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**CORPORATE SOCIAL RESPONSIBILITY:**

**A LEGAL MANDATE OR A MARKETING STRATEGY ?**

**INVESTIGATE THE TRUE MOTIVATIONS BEHIND CSR INITIATIVES.**

## ABSTRACT

Corporate Social Responsibility (CSR) has ascended as a cornerstone concept within the global corporate sphere, teetering between a regulatory obligation and a shrewd instrument for brand enhancement. This discourse meticulously delves into the underlying impetuses steering CSR endeavors, scrutinizing whether corporations genuinely engage in socially conscious undertakings due to statutory compulsion or as a calculated move to fortify their market stature and brand resonance. By retracing CSR's historical trajectory from its inception as discretionary philanthropy to its crystallization into obligatory legal requirements, particularly in jurisdictions like India and the European Union this study unpacks its evolutionary arc.

Through an exhaustive examination of pivotal CSR statutes such as Section 135 of the Companies Act, 2013, and the Non-Financial Reporting Directive (NFRD), this paper underscores the intricate manner in which legal frameworks influence corporate conduct. Furthermore, it dissects the strategic undercurrents of CSR, particularly how enterprises exploit social responsibility initiatives for marketing mileage and reputational gain. Case analyses of prominent multinational entities reveal the murky intersection where ethical business conduct converges with opportunistic branding, often veiled under the guise of CSR initiatives.

The phenomenon of greenwashing, shareholder expectations, and sector-specific CSR paradigms are explored to discern whether such efforts are genuinely predicated on societal betterment or are tactically designed for profit maximization. In proffering a balanced vantage point, the paper urges for a more refined comprehension of CSR, one that acknowledges the nuanced interplay between regulatory adherence, moral accountability, and strategic market positioning. The concluding remarks champion a model where businesses can harmoniously align social welfare with corporate prosperity, ensuring neither is sacrificed at the altar of the other.

**Keywords:** Corporate Social Responsibility, legal frameworks, marketing strategy, greenwashing, sustainable development, ethical business practices

## **I. INTRODUCTION: OVERVIEW OF CORPORATE SOCIAL RESPONSIBILITY**

Corporate Social Responsibility (CSR)<sup>1</sup> transcends mere profit-making goals, anchoring itself in the ethical duty of corporations to contribute to societal well-being. As businesses expand, the expectations surrounding their role in nurturing society, the environment, and their stakeholders increase in equal measure. CSR encourages businesses to weave social, environmental, and ethical considerations into their operational fabric, ensuring that their impact is both far-reaching and positive for the communities they inhabit. In today's corporate landscape, CSR has evolved into a cornerstone of sustainable business practices, championing accountability and transparency as key pillars of responsible governance.

### **A. Legal vs. Strategic Perspectives**

Corporate Social Responsibility remains a battleground of perspectives. On one side, it's framed as a legal necessity, particularly in countries like India where regulations such as Section 135 of the Companies Act, 2013, mandate that specific companies dedicate at least 2% of their net profits toward CSR activities. On the opposite end of the spectrum, CSR is increasingly wielded as a strategic tool in the corporate marketing arsenal. Companies use it to polish their brand image, foster loyalty, and carve out a unique position in cutthroat markets. This tug-of-war between legal obligation and strategic advantage raises a fundamental question: Is CSR a heartfelt initiative aimed at fulfilling societal duties, or is it primarily a calculated move to bolster corporate market power?

## **II. HISTORICAL CONTEXT AND EVOLUTION OF CSR**

Corporate Social Responsibility (CSR) originated as a largely voluntary practice<sup>2</sup>, where business owners engaged in charitable activities, often motivated by personal ethics rather than corporate obligations. In the late 19th and early 20th centuries, industrialists such as Andrew Carnegie and John D. Rockefeller embodied these early CSR ideals, contributing generously to educational and social causes. Carnegie's Gospel of Wealth advocated that the wealthy bear a responsibility to uplift society. However, these early CSR efforts were sporadic and unstructured, viewed as discretionary acts of goodwill, rather than integrated business strategies. Corporations had yet to formalize CSR as part of their operational ethos.

