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碩士論文

The Significance of Responsible Leadership  
in Implementing Corporate Social Responsibility as a  
Source for Sustainable Competitive Advantages

研究生：科瑞

指導教授：姜真秀

中華民國 102 年 7 月

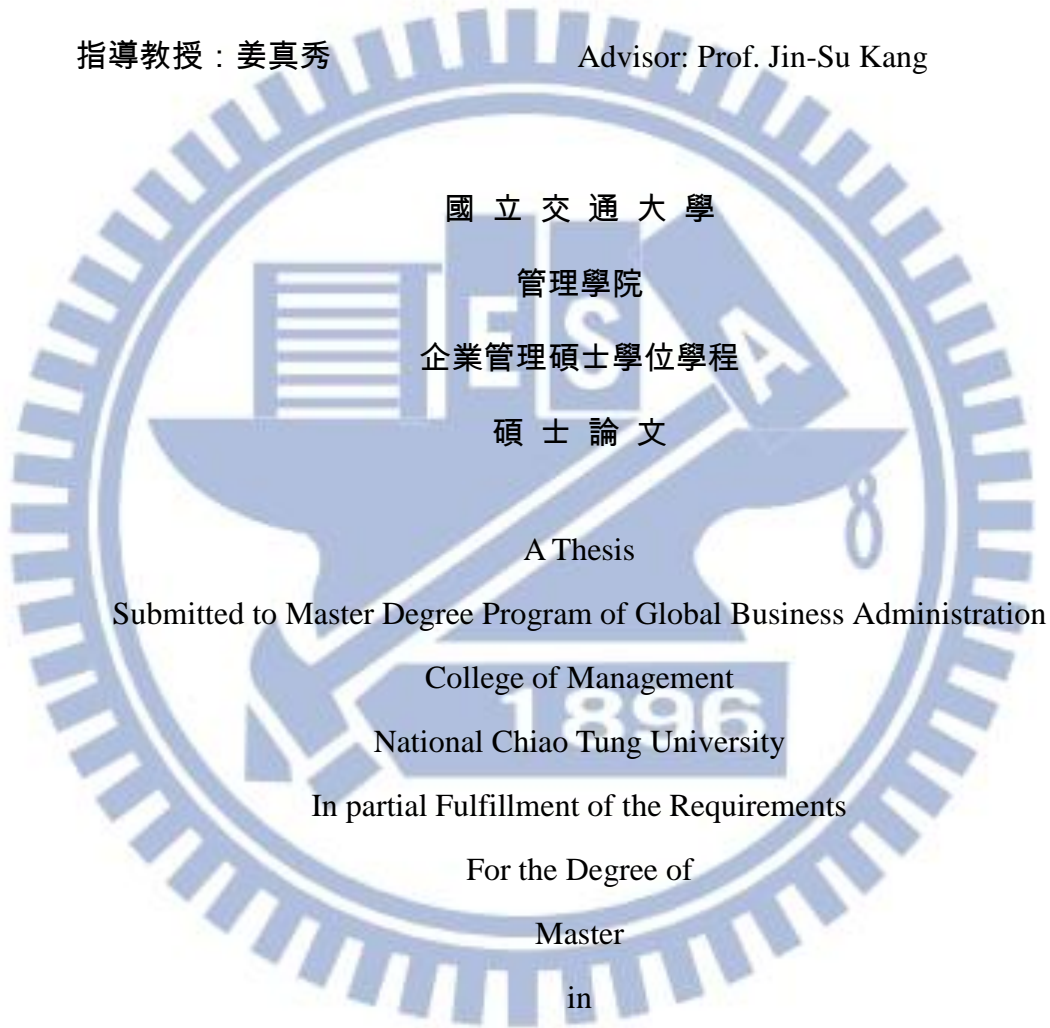
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研 究 生：科瑞

Student: Cory Rock Simmons

指導教授：姜真秀

Advisor: Prof. Jin-Su Kang



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## ***English Abstract***

*Many studies try to emphasize the importance of CSR for the sustainability of a firm; however, for the majority of firms, CSR still remains as a periphery activity, rather than being embedded into the business model or strategies and used as a competitive advantage. While a few studies provide a foundation for the business case of CSR used as a competitive advantage, the hidden force behind these cases – responsible leadership -- is rarely discussed. This study acknowledges the significance of responsible leadership in implementing CSR as a source for sustainable competitive advantage. For this purpose, this study takes a lesson from nature, that is, the balance among organic/inorganic participants around a tree and proposes a model, called 'ARBORE' to apply to CSR in practice. The proposed model utilizes the theories of responsible leadership and stakeholder theory and seeks to provide implications as to how a balanced CSR strategy, imbedded into the business model, can be used as competitive advantage for a firm. The study employs a case study of two firms: an internet retailer from Korea and a restaurant chain from Taiwan, which are analyzed to validate our model. Both companies have CEOs who have created CSR strategies which exceed requirements mandated by law and society, and have found the balance between fulfilling internal and external stakeholders demands while leading to the healthy growth in highly competitive industries.*

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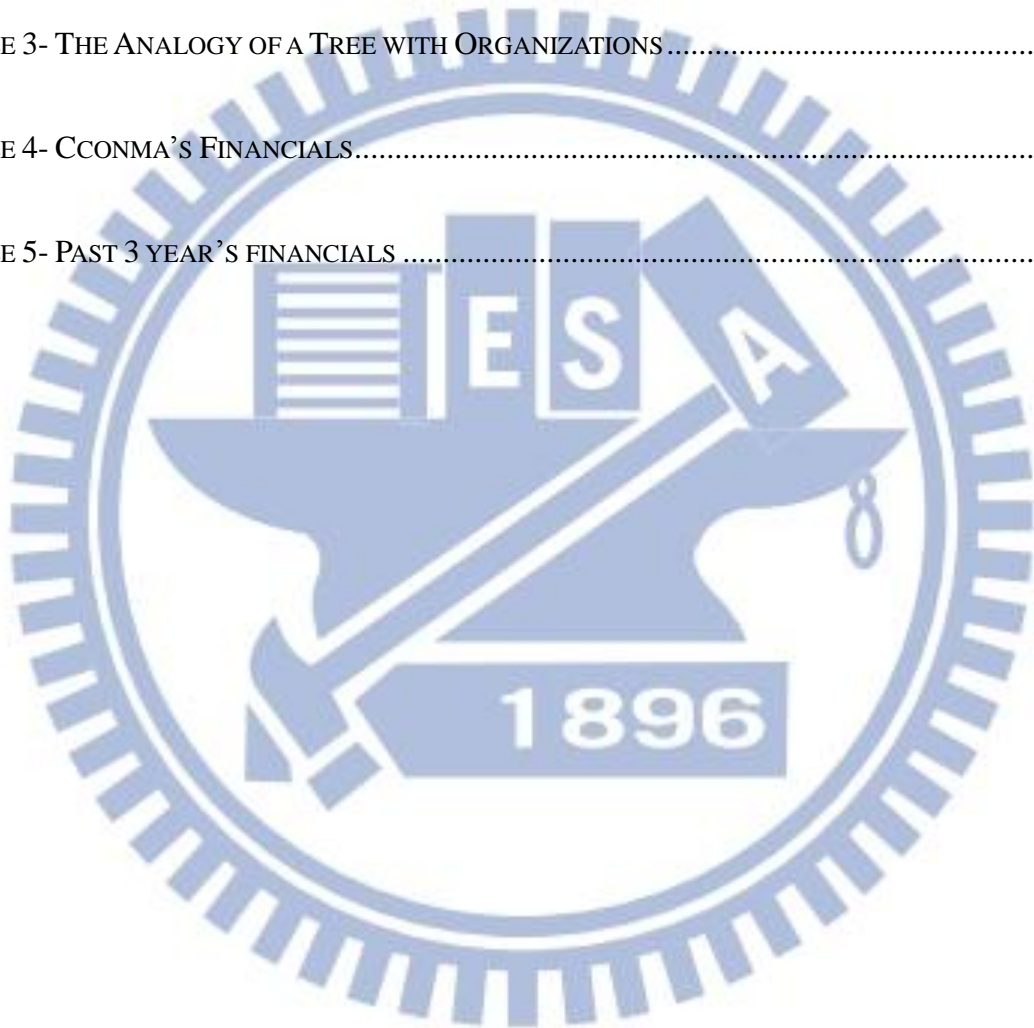
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# I. Introduction and Background

