 2006, 2007 and 2008 Reports

Culture and leadership. Corporate culture is the general framework of relationships between the company and its stakeholders and it also influences other organisational factors. The most important cultural goals are the following:

- To create and disseminate a culture and a leadership that promotes knowledge creation and innovation around ethical and social values of responsibility.

The corporate culture stimulates the consideration of ethics and CSR as basic aspects of the strategy and linked to knowledge and innovation. Other cultural aspects are shared vision, strategic alliances, work in teams, autonomy in decision making, tolerance of mistakes and shared learning. To disseminate these principles some initiatives stand out, such as institutional declarations, ethical codes and training actions related to CSR.

- To identify and promote knowledge for innovation in its relationships with all stakeholders.

The creation of knowledge is a key element of Indra's strategy and a fundamental responsibility, in order to generate technologies and solutions that provide value to the stakeholders. Also, establishing relationships with them offers Indra strategic knowledge.

The spreading of a culture that promotes trust, participation and support explains a great part of the results achieved in the area of ethics. The innovation, KM and CSR ambits strongly depend on the degree to which stakeholders adopt the cultural values on which these processes are based.

- To integrate CSR as a key aspect of the strategy.

CSR focuses on the improvement of strategy and performance. Fluid communications with stakeholders offer relevant knowledge of their needs, which allows the company to make its innovative efforts in the right (strategic) direction.

Ethical principles and values should be included into the strategic plans, disseminated and promoted, and it should be ensured that a follow-up of the attained advances is carried out through some indicators (included in the CSR or sustainability reports). In this respect, Indra's initiative of developing the CSR Management Plan stands out as a great achievement.

Human resources development. Employees participate in the CSR programs and they assume ethical values as an essential part of their work only when they have a high level of motivation. Their involvement with the innovation process is crucial, as they possess tacit knowledge of high strategic value, which they have to be willing to apply and share.

CSR practices developed for employees in order to satisfy their objectives and motivate them are: systems to promote learning and professional development; fixed and variable incentives related to results; active participation in some of the company's decisions; systems that promote fluid communications among employees and other stakeholders regarding the strategic objectives, activities and company results (the initiatives range from formal documents – e.g. strategic plans or conduct codes – to meetings that promote informal communication); and equal opportunity programs, non-discrimination and labour conciliation, so that the best qualified and motivated employees can be placed in the most suitable positions.

A prominent initiative in Indra is the organisation of work in multidisciplinary teams. These reinforce motivation, participation, autonomy and consensus concerning objectives and methods, and allow employees to actively involve themselves in knowledge exchange. Teams also contribute to the dissemination of cultural values of innovation, ethics and CSR, and in doing so meet Indra's essential objectives.

4. Conclusions

This study advances the understanding of the ethical dimension of a firm's decisions for human development and the relationship between CSR and innovation strategy. A model is proposed which includes innovation technology, culture, knowledge management, human resources practices and leadership as essential factors to integrate CSR into the company's strategies.

The company analysed has acquired essential knowledge from its stakeholders' needs, to identify new business opportunities. This knowledge is integrated into the organisational base, and as a result the objectives of the firm take into consideration the stakeholders' goals. This knowledge is also then applied to the development of innovations. CSR and ethical values are integrated into the firm's strategies and they contribute to promoting confidence, which enhances Indra's reputation as a responsible company. Therefore the main conclusion of the case study is that the development and implementation of a CSR plan since 2006 has allowed Indra to improve its internal and external competitive context through a better exploration and exploitation of knowledge, along with stable relationships with its stakeholders.

This shows that the increasing complexity of the competitive environment makes it necessary to manage two critical aspects:

- (1) the creation of value derived from strategic knowledge; and
- (2) the voluntary establishment of ethical behaviour guides for all organisational members.

These decisions should be reflected in different ways:

- a wide dissemination among stakeholders;
- respect for transparency and the expectations of stakeholders;
- the promotion of the participation of all members of the organisation; and
- the establishment of stable relationships with different entities to spread knowledge and contribute to the well being of society.

The main proposition of this paper is that the integration of CSR into a company strategy will affect innovation results, human resources development and the development of other valuable intangibles. Although the connection between CSR and financial results has not been analysed in this paper, it is likely that Indra can take advantage of this intangible assets in the long run, as certain scholars have shown (e.g. Surroca *et al.*, 2010).

The process of the integration of CSR into its activities is considered by Indra as an essential aspect that it leaves behind the consideration of the company as simply a financial profit seeker. In so doing, Indra wins the reputation of being a responsible company from its suppliers, customers, employees, shareholders and society in general. Therefore, for this company, business activities make both social and

managerial sense, making social responsibility compatible with the search for financial profit (Steiner and Steiner, 2000; Porter and Kramer, 2006).

As regards the limitations of this paper, we would point out, firstly, the difficulty of establishing causal relationships between CSR actions and performance. Second, certain restrictions exist in relation to the study of these issues (ethical aspects, intangible resources), and some difficulties emerge in generalizing conclusions from the case study. Third, the cross-sectional nature of the study makes it difficult to extract unequivocal conclusions.

Overall, this study shows that the foundations of competitive advantage for the firm can be extended to the application of ethics and CSR. The integration of these into the strategy could mean that long-term profitability improves, providing benefits to stakeholders.

The most innovative firms managed by ethical leaders have an opportunity of ensuring that CSR and ethical principles are implemented in a coherent manner and, in so doing, they contribute to the attainment of economic efficiency, confidence and cultural identification. These innovative firms will be the most competitive companies in the near future.

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About the authors

Fátima Guadamillas-Gómez is Professor of Business Administration at the Faculty of Law and Social Sciences in Toledo, Spain. She has a degree in Economics and obtained her PhD from the University of Castilla-La Mancha. She teaches courses at the degree level on strategic and general management and on knowledge management, innovation and strategic management at the MBA and PhD levels. Her research focuses on innovation, strategic management, ethics and corporate social responsibility. Her works have been published in a number of specialised journals and books. Fátima Guadamillas-Gómez is the corresponding author and can be contacted at: fatima.guadamillas@uclm.es

Mario J. Donate-Manzanares is Associate Professor of Business Administration at the University of Castilla-La Mancha. He teaches courses on Strategic Management and Entrepreneurship at the Faculty of Law and Social Sciences in Ciudad Real, Spain. He obtained his PhD from the University of Castilla-La Mancha in 2006. His research mainly focuses on knowledge management, technological innovation and issues related to corporate social responsibility. He has published a number of papers in specialised journals and books about these subjects in the last few years.

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