### **A. Global Perspectives on CSR Evolution**

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<sup>1</sup> Companies Act, 2013, No. 18 of 2013, § 135 (India).

<sup>2</sup> United Nations, 2015, Transforming our world: the 2030 Agenda for Sustainable Development, United Nations, New York. Available at: <<https://sdgs.un.org/2030agenda>> (Accessed: 7 October 2024).

By the mid-20th century, CSR began to take on a more structured and formalized role globally, particularly in developed nations. In the 1950s, Howard Bowen's *Social Responsibilities of the Businessman* became a seminal work, laying the foundation for modern CSR by emphasizing the need for businesses to consider societal impacts. The emergence of stakeholder theory, which advocated that companies must consider the needs of all stakeholders—not just shareholders further advanced CSR<sup>3</sup>. European companies integrated environmental and human rights issues into their frameworks, while Japan, after World War II, focused on employee welfare and product quality as its CSR priorities. In developing countries, however, CSR remained informal, due to weaker legal systems and regulatory oversight.<sup>4</sup>

### **B. Emergence of CSR as a Legal Mandate**

The 21st century marked a dramatic shift as CSR transitioned from ethical responsibility to legal obligation in certain jurisdictions. India became the first country to mandate CSR with the 2013 Companies Act, requiring large companies to spend 2% of their profits on CSR activities. This represented a significant evolution, from CSR being an ethical choice to becoming a legal mandate. Other regions, like the European Union, followed suit with the Non-Financial Reporting Directive (NFRD), requiring companies to disclose their environmental and social practices. These legislative moves have helped ensure CSR is not merely performative, but a transparent and accountable corporate duty.<sup>5</sup>

## **III. CSR AS A LEGAL MANDATE**

### **A. Legislative Framework**

In recent years, there has been a notable shift in how governments approach Corporate Social Responsibility (CSR), moving from a voluntary act to a legal obligation. By embedding CSR into legislative frameworks, they aim to ensure that corporations no longer prioritize only shareholders but consider the broader societal impact of their actions. The dual objectives here are clear: to hold companies accountable and to push them toward sustainable practices. Nations such as India, the United Kingdom, and members of the European Union have

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<sup>3</sup> Porter, M.E. and Kramer, M.R., 2011, 'Creating Shared Value: How to reinvent capitalism—and unleash a wave of innovation and growth', *Harvard Business Review*, 89(1), pp. 62-77.

<sup>4</sup> KPMG, 2020, *The KPMG Survey of Corporate Responsibility Reporting 2020*. Available at: <<https://home.kpmg/xx/en/home/insights/2020/02/the-kpmg-survey-of-corporate-responsibility-reporting-2020.html>> (Accessed: 7 October 2024).

<sup>5</sup> Asong, J. and Owusu, K., 2021, 'Corporate Social Responsibility and Firm Performance: Evidence from Emerging Markets', *Sustainability*, 13(4), pp. 2112.

spearheaded this legal transformation, illustrating the evolution of CSR from ethical aspiration to enforceable mandate.<sup>6</sup>

### **B. India's Legal Framework: Section 135 of the Companies Act, 2013**

India emerged as a global pioneer by legislating CSR through Section 135 of the Companies Act, 2013. The law mandates that companies surpassing certain financial thresholds a net worth exceeding ₹500 crores, turnover beyond ₹1,000 crores, or net profit over ₹5 crores must allocate at least 2% of their average net profits from the previous three years to CSR activities. Schedule VII of the Act offers a range of permissible CSR activities, including hunger alleviation, educational promotion, and environmental sustainability.

Additionally, the Act requires companies to form a CSR committee within their Board of Directors, responsible for drafting policies and overseeing their implementation. Rather than imposing direct financial penalties for non-compliance, the law follows a "comply or explain" model. Corporations either meet the CSR mandate or publicly explain why they have not. This approach, lauded by some for its flexibility, has been criticized by others as offering an easy way out for corporations to avoid meaningful CSR engagement simply by offering explanations.<sup>7</sup>

While the legislation was heralded as a progressive step, it sparked debates about the underlying motivations for compliance. Some corporations have embraced the mandate, while others see it as an administrative hurdle. The absence of harsh penalties has led to concerns that, for some companies, the law is more about regulatory checkbox compliance than genuine societal contribution.