## 1.1 Introduction

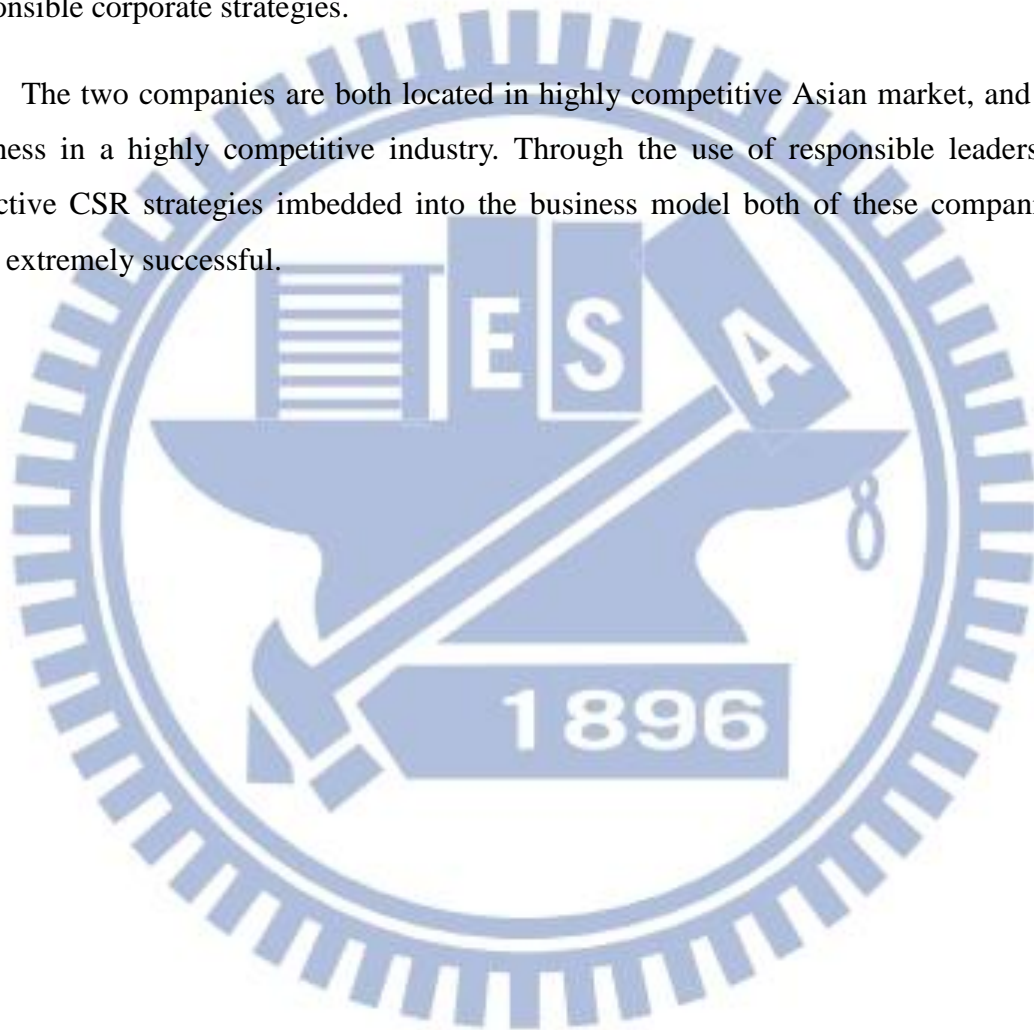
For the past few decades corporate social responsibility (CSR) has become an increasing significant aspect of a successful business model. Extensive research has already been conducted on the demand for CSR being implemented into the firm, and environmental and societal concerns have fueled the rise of this new paradigm. In many of these studies it is apparent that responsible leadership plays a large role in creating healthy CSR for a firm. However, unsubstantial research has been conducted on the importance of leadership in creating a sustainable balance between and stakeholders' needs and the profitability/success of an organization. Furthermore, despite having extensive amounts of literature on the topic of CSR, as of now, researchers and management teams have still not reached a consensus as to whether or not there is a positive or negative relationship between CSR initiatives and company performance. While researchers tend to agree there are numerous positive relationships between the CSR and CFP (corporate financial performance), practitioners tend to neglect implementing robust CSR strategies into their business models. Many firms view CSR as a temporary strategy used to boost company moral or to improve company reputation, but do not see it as an essential part of the business model.

In addition, as opposed to the plethora of cases, which have been conducted on large multinational firms, with numbers groups of stakeholders; little research has been conducted on small and medium sized enterprises (SMEs) or the importance of responsible leadership and CSR for the business model. Exemplary leadership is required to create a shift in the paradigm and there are many examples of such leaders in SMEs. Many SMEs have prolific business models rooted in the concepts of CSR, yet few studies incorporate these types of firms into the literature. These types of companies are the foundation of an economy and the future of business. That is why it is important to examine more of these types of firms and compare and contrast current business practices in CSR with these types of firms.

## 1.2 Dual Case background

For the study two SMEs were chosen and a case study was conducted. These two companies have many similarities. They both have exceptional CSR strategies for SMEs; they have responsible and admirable leadership; they are both young firms; and, they both have maintained stable growth and profitability for more than a decade while using responsible corporate strategies.

The two companies are both located in highly competitive Asian market, and conduct business in a highly competitive industry. Through the use of responsible leadership and proactive CSR strategies imbedded into the business model both of these companies have been extremely successful.



## **II.LITERATURE REVIEW**

### **2.1 Defining CSR, Stakeholder Theory, Competitive Advantage and Leadership**

#### **Background of CSR**

All the fundamental concepts of CSR have been around for centuries, but the study and research on whether or not CSR is necessary for a company's long term success and profitability, and whether or not a company is responsible to society and the environment did not start until after World War II. One of the forerunners of CSR was Frank Abrams, who had worked as an executive for Standard Oil. In 1951, he proposed that companies have a responsibility to their customers, employees and the public alike. (Abrams, 1951). During this time, there was little focus on CSR being beneficial for the company itself. The only goal of CSR was to provide aid and service for the good of society. At the opposing end, others believed that such activities were wasteful and not in stockholders best interest, stating that the only responsibility of businesses to society is to be profitable. (Friedman, 1962).

Regardless, there were still others that believed business had a greater responsibility, and that companies should be aware of the broad impact on the society around it (Frederick, 1960). Due to their efforts, many scholars, businessmen and individuals became aware of the term CSR. But, nevertheless, Friedman's case remained the most widely accepted theory and popular opinion for CSR for the next few decades to come.



## The Evolution of CSR Theories

By the late 70s and early 80s, CSR was well on its way to becoming a household phrase. In 1978 Frederick (1978) began the first differentiation of corporate social responsibility with corporate social responsiveness CSR1 which focused on corporate social responsibility, or, in other words a company's responsibility, usually proactively, to address a social need. CSR2, on the other hand, focused on a company's response to a demand for a social change or improvement. (Carroll & Shabana , 2010). The scientific community began distinguishing different levels and types of CSR and began realizing that there was more than one stance that a company could take in viewing its responsibility and commitment to societal goals and needs.

This new focus on classification of CSR gave birth to the four categories of CSR as defined by Carroll (Figure 1), which are economic, legal, ethical and discretionary (or philanthropic). Although these four components are not equally weighted, they do come together, and add up to a company's total CSR. Carroll suggested that the weighing of these components was in a 4:3:2:1 ratio, in terms of importance to a company. This are properly illustrated in both figure 2 and figure 4. (Carroll A. B., 1979) (Carroll A. B., 1991) (Carroll & Shabana , 2010)

This new type of classification gave new focus to the scientific community. CSR was not only being seen as a type of charity, which resources away from profitability, but was also being seen as a responsibility or, in terms of legal CSR, a necessity.

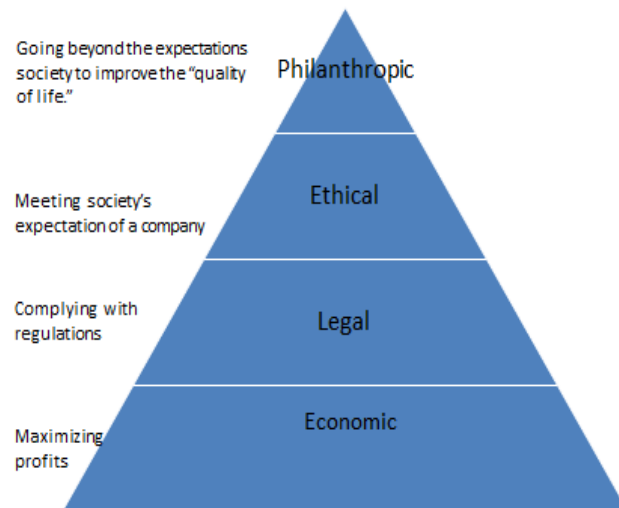


Figure 1- The CSR pyramid (Carroll, 1979, 1991)

## 2.2 Defining CSR

In the 1970s CSR began to evolve. Definitions for CSR started to emerge. However, to this day, the scientific community has yet to reach a consensus on the formal definition on the term CSR. There are hundreds of definitions. In a recent study conducted by Alexander Dahlsrud, thirty-seven of the most common definitions were chosen and were grouped by the dimension they fall into (Table 1). Each definition was put through a Google search to determine the frequency of use. In Table 2 we can see the top 3 highest frequency definitions, which can be found via a Google search (Dahlsrud, 2006). For this paper we will choose a mixture of two definitions, both the World Business Council for Sustainable Development's definition, and Bowen's 1953 definition, which states that:

*"Corporate Social Responsibility is the continuing commitment by business to behave ethically and contribute to economic development, while improving the quality of life of the workforce and their families as well as the local community and society at large"* (Watts, 1998)

*"The obligation for businessmen to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society"* (Bowen, 1953)

Table 1 (Dahlsrud, 2006)

Dimensions	Definition is coded to the dimension	Example phrases
The Environmental Definition	The Natural Environment	“A cleaner environment” “Environmental stewardship” “Environment concerns in the business operation”
The Social Dimension	The relationship between business and society	“contribute to a better society” “integrated social concerns in their business operations” “consider full scope of their impact on communities”
The Economic Dimension	Socio-economic or financial aspects, including describing CSR in terms of a business operation	“contribute to economic development” “preserving the profitability” “business operations”
The Stakeholder Dimension	Stakeholders or stakeholder groups	“Interactions with their stakeholder” “How organizations interact with employees, suppliers, customers and community” “treating the stakeholders of the firm”
The Voluntariness Dimension	Actions not described by law	“based on ethical values” “beyond legal obligation” “voluntary”