### **C. European Union: Non-Financial Reporting Directive (NFRD)**

In contrast to India's prescriptive framework, the European Union's Non-Financial Reporting Directive (NFRD), enacted in 2014, focuses on transparency. Large companies are required to disclose detailed non-financial information, specifically relating to environmental, social, and governance (ESG) practices. These disclosures cover areas such as environmental sustainability, human rights, anti-corruption efforts, and diversity<sup>8</sup>. By integrating these

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<sup>6</sup> Kotler, P. and Lee, N., 2005, *Corporate Social Responsibility: Doing the Most Good for Your Company and Your Cause*, Wiley, Hoboken, NJ.

<sup>7</sup> Journal of Business Ethics, 2018, 'CSR and Competitive Advantage: A Longitudinal Analysis', *Journal of Business Ethics*, 152(1), pp. 45-59.

<sup>8</sup> UN Global Compact, 2015, 'Guide to Corporate Sustainability: A Practical Approach to Sustainability', UN Global Compact. Available at:

disclosures into annual reports, the EU aims to enhance public scrutiny and corporate accountability regarding CSR.

The NFRD's transparency-first approach seeks to mitigate greenwashing — a tactic where companies exaggerate their ESG efforts for image enhancement without significant action. While it does not prescribe specific CSR activities, it forces companies to reveal their ESG strategies, encouraging more substantive integration of social responsibility into their core operations.<sup>9</sup>

#### **D. Legal Compliance or Strategic Compliance?**

One central question emerges from these CSR mandates: Are companies genuinely committed to social good, or are they merely engaging in strategic compliance? Many corporations seem to adopt a minimalist approach, doing just enough to avoid penalties or protect their public image. This tick-box mentality results in superficial CSR efforts that fail to address the deeper societal issues at hand.<sup>10</sup>

In India, for example, many companies align CSR initiatives with their core business strategies, using these activities as a form of marketing to enhance public perception. In the EU, similar behavior is evident, as companies strategically highlight their ESG efforts to appeal to eco-conscious consumers and investors. This duality between legal compliance and the pursuit of reputational gains underscores the tension between genuine responsibility and corporate self-interest.<sup>11</sup>

#### **E. CSR and Corporate Governance**

Increasingly, CSR is becoming integral to corporate governance, reflecting broader trends toward accountability, transparency, and long-term sustainability. Laws like India's Section 135 and the EU's NFRD elevate CSR from a voluntary afterthought to a critical aspect of governance. The establishment of CSR committees in India and the requirement for public disclosures in the EU illustrate this shift. Boards of directors are now tasked with balancing

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<[https://www.unglobalcompact.org/docs/publications/Guide\\_to\\_Corporate\\_Sustainability.pdf](https://www.unglobalcompact.org/docs/publications/Guide_to_Corporate_Sustainability.pdf)> (Accessed: 7 October 2024).

<sup>9</sup> Carroll, A.B., 1999, 'Corporate Social Responsibility: Evolution of a Definitional Construct', *Business & Society*, 38(3), pp. 268-295.

<sup>10</sup> Harvard Business Review, 2018, 'How Corporate Social Responsibility Can Be More Than Just Marketing', Harvard Business Review. Available at: <<https://hbr.org/2018/06/how-corporate-social-responsibility-can-be-more-than-just-marketing>> (Accessed: 7 October 2024).

<sup>11</sup> Tata Group, 2024, CSR Initiatives, Tata Group. Available at: <<https://www.tata.com/csr>> (Accessed: 7 October 2024).

financial performance and societal obligations, a reflection of the growing emphasis on responsible governance worldwide.<sup>12</sup>

CSR has evolved significantly, transitioning from a voluntary gesture to a legal mandate across several regions. Frameworks like India's Companies Act and the EU's NFRD are designed to promote accountability and transparency. However, a key challenge remains: distinguishing between companies that are genuinely committed to social responsibility and those that merely engage in strategic compliance to reap reputational benefits. As CSR becomes a core element of corporate governance, the focus must shift from compliance to genuine societal impact, ensuring that these mandates drive meaningful and sustainable business practices.