Table 2 (Dahlsrud, 2006)

Definition source	Definition	Frequency count	Dimensions
Commission of the European Communities, 2001	A concept whereby companies integrate social and environmental concerns in their business operations and in their interaction with their stakeholders on a voluntary basis	286	Voluntariness Stakeholder Social Environmental Economic
World Business Council for Sustainable Development, 1999	The commitment of business to contribute to sustainable economic development working with employees, their families, the local community and society at large to improve their quality of life	180	Stakeholder Social Economic
World Business Council for Sustainable Development, 2000	Corporate social responsibility is the continuing commitment by business to behave ethically and contribute to economic development while improving the quality of life of the workforce and their families as well as the local community at large	156	Voluntariness Stakeholder Social Economic

## **2.3 Importance of the definition**

The mixture of these definitions was chosen because of the focus on having a “continuing commitment” for a firm to “behave ethically.” This implies that CSR should be directly implemented into the business model and should be the foundation of a company. In addition, a firm should “contribute to economic development” and the wellbeing of all stakeholders. Furthermore, Bowen’s definition focuses on the leadership aspect of CSR. Therefore, a company should balance profitability with societal needs. It should be noted, that even though commitment to improving the environment is not mentioned in this definition, it is still inherently embedded into this definition. That is because if a firm is focused on making the quality of life better for all stakeholders in society; it automatically makes efforts to improve the stakeholders’ environment.

## **2.4 CSR and the Triple Bottom Line**

The 1990s is when businesses truly began to recognize the power that many of these stakeholders, which were before ignored, held. As companies became more global and media and consumer power grew stronger, every good deed or mistake that a company performed could become public knowledge in the blink of an eye. Unethical or inappropriate business practices could wreak havoc on an organization that was exposed by the media, and the media was increasingly eager to expose such “unethical” companies. However, many companies were still only focused on only profitability, as Friedman would suggest, and were beginning to receive backlash from the public. One example, Nike Inc., one of the global athletic shoes production leaders, discovered that a CSR strategy was essential for a company’s sales and image. With cheap labor to be found abroad, in the 1970s, Nike moved most of its factories abroad. Although initially there was criticism, Nike Inc. avoided and ignored most of it for years. But, in the 1990s, with media and public concern growing, the effect on their brand image and sales became a phenomenon that Nike Inc. could no longer ignore. “The Nike product has become synonymous with slave wages, forced overtime, and



arbitrary abuse.”<sup>1</sup> Nike had to spend millions of dollars to reshape consumer opinion of their products, and even to this day, many associate Nike with Sweatshop labor. (Nisen, 2013)

This and other examples forced companies to realize that CSR had a place in every corner of a business. Porter said that “proponents of CSR have used four arguments to make their case: moral obligation, sustainability, license to operate and reputation.” (Porter & Kramer, 2006). In Nike’s case, company each of these four factors was adversely affected and the company was put in a state of jeopardy due to the lack of a proactive CSR strategy.

Due to many already stated factors, the 1990s and 2000s became the era of global corporate citizenship (Frederick, 2008). Retailers such as, Nike Inc., and Wal-Mart became highly criticized for their lack of responsibility with their manufactures abroad, and companies such WorldCom and Enron cost tax payers and stockholders millions from financial fraud and corruption. The general public was losing patience and trust for big business, and stockholders began demanding of companies to adopt better code of ethics and CSR. Companies, as well, began realizing that they must pay more attention to their impact on the community, and their business decisions’ effect on multiple groups of stakeholders. Failure to do so meant an inability to compete or even survive. This new demand brought about the focus for CSR as a competitive advantage and sustainability. Carroll and Shabana said, “In the early 2000s, the business community became fascinated with the notion of sustainability, or sustainable development, and this theme became an integral part of all CSR discussions.” (2010). With Corporate Sustainability (CS) as the new focus, definitions for CSR, such as the triple bottom line began to arise. The triple bottom line, seen in figure 4, is a popular definition for CSR. The triple bottom line seeks to create balance between society, the environment and the profitability of an organization through CSR (Marrewijk, 2003) (Wempe, 2002). Figure 4 shows the perfect balance of these three variables, and through that balance of CSR, so a business could achieve true sustainability. Due to theories like this, CS and CSR became interrelated, and many large companies began adopting a CSR and Sustainability strategies. Also in the past decade, ‘the focus of CSR theories has shifted away from an ethics orientation to a performance orientation. (Carroll & Shabana , 2010)

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<sup>1</sup> Speech made by Phil Knight, CEO of Nike Inc.

Companies no longer saw CSR as a way of doing good deeds for its stakeholders, but as a necessity to compete and survive.



Figure 2- Triple Bottom Line

## 2.5 The Evolution of CSR and Birth of the Stakeholder Theory

By the 1980s that CSR was already on its way to becoming a well-known concept. Many newspapers, journals and magazines in many countries around the world began addressing and debating the topic. This is because the 80s marked the beginning of the 'corporate/business ethics' stage, where business ethics and focus on stakeholders became the agenda (Frederick, 2008). The general public became more aware of corporations' ability to make an impact on society, either good or bad, and its responsibility to its stockholders and stakeholders. With this gradual sense of public awareness gaining strength, and the need for a new, more dynamic management style, the stakeholders' approach of CSR was born.

Although not exactly a new term in the business world, and initially unrelated to CSR, the 'stakeholders' approach' was best redefined by R. Edward Freeman in the mid-1980s, in

his book *Strategic Management: A Stakeholders' Approach*. Stakeholders were defined as “any group or individual who is affected by or can affect the achievement of an organization’s objectives.” (Freeman, 1984, 2001). The goal of this approach was to broaden the responsibility of management from not only the stockholder, but also the “stakeholder.” Basically, any group or individual can, at some point, affect an organization’s performance . Likewise, an organization’s effect on the individuals and groups around it grows and the size of the organization grows. This concept is best described with use of figure 3 below. In this illustration it is easy to see that these connections between firm and stakeholders. Freeman stated that he created this model because “current theories are inconsistent with both the quantity and kinds of change that are occurring in the business environment of the 1980’s” and that “a new conceptual framework [was] needed.”[Freeman, 1984, pg. 5].

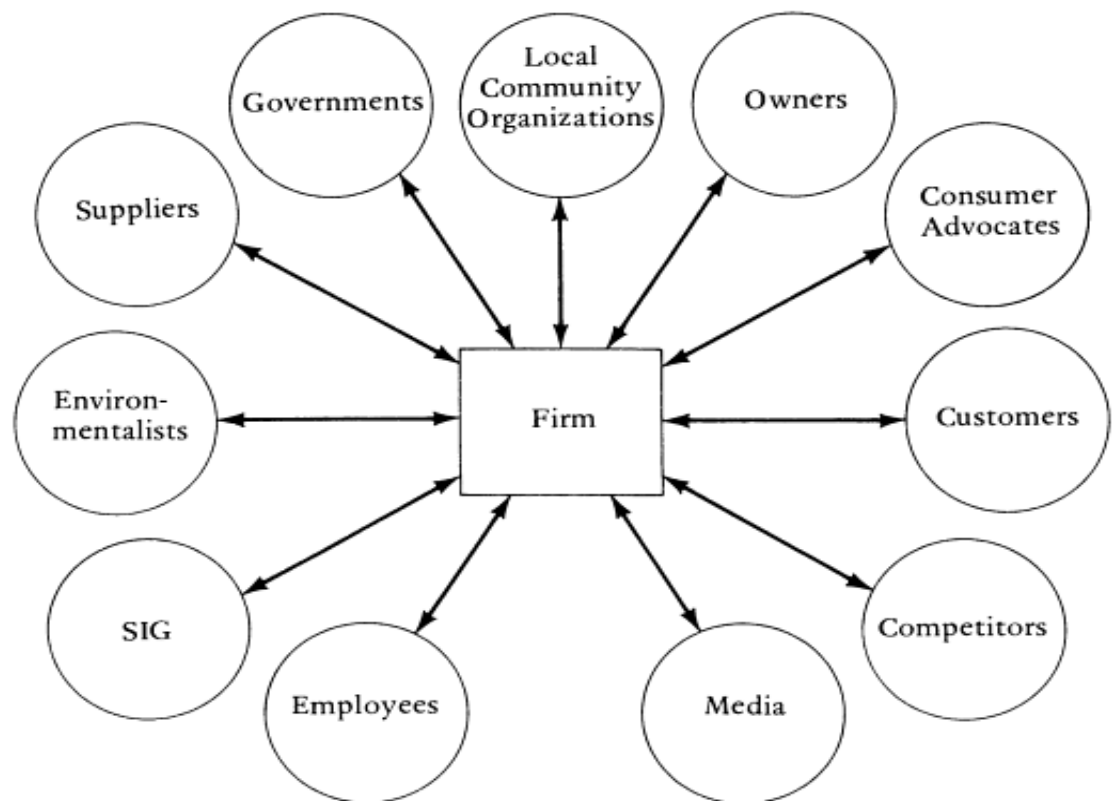


Figure 3- Stakeholder Theory (Freeman, 1984)

Although stakeholder theory's definition and classification of "stakeholders" are both still widely debated, it is an approach and theory that has had a lot of exposure in the business field. (Miles, 2012) For this reason, in this paper we will focus on the use Freeman's original definition as the definition and model of "stakeholder theory."

## **2.6 CSR as a competitive advantage**

### **Implementing CSR into the Business Model to Create a Sustainable Competitive Advantage**

So what variables will make a company want to pay more attention to its stakeholders? Also, what will motivate leaders to initiate these CSR strategies? It has already been established that in certain cases CSR can create a competitive advantage. This is an important aspect of our topic and it is essentially the core of CSR. In Van Marrewijk's paper, he introduced a new framework which explained the psychology behind a firm's adoption of a CSR strategy/CS (corporate sustainability) strategy. These strategies are stakeholder focused and can be driven by one of the following objectives: compliance, profit, caring, synergistic or holistic (2003). In his paper, Marrewijk also made reference to Maslow's hierarchy. (Maslow, 1943). There seems to be a link between the psychologies of these two theories. Maslow believed that when a person achieved one goal in the hierarchy, he would then strive to achieve the next. In Marrewijk's paper he introduced the five types of CSR for companies as



“motives” for CSR, and they are independent from each other; however if we look closer we can see that these motives actually, in some cases, build on one another. In order for a company to implement caring or synergetic strategies the company should first complied with government regulations and the law, which then implies that the company already has a “compliance” strategy and has chosen, and is able to implement a more caring, synergetic based stakeholder CSR strategy. (Figure 5) In 2010, Heikkurinen added an improved approach by labeling the factors: unresponsive, responsive and beyond-responsive strategic corporate responsibility (CR) actions. (Figure 6) With these terms established, we can easily identify how a firm can choose its stance for CSR/CR. By comparing this model with the same comparison of Maslow’s hierarchy, which was discussed in Marrewijk’s paper, we can see the connection even clearer. While a firm is developing, it can allot resources into CSR policies, which it can use to develop sustainable competitive advantages. As Porter and Kramer suggest, a firm is unable to address every social problem. On the contrary, it should use all available resources and choose and address the most important issues. (2006) By doing so, a company can develop a competitive advantage in the market. However, Porter and Kramer’s main focus was Philanthropic activities, whereas Heikkurinen (2010) and Marrewijk’s (2003) paper were focused on CSR initiatives implemented into the business model in order to create value for the company and reduce risk factors.

## Maslow's Hierarchy & Philosophical Contributions to CS

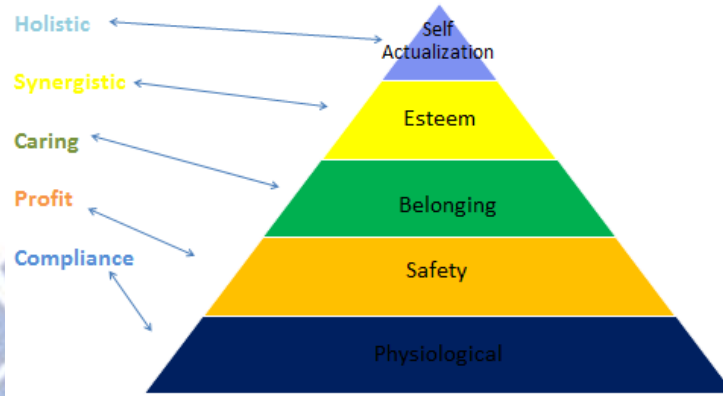


Figure 4- Comparison of Maslow's Hierarchy (1943) and Marrewijk's motivations of CSR (2003)

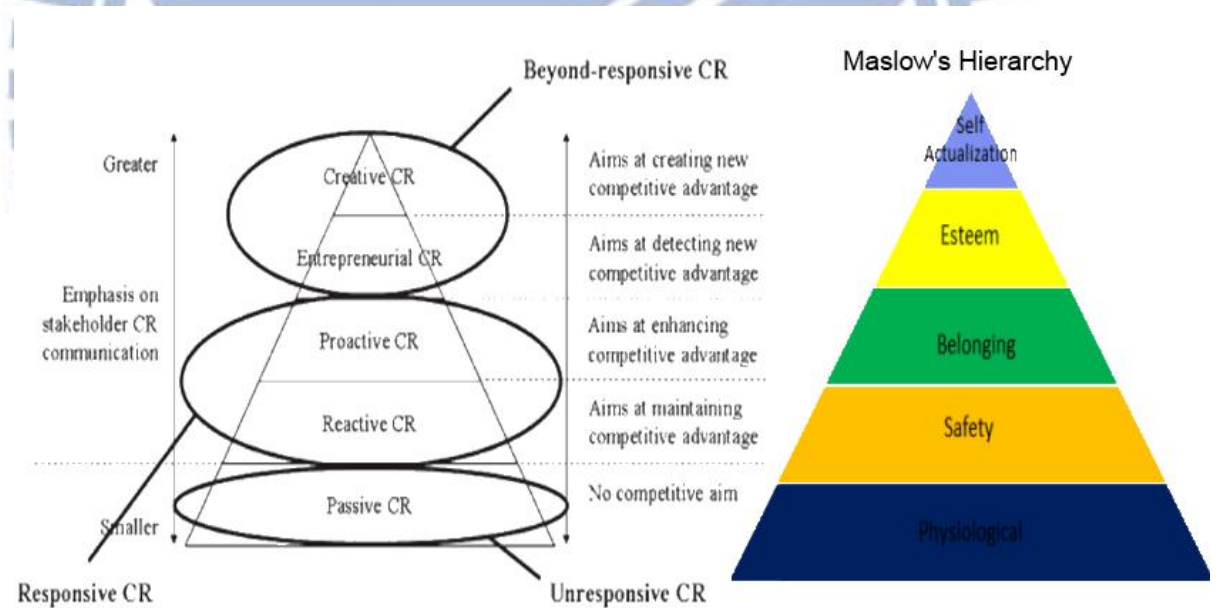


Figure 5- Maslow's Hierarchy and Heikkurinen's Model compared

## Examples of How CSR Positioning Can Affect Performance

Some examples of such strategies can be found in Munilla's paper, (2005), he listed Exxon-Mobile, BP, GE and Pfizer as examples of large companies with different CSR positionings. The US petroleum giant Exxon-Mobile was listed a firm with a compliance focused CSR strategy. In the US regulations were very lax; and, due to this, profitability was up and public scrutiny was down: due to less active public addressing of CSR strategies. However, as time went on, Exxon's the lack of proactive CSR strategies resulted in NGOs putting force on the company and requiring changes in CSR. Munilla stated that this "forced position on the CSR continuum [is] a much less useful approach in building and sustaining competitive advantage." (2005 Pg 386). It can be said that a proactive or at least "dynamic" CSR strategy is required to maintain profitability in the long run. In another example, on the other hand, BP implemented a much more proactive CSR strategy and the public placed them on the "moral high ground" and, even though, BP had to spend more to update the CSR strategy, the results were favorable. This of course also has its limits. After the BP spill in the Gulf of Mexico, one of the most costly and environmentally destructive oil spills in the history of drilling, investigators found that BPs rig explosion was the fault of management's attention to cost reduction as well as their carelessness in terms of following safety protocols (Rushe, 2013; Rushe, 2013). Due to BP's lack of strictly adhering to their safety protocols and health and safety regulations, and implementing passive CSR at the time, BP had to face the consequences economically by being forced to clean up a potentially avoidable calamity. (Rushe, 2013). That being said, "Proactive corporations will tend to move toward a strategic CSR perspective, leveraging CSR to more efficiently or effectively create and renew competitive advantage." (Munilla, 2005, pg 385), Furthermore, corporations must be vigilant and responsible to all stakeholders that it affects the most. To avoid any public backlash, as

well as to understand all of its stakeholders, leadership of these corporations must strive to develop holistic CSR strategies that benefit the majority, if not all stakeholders, while being dynamic and ready for change, and not be focused on short term goals or losses, but focus on the potential future.

So what is a company like BP to do after such a damaged reputation? In a recent article in Forbes magazine, *Why CSR Can't Help BP Now*, the author stated:

*“Once your name is tarnished, high-fit CSR tends to produce only skepticism. In other words, it backfires... CSR appears to work best for companies with already good reputations... a CSR program can't cut it alone. Reputation comes first—and is everything.”*

(Ferguson, 2010)

This is why organizations must be prudent, and implement CSR strategies into the business model. Doing so will create new competitive advantages and protect by not only protecting the company brand reputation, but also by improving efficiency by improving the relationship with a multitude of stakeholders. But, in the end, many companies do not implement proactive CSR techniques because they feel that it doesn't benefit them financially.



## **CSR as a Competitive Advantage and how it affects Corporate Financial Performance**

As stated many companies are afraid to implement proactive CSR strategies due to fear of losing profit. However, more and more companies are realizing the potential benefits to having a strong CSR strategy. Many researchers believe that, even though companies and economists focus on profits, Friedman's 'profitability' responsibility is losing grounds in the debate. Margolis and Walsh stated it best by saying that 'a simple compilation of the findings suggests there is a positive association, and certainly very little evidence of a negative association, between a company's social performance and its financial performance. (Margolis, 2003). But, to this day, the academic community still debates how CSR can affect Corporate Financial Performance (CFP) and how strong the correlation is. However, little attention has been given to SMEs and how their CSR strategies can be implemented to create a competitive advantage. Also, many large companies still use their CSR strategies as a preventative or counteractive measure for dealing public disappointment, instead of actually taking interested in social needs and the greater good or implementing ethical practices into the business model. This has made the public skeptical of large companies' CSR objectives and fear that they are using "green washed" tactics to increase the company's goodwill and improve stock performance.