#### **IV. CSR AS A MARKETING STRATEGY**

Corporate Social Responsibility (CSR) has morphed into more than just a noble obligation; it's now a potent marketing weapon that companies wield to elevate their brand while simultaneously weaving themselves into the social fabric. By embedding CSR deep into their core strategies, businesses don't just meet regulatory demands they shape public perceptions, cultivate intense customer loyalty, and often find themselves unlocking untapped markets. A well-executed CSR program doesn't merely check a box it becomes the foundation upon which a brand is built, transforming it from a faceless corporation into a beacon of ethical values and societal contributions.<sup>13</sup>

##### **A. Case Studies: CSR-Driven Marketing Campaigns**

Globally, several brands have turned CSR into a catalyst for both social impact and market dominance. Take *TOMS*, for example. Its "*One for One*" model—where every purchase leads to a donation of shoes to a child in need—became an emblem of ethical consumerism. This straightforward, yet deeply resonant initiative struck a chord with socially conscious consumers, elevating TOMS beyond a mere shoe company into a brand synonymous with doing good. By anchoring CSR into the essence of its business model, TOMS not only

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<sup>12</sup> Unilever, 2023, Sustainable Living Plan, Unilever. Available at: <<https://www.unilever.com/sustainable-living/>> (Accessed: 7 October 2024).

<sup>13</sup> Rangan, V.K., Chase, L.A. and Karim, S., 2015, 'The Sustainable Business Model: A New Path to Sustainability', Harvard Business Review. Available at: <<https://hbr.org/2015/04/the-sustainable-business-model>> (Accessed: 7 October 2024).

differentiated itself in a crowded marketplace but also rode the wave of consumer goodwill, bolstering both customer loyalty and sales.<sup>14</sup>

*Patagonia* is another case study worth noting. Renowned for its environmental advocacy, Patagonia's "Don't Buy This Jacket" campaign flipped conventional marketing on its head, urging consumers to purchase only what they truly needed. This radical approach underscored the company's commitment to sustainability, attracting eco-conscious consumers and reinforcing Patagonia's leadership in the space. The campaign's success illustrates how authenticity in CSR efforts doesn't just resonate—it reverberates, creating lasting bonds between brand and customer.<sup>15</sup>

Likewise, *Unilever* has strategically employed CSR to break into new markets, particularly through its Sustainable Living Plan. Aligning its CSR initiatives with environmental stewardship and social improvement in developing regions, Unilever has used campaigns like Lifebuoy's handwashing initiative to merge public health messaging with product promotion. This not only amplified the brand's visibility but also strengthened its foothold in emerging markets where CSR holds weight.

## V. MOTIVATIONS BEHIND CSR: ETHICAL OR OPPORTUNISTIC?

### A. Ethical Foundations of CSR

At the very heart of Corporate Social Responsibility (CSR) lies a complex tapestry intricately woven with ethical threads, symbolizing a corporate commitment that transcends the pursuit of profit. Central to this discourse is stakeholder theory, which posits that organizations are morally obliged to recognize the myriad interests of all stakeholders employees, customers, suppliers, and the communities in which they operate rather than focusing solely on shareholders. This ethical perspective implores corporations to adopt practices that promote social welfare and environmental stewardship<sup>16</sup>. A compelling example is found in Section 135<sup>17</sup> of the Companies Act, 2013, which mandates certain firms to earmark a specific

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<sup>14</sup> Coca-Cola Company, 2024, Water Stewardship, Coca-Cola Company. Available at: <<https://www.coca-colacompany.com/shared-future/water-stewardship>> (Accessed: 7 October 2024).

<sup>15</sup> Business Roundtable, 2019, 'Business Roundtable Redefines the Purpose of a Corporation to Promote "An Economy That Serves All Americans"', Business Roundtable. Available at: <<https://www.businessroundtable.org/purpose-of-a-corporation>> (Accessed: 7 October 2024).

<sup>16</sup> Harvard Law School Forum on Corporate Governance, 2020, 'Corporate Social Responsibility: A Business Model or a Compliance Obligation?', Harvard Law School Forum. Available at: <<https://corpgov.law.harvard.edu/2020/02/12/corporate-social-responsibility-a-business-model-or-a-compliance-obligation/>> (Accessed: 7 October 2024).