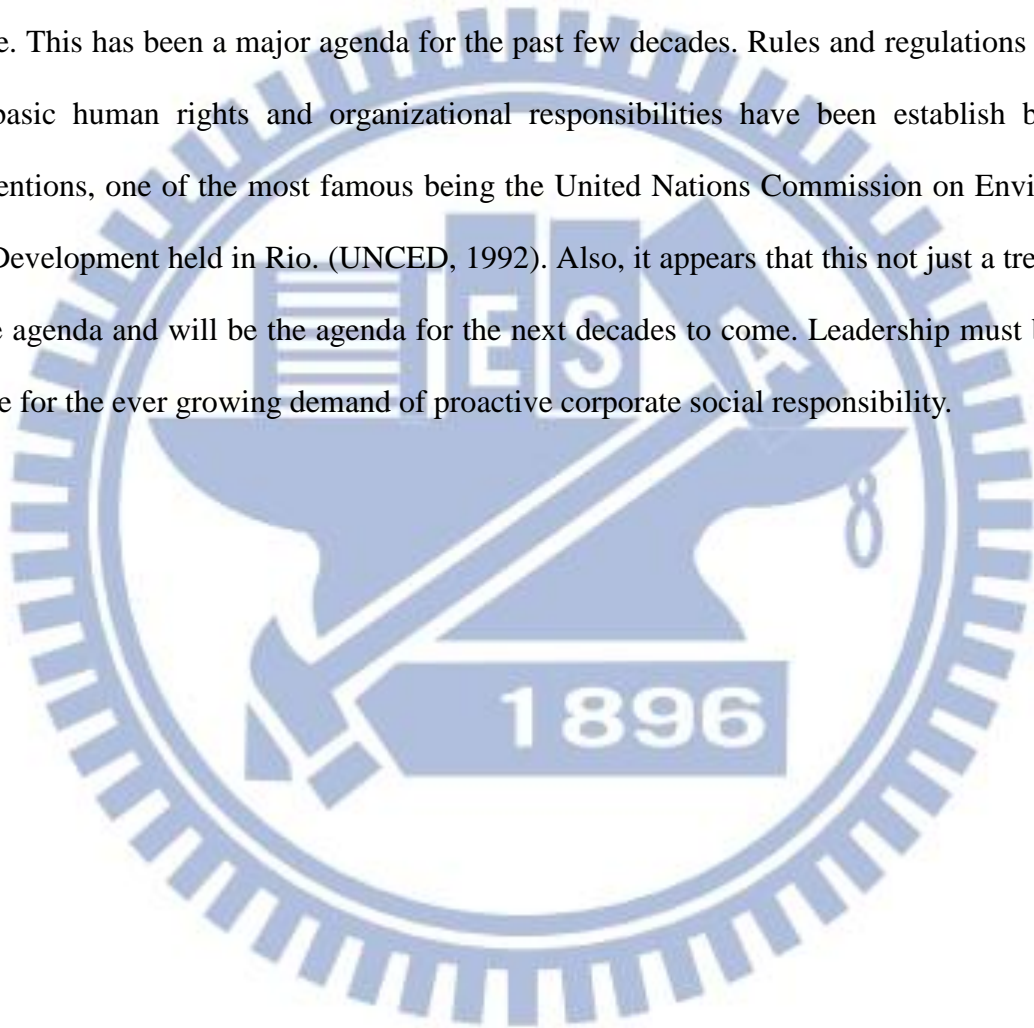
## 2.7 Responsible Leadership

### Importance of Responsible Leadership

In order to truly understand CSR's efficiency and role in modern society, one must also understand the leaders that develop the strategies. Currently, Stakeholders and stakeholder theory has already taken a new role in the modern business. Stakeholders can put a lot of pressure on businesses and essentially change the way a company conducts its CSR strategies. (Porter and Kramer, 2006). With this added pressure, leadership has also taken a new role in organizations. Leadership is an essential requirement for every organization, company or group. Without leadership, a company will lack specific goals and direction needed for the organization's operation and success. With globalization and an ever-changing market, the responsibilities and expectations of leadership has changed and evolved. Leaders are no longer only responsible for the performance of the company, but are also responsible for their organization's impact on society and the environment around it. (Freeman, 1984; Maak and Pless, 2006). These added responsibilities for leaders have changed the roles of leaders. Maak and Pless state that the responsibilities of leaders have "become more complex and multi-faceted, [expanding] from an internal leadership perspective to a broader world view, from a shareholder mindset to a stakeholder orientation with respect to the leadership mandate." (2006)

A responsible leader should always be aware of his organization's impact on society both internal and external, not only out of moral obligation, legal reasons or reputation, but also for the sustainability of the company. (Porter and Kramer, 2006) Leaders should be aware of their impact on customers, employees, suppliers and every stakeholder, even competitors.

This should not be limited only to the present, but also to future generations. Therefore a leader should not be focused on just one goal-- the company—but should be able to develop multiple roles, in order to ensure the sustainability of the company (Maak, 2006). These roles can be seen below in the “Roles Theory of Leadership” figure. (Figure 6) Sustainability and focus on intergenerational equity should be a priority for the present in order to improve the future. This has been a major agenda for the past few decades. Rules and regulations pointing out basic human rights and organizational responsibilities have been established by many conventions, one of the most famous being the United Nations Commission on Environment and Development held in Rio. (UNCED, 1992). Also, it appears that this is not just a trend. This is the agenda and will be the agenda for the next decades to come. Leadership must be ready to rise for the ever growing demand of proactive corporate social responsibility.



The roles model of responsible leadership

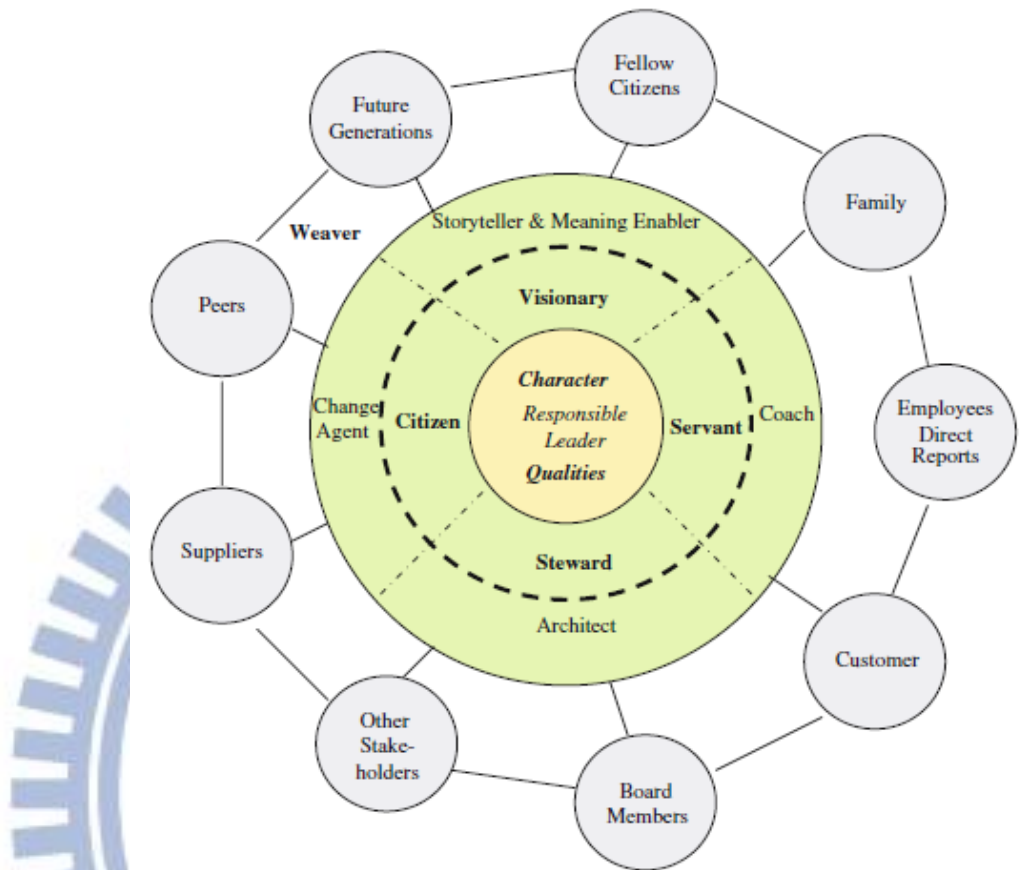


Figure 6- Roles theory of Leaders

## CSR's Role in Choosing CSR Strategies

This is very true in the short run; however, in the long run, a good CSR strategy can redefine a company's reputation. One example is when Wal-Mart's CEO Lee Scott made a choice to redefine Wal-Mart by focusing on CSR and responsible leadership. The multi-billion dollar, world retail giant, was suffering from a backlash of bad publicity due to its poor CSR practices linked to the environment and outsourcing problems. One case study that was conducted by Stanford University said that due to its poor reputation, 2%-8% of consumers



had stopped shopping at the retail giant. (Denend & Plambeck, 2004). Due to these, and other such figures, in 2005 Lee Scott made his 21<sup>st</sup> century leadership speech for Wal-Mart, which would implement a new “sustainability” project that was focused on limiting waste products and energy, improving the quality of products improving employee conditions and leading the way for sustainability. (Scott, 2005) Wal-Mart’s goal was to improve sustainability and become more “green.” Skeptics initially claimed that it was “green washed” tactics and that Wal-Mart was eager to improve its reputation and earn some goodwill from this strategy. Wal-Mart knew that the results would not be seen right away. This was because after years of maintaining an “unresponsive” CSR strategy, it would take some time to change the public opinion of the firm. At first, skeptics believed that Wal-Mart’s decisions were based upon selfish goals. This was because many knew that due to Wal-Mart’s scale, reducing waste and being more efficient reduces cost for its company, so it was actually using CSR as a way to cut cost. In this case, Heikkurinen would suggest that Wal-Mart was on the right track since company’s should be willing and proactive in creating “integrated and innovative approaches” in CSR (2010). So, regardless of Wal-Mart’s reasons for change, they were on the right track, and in some cases CSR should be able to create “win-win” situation for company and stakeholders. In the end Wal-Mart did benefit and the public opinion of Wal-Mart did change. According to YouGov BrandIndex and the New York Times:

*“In mid-2007, the earliest data available, Wal-Mart’s score was about a negative 5 on a scale of negative 100 to positive 100, but it rose to the 20s in 2009.”*

(brandindex) (Clifford, 2013)

This being said, it is important to understand that the larger a company is, the larger the impact of any action it takes. This is why Wal-Mart is a great example of how CSR can work

for a company. Wal-Mart is the largest retail company in the world, so the actions it takes will have a much more noticeable effect on stakeholders and the environment. However this also means that leadership has a more difficult position. This is because as a firm grows, so does its impact on more stakeholders. For any business efficient resource management and the balancing the demands of shareholder/stakeholder is critical (Mehra, Smith , Dixon, & Robertson, 2006), but for Wal-Mart this importance is magnified. With profit margins from 3-4% Wal-Mart has to use scale and efficiency resource management in order to make a profit. However, SMEs also have the same problem. Being small and lacking available resources, proper resource management and weighing of stakeholder importance is crucial.

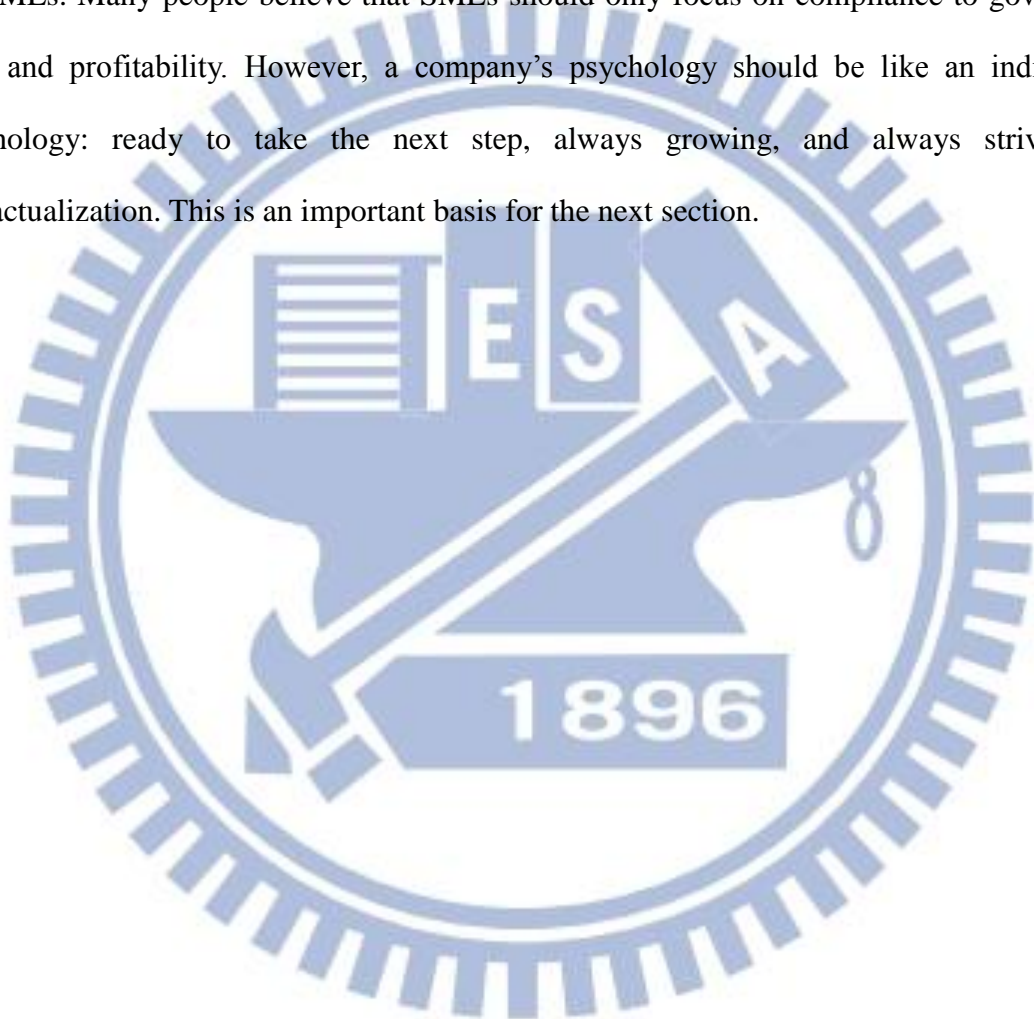
### **Implications for Leadership's Role in Choosing an Appropriate CSR Strategy**

As we can see, a company's choice of CSR strategies is very important. Based on long term goals for a company, it is better for a company to be proactive and leverage its CSR activities for the benefit of the company than it is for a company to be caught off guard and have to comply with an imposed government or societal demand for higher involvement and care of its stakeholders. (Munilla, 2005) So, essentially, in the long run, a comprehensive, multi-stakeholder focused CSR strategy can reduce risk and cost for a company. (Berman, Wicks, Kotha, & Jones, 1999)

This is why there is another interesting link between his 5 CSR motives and Maslow's Hierarchy. Though businesses are not people, they do have needs and these needs must be met before implementing more holistic CSR policies. As individuals strive for self-actualization, so do organizations strive for a sense of self-actualization or purpose, which is fulfilled by

creating a completely balanced work environment through positive relationship with all of its stakeholders.

This is obvious for large corporations, which find themselves under constant public scrutiny. It is also an important argument for the implementations of healthy CSR practices for SMEs. Many people believe that SMEs should only focus on compliance to government laws and profitability. However, a company's psychology should be like an individual's psychology: ready to take the next step, always growing, and always striving for self-actualization. This is an important basis for the next section.



## **III. Proposed Model**

### **3.1 The ARBORE model: Seeking Balanced in the business model by Looking at Nature**

We have already seen the huge impact that internal and external stakeholders can have on a business from many different sources. It is essential to note that these stakeholders' satisfaction is, at many times, the key to a company's success. The closer a stakeholder is to a company, the more important that stakeholder's satisfaction is, and the more important it is for leadership to make strategies that ensure satisfaction. (Maak, 2006) Leadership's decisions and objectives should be 'holistic' and 'synergetic,' and good leaders "do not compromise one performance objective for another" (Maak, 2006, Pg 101).

So, in view of the stake holder theory, finding the balance between CSR, stakeholders and the company's total business activities should be a large concern for the business. Many companies know that they should provide some sort of services or incentives for local communities or employees, but there is no way to measure how much is too much (effecting business profitability due to waste), how much is too little (increasing risk by not having a proactive CSR strategy) or if they are focusing on the correct stakeholder's demands (while diverting resources away from a "more important" stakeholder). This is a problem with many of the current models available. Even though some models focus on the combined effort of CSR, and it doesn't emphasize the ever changing balance there should be for a company between growth and its commitment to CSR and stakeholders. Also, current CSR models do



not put emphasis on the importance of leadership in balancing stakeholder's demands with company profitability.

Therefore, a new model will be introduced in this paper, which uses an illustration that we all recognize--the oldest and largest organisms on the planet-- trees.

First think of a tree and then compare your mental image to figure 7. When asked to visualize what a tree looks like, few people make a mental image including the portion of the tree which lies under the soil. Most people will immediately see the canopy and the trunk, but completely forget about an essential part of the tree: its roots. The same is so for a company. When asked to think about a certain company, most people will think about the products, profits, assets or stock price, but pay little attention to its role in a community or importance to a society.

That is why the model proposed is the perfect analogy. The idea is very basic, and the purpose of this model is to use this basic model to emphasize the importance of balance of every system on this planet. Through the use of this model we will be able to see how leadership dictates the balancing a business's connection with its stakeholders and creation of CSR. With the use of the analogy created through this simple model, we can use the use of scientific literature already introduced in this paper, to better understand how companies and leadership can create strong ties to all of its stakeholders while implementing a holistic approach to CSR, and still be profitable.



Figure 7- the underlying strength of a tree<sup>2</sup>

Trees in nature:

In order to first understand the analogy between a tree and a company better, we must first reintroduce how a tree functions. A tree has five basic parts: stem/trunk, branches, leaves, roots and reproductive structures. A tree starts as a seed. In order to grow, the seed requires the ability to set up roots into the soil. When these conditions are met, the seed then gathers nutrients from the soil and produces leaves, which it uses for respiration and to obtain nutrients and through photosynthesis. (Figure 8)

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<sup>2</sup> Source: Google images

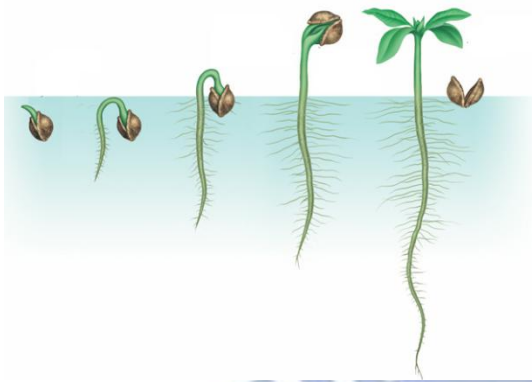


Figure 8- growth from a seed to a tree<sup>3</sup>

Companies, both large and small, follow the same rules that this type of plant follows. The tree uses its trunk or stem to support itself. In larger trees, the heartwood is the center of the plant and offers strong support, while the sapwood, on the peripheral, sends needed resources up and down the plant through its xylem and phloem. In order for a tree to thrive, a tree must grow taller than its surrounding environment. To do this it allocates resources into trunk growth so that its canopy can be high and absorb more sunlight. It also grows deeper roots, which create stronger ties to its environment and gather resources, which it will use to grow and produce leaves and fruit, which are essential for the trees survival and future survival. Its roots main role is that of strength and stability for the tree in its environment. The balance between vertical growth and deep roots is important for a tree and all of these processes are dictated by genetics and the environment around the tree (Johnson, 2007; Wilson, 2007; Carlson, 2007) See figure 9 below.

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<sup>3</sup> Source: <http://www.hydroponicist.com/pages/p18-seedlings.htm>



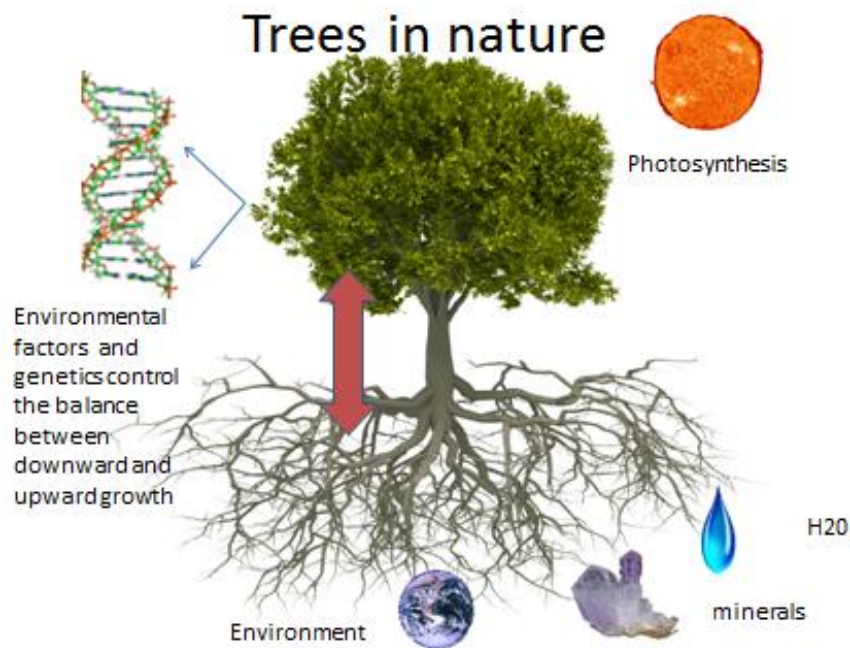


Figure 9- Trees in nature<sup>4</sup>

### 3.2 The Analogy of a Tree and a Firm

When a tree is small it is fragile and vulnerable, and it needs to find a way to obtain sunlight, but growth of a stem and a leaves are not its only focus, it must also create ties with its environment through its roots. Like a tree, SMEs main focus shouldn't only be growth but also making a connection to its customers, employees and other stakeholders. A company should find the balance between obtaining and exploiting resources throughout its environment, while generating revenue. And, just like a tree, as a company grows it must use

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<sup>4</sup> Original picture source found at [http://www.swickph.com/library/article/the\\_trouble\\_with\\_tree\\_roots/](http://www.swickph.com/library/article/the_trouble_with_tree_roots/) and edited with photos found on Google image.



these resources to connect to its environment. Just as a tree sets up new roots in the soil, so must a company connect with different stakeholders if it wants to grow. This is the only way for the company to remain stable in its environment while still generating income. If a company doesn't satisfy enough of its stakeholders, the company will lose abilities to focus on vertical growth or profitability. If a tree lacks vertical growth it will not obtain sunlight and other trees will block it. If a company loses growth it will not attract customers, and other competitors will take market share. All of these choices in a company are made by leadership. In a tree, all of these choices are dictated by the needs of the tree based on the environment around it. From the time when a tree is just the seed, to the time it has reached the highest point it can reach, there is a force which is balancing all the functions and operations of the tree. It is not seen, but it is there. Just like a tree, a company has the same force, which is called leadership. See Figure 10, Figure 11 and Table 3 for more comparisons between a trees and organizations.

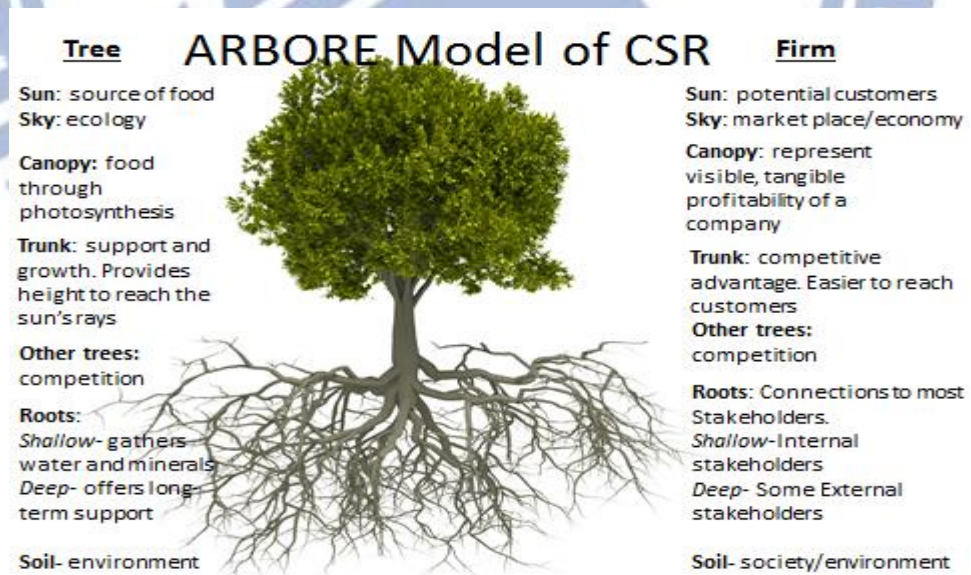


Figure 10- ARBORE Model of CSR

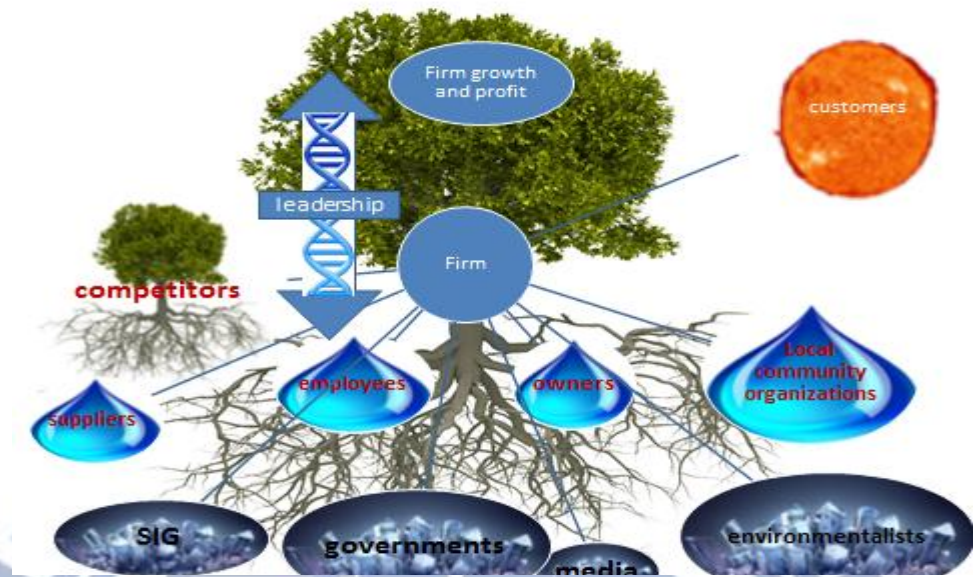


Figure 11- Relationship with Stakeholders

Table 3- The Analogy of a Tree with Organizations

	<b>Ecosystem of tree</b>	<b>Organization</b>
Sun and Sky	<p>The sun provides Food</p> <p>The Sky provides release of excess water and allows respiration for the plant</p>	<p>Sun: Customers</p> <p>Sky: Market</p>
Tree shape	<p>The environment and genetics dictates how the tree will be shaped based on the basic needs of the tree and predisposition</p>	<p>The Environment and Leadership dictates the shape of a company based on the needs of the company and restrictions of the environment</p>
Canopy	<p>Provide food for the plant through photosynthesis. Provides shade for the soil and the tree. Provides transfer of air and water (respiration)</p>	<p>The visible performance of a company (asset, equity and profit).</p> <p>Represents future growth potential.</p>
Fruit	<p>In order to grow fruit a tree must be healthy and have adequate resources at its disposal. Providing for future growth</p>	<p>Represents surplus capital that a company can use to start new business ventures or reinvest in itself of society (philanthropic activity)</p>
Branches	<p>Ensures higher growth meaning it will be higher than competitive trees, which in turn allows more photosynthesis</p>	<p>Represents new business ventures and competitive advantage in these ventures</p>
Trunk	<p>provides height, strength, structure and protection</p>	<p>Represents strength, competence and expansion for the firm. Sustainable Competitive Advantage</p>
Roots	<p>Focus of shallow roots: water and nutrients</p> <p>Focus of deep roots: support</p>	<p>Shallow roots: building connections to more internal stakeholders (ie employees)</p> <p>Deeps roots: building of connection to external, harder to reach, stakeholders (ie: media, government)</p>
Minerals and Water	<p>tree absorbs these and it becomes the life of the tree</p>	<p>Water (Essential for life and growth): Employees, Suppliers, owners, Community Minerals (essential for growth and health): Government, SIG, Environmentalist,</p>