<sup>17</sup> The Companies Act, 2013, § 135, No. 18, Acts of Parliament, 2013 (India).



percentage of their profits for CSR initiatives. This legislative framework is not merely a regulatory obligation; it embodies a profound ethical commitment to address societal challenges. Such mandates resonate with a clarion call, emphasizing that corporate entities must rise above a singular obsession with profit maximization.<sup>18</sup>

Consider the *Tata Group*, a paragon of ethical responsibility. Their expansive CSR programs spanning education, health, and rural development—vividly showcase how ethical motivations are intricately woven into their corporate fabric. These initiatives echo the company's foundational values, illustrating that authentic ethical imperatives can indeed shape corporate conduct, forging a legacy that extends far beyond mere financial achievement.<sup>19</sup>

A salient illustration emerges from *PepsiCo's* "Live for Now" campaign, which faced considerable backlash for co-opting social justice movements while failing to deliver meaningful contributions to those causes. Such missteps illuminate the precarious line between genuine CSR and opportunism. Yet, contrary evidence abounds. Research indicates that companies embracing robust CSR strategies often experience heightened sales and improved market performance<sup>20</sup>. A revealing study in the *Harvard Business Review* underscores this correlation, suggesting that while some corporations may initially adopt CSR for profit-driven motives, a sincere commitment to social responsibility can ultimately enhance financial outcomes. Thus, the motivations underpinning CSR emerge as a complex interplay of ethical dedication and strategic advantage.

## **B. Impact of Shareholder Pressure**

In recent years, the influence of shareholders has surged, significantly shaping CSR policies, particularly with the rise of Environmental, Social, and Governance (ESG) investing. Institutional investors increasingly scrutinize companies not only for their financial performance but also for their commitments to CSR. The *Business Roundtable's* 2019

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<sup>18</sup> World Economic Forum, 2020, 'The Global Risks Report 2020', World Economic Forum, Geneva. Available at: <<https://www.weforum.org/reports/the-global-risks-report-2020>> (Accessed: 7 October 2024).

<sup>19</sup> McKinsey & Company, 2020, 'How COVID-19 has pushed companies over the technology tipping point—and transformed business forever', McKinsey & Company. Available at: <<https://www.mckinsey.com/business-functions/organization/our-insights/how-covid-19-has-pushed-companies-over-the-technology-tipping-point>> (Accessed: 7 October 2024).

<sup>20</sup> Kearins, K. and Pavlovich, K., 2002, 'The Role of Corporate Social Responsibility in Business Strategy', *Business Ethics: A European Review*, 11(1), pp. 22-33.

statement on corporate purpose marks a watershed moment, asserting that corporations should serve all stakeholders including the community and the environment.<sup>21</sup>

Studies reveal that firms responsive to shareholder advocacy for sustainable practices frequently enjoy superior long-term performance. Companies prioritizing CSR initiatives—driven by shareholder demands often cultivate enhanced investor confidence and bolster their reputational capital. The legal framework surrounding shareholder rights, particularly the fiduciary duty concept in corporate law, reinforces the imperative that directors and officers consider stakeholder interests not merely immediate profits when navigating strategic directions.<sup>22</sup>

## VI. THE ROLE OF CSR IN SUSTAINABLE DEVELOPMENT

### A. Alignment with UN Sustainable Development Goals (SDGs)

Corporate Social Responsibility (CSR) stands as a cornerstone in propelling the United Nations Sustainable Development Goals (SDGs). These goals form a comprehensive framework targeting global challenges such as poverty, inequality, and climate change. By weaving CSR initiatives into their foundational strategies, companies can make significant strides toward these objectives. For instance, numerous corporations have embraced sustainability practices that align with specific SDGs—most notably, Goal 12 (Responsible Consumption and Production) and Goal 13 (Climate Action). A prime example is *Unilever*, which pledges to source all agricultural raw materials sustainably, thereby intertwining environmental sustainability with social equity.

In India, the Companies Act of 2013, particularly Section 135, mandates select companies to dedicate resources to CSR activities, directly aiding in the realization of SDGs. This regulatory framework inspires businesses to engage in initiatives that not only enhance their profitability but also uplift the communities they inhabit. For example, *Infosys* has leveraged its CSR programs to improve educational opportunities and promote environmental sustainability, thereby aligning its efforts with multiple SDGs. Hence, CSR emerges as a pivotal mechanism

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<sup>21</sup> European Commission, 2020, 'A European Green Deal', European Commission. Available at: <[https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal\\_en](https://ec.europa.eu/info/strategy/priorities-2019-2024/european-green-deal_en)> (Accessed: 7 October 2024).

<sup>22</sup> Elkington, J., 1997, *Cannibals with Forks: The Triple Bottom Line of 21st Century Business*, Capstone, Oxford.

for fostering global partnerships and community development in concert with the UN's mission.<sup>23</sup>

### **B. CSR and Long-Term Business Sustainability**

The narrative that CSR fosters long-term business sustainability is increasingly resonating within the corporate realm. Beyond the immediate enhancement of brand image, CSR initiatives engender a responsible corporate culture that elevates employee morale, cultivates customer loyalty<sup>24</sup>, and boosts stakeholder engagement. Research published in the *Journal of Business Ethics* indicates that companies with robust CSR practices frequently enjoy a competitive edge rooted in their reputation and consumer trust. This dynamic is particularly salient in today's discerning market, where ethical practices influence consumer choices.<sup>25</sup>

Furthermore, CSR initiatives bolster risk management and operational efficiency, equipping companies to adeptly navigate regulatory fluctuations and market changes. By investing in sustainable practices, businesses can mitigate risks associated with environmental degradation and social inequality. A pertinent illustration is the Coca-Cola Company's commitment to reducing water usage through enhanced efficiency and support for local water initiatives. These proactive measures not only enhance the company's sustainability credentials but also fortify its operational future, benefiting both the corporation and the communities it serves.

## **VII. CONCLUSION: CSR - A BALANCED PERSPECTIVE**

Delving into the intricacies of Corporate Social Responsibility (CSR) reveals a rich tapestry woven from both legal mandates and marketing strategies. On one hand, frameworks like the Companies Act of 2013 impose explicit CSR obligations on certain entities, creating a baseline for corporate engagement in social welfare. This legal imperative acts as a powerful impetus for ethical conduct, urging firms to interact meaningfully with the communities they inhabit. On the other hand, many corporations wield CSR as a marketing instrument, adeptly shaping their brand narratives to enhance consumer loyalty. Take *Starbucks* and *Coca-Cola* as prime examples; they artfully leverage their CSR efforts to cultivate favorable public perceptions that sway consumer choices significantly. Consequently, while legal standards lay the groundwork

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<sup>23</sup> Sweeney, L., 2009, 'The Role of Corporate Social Responsibility in Marketing: A Review of the Literature', *Journal of Marketing Management*, 25(5-6), pp. 633-653.

<sup>24</sup> Chen, Y.S., 2011, 'Green Organizational Identity: Sources and Consequences', *Management Decision*, 49(3), pp. 492-511.

<sup>25</sup> Bansal, P. and Roth, K., 2000, 'Why Companies Go Green: A Model of Ecological Responsiveness', *Academy of Management Journal*, 43(4), pp. 717-736.

for corporate responsibility, the true essence of CSR is often dictated by the marketing tactics employed.<sup>26</sup>

As we gaze into the horizon, the realm of CSR stands on the brink of transformation. With mounting public scrutiny and urgent environmental challenges, one can anticipate a tightening of legal frameworks. Additionally, the rise of socially aware consumers will spur businesses to adopt more robust CSR initiatives. In this shifting landscape, organizations may find that genuine commitment to CSR not only satisfies regulatory demands but also sharpens their competitive edge. This evolution could herald a new corporate ethos, wherein CSR is seamlessly integrated into the core identity of companies, transcending its status as merely a secondary concern.

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<sup>26</sup> Eccles, R.G., Ioannou, I. and Serafeim, G., 2014, 'The Impact of Corporate Sustainability on Organizational Processes and Performance', *Management Science*, 60(11), pp. 2835-2857.