		Media
Soil	<p>The soil provides water and minerals</p> <p>The tree provides protection from erosion and runoff</p>	<p>The soil represents the environment and society.</p> <p>The operations of the firm should provide security and safety, just as the roots of a tree protect from erosion</p>

### 3.3 Sustainable growth in a company and in trees

Finding the balance between company and environment and company and stakeholders is the responsibility of leadership. If the balance is not fulfilled, the company will increase its risk. This is true with a tree as well. (Figure 12). If a tree's roots are too short or too shallow, it cannot gather enough food for the plant which will affect the overall growth of the plant. In addition, if a tree doesn't have a root system that is proportionate to its trunk/stem, then it will easily topple if strong wind or erosion occurs, or the tree will dry out-- due to shallow roots-- if a drought occurs. (Carlson, 2007). However, if the tree does not grow vertically and produce leaves, inadequate sunlight will be obtained, which will stunt its future potential growth. This balance between roots and stems is essential. Along with deeper roots for support, most trees also have root systems closer to the top of the soil, that spread sometimes 3 times the width of the tree's canopy. (Evans, 2000). In addition, some trees even have longer roots than the combined length of their trunk and canopy. (Wilson, 2007). This is a necessity for trees in many different types of environments, and the environment also depends on tree roots for stability



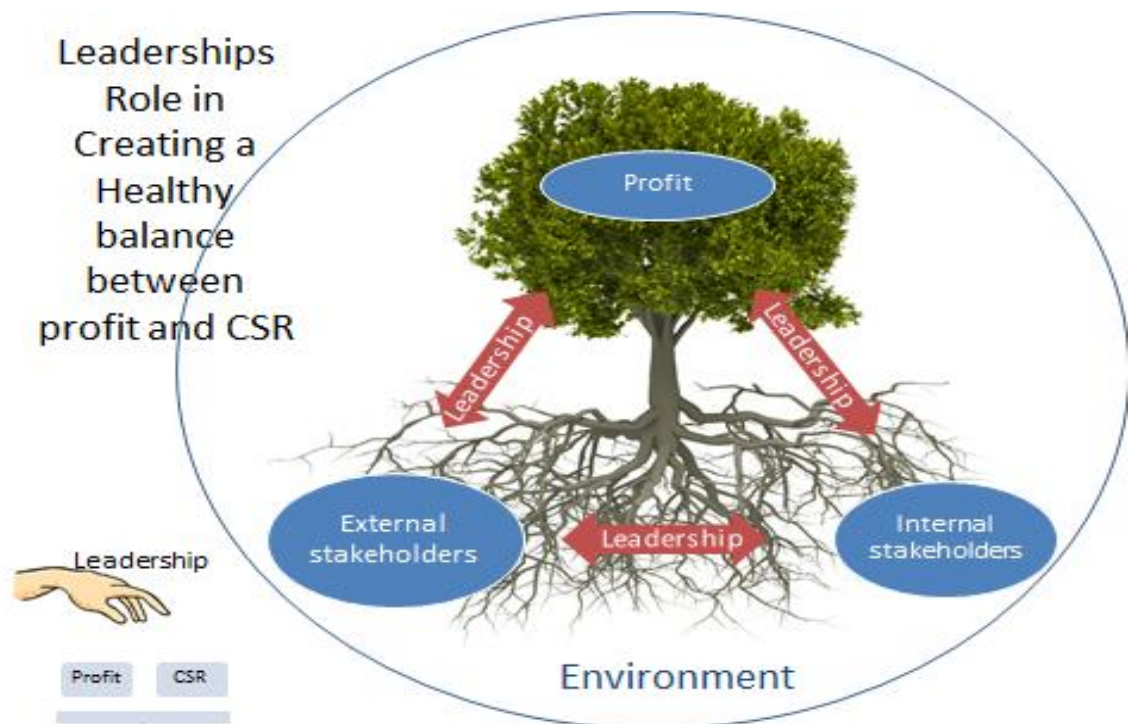


Figure 12- Leaderships' Role in Creating Balance between Internal Stakeholders (Top Roots) and External (Deep Roots)

A simple comparison of two trees: an oak and a betel nut tree—will give a better idea of the importance of roots to an environment. (See figure 13) A full grown oak tree has roots similar to the size of the portion above the soil. A betel nut tree on the, other hand, has shallow surface roots used to exploit as much as it can from the environment and grow as tall as possible, without having to expend resources on deep, supportive roots. When typhoons or earthquakes occur, this tree is easily uprooted, leading to landslides and erosion. Given to the lack of broad roots, water retention in the soil is limited, so areas with plantations of these trees have more drain-off water. (Cheng, Lin, Lu, Huang, & Wu, 2010). The tree has little value, and, in addition, planting these trees greatly increases the risk of landslides. But, due to the high demand for the betel “nut,” with semi-narcotic properties, it is over-grown, in the country, hill and mountainsides of Taiwan and other South East Asian countries. Scientist

have recommend not planting these trees on sloped surfaces due to the tree being susceptible to causing landslides if flooding or strong winds occur. (Cheng, Lin, Lu, Huang, & Wu, 2010)

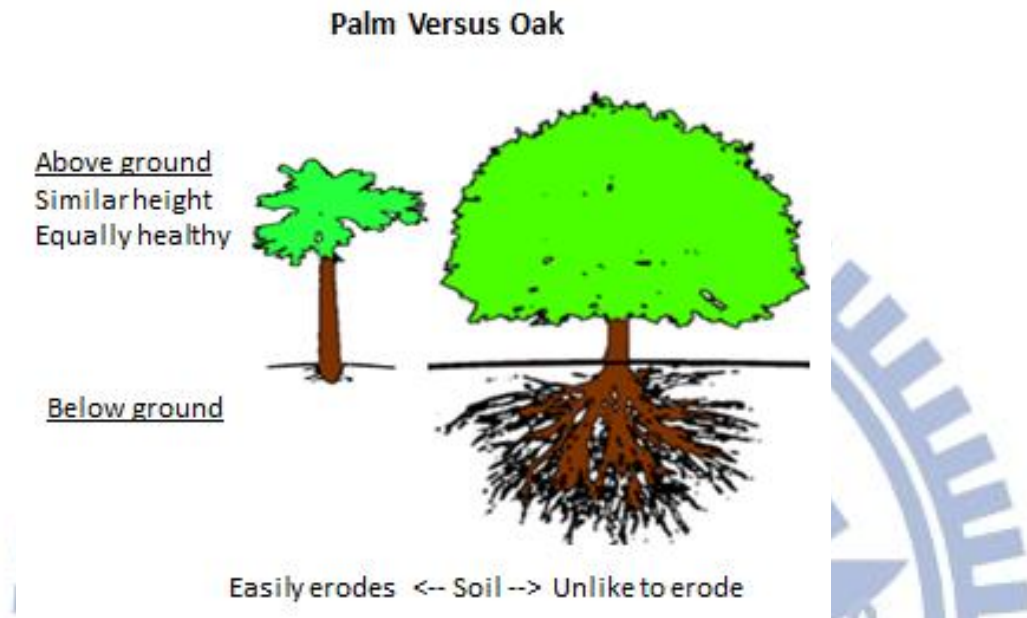


Figure 13- comparison of roots in plants

Another example of the importance of trees to an economy and ecology is the country of Haiti. The country has been over-forested. Due to the lack of roots to hold the soil in place many areas have suffered from serious erosion which has created serious agricultural problems for the already struggling nation. It is so bad that an NGO USAID stated that most of the hills have been eroded (McClintock) and many are exposed down to the bedrock. Trees are an essential part of the ecology and roots keep the land in place.

With this information, we can deduce that longer root systems will lower the level of risk for a plant in an ever changing environment, and soil will be protected by these connections to the roots of the plant. With this illustration and analogy, we can concur, that,

just like a tree, businesses with shorter or less connections with their stakeholders will create less growth potential and increased risk.

With this information we can see that trees and its roots play a vital role in nature. The balance for a tree and its roots is essential and the analogy between a tree and a company can be understood even further in the following diagram (figure 14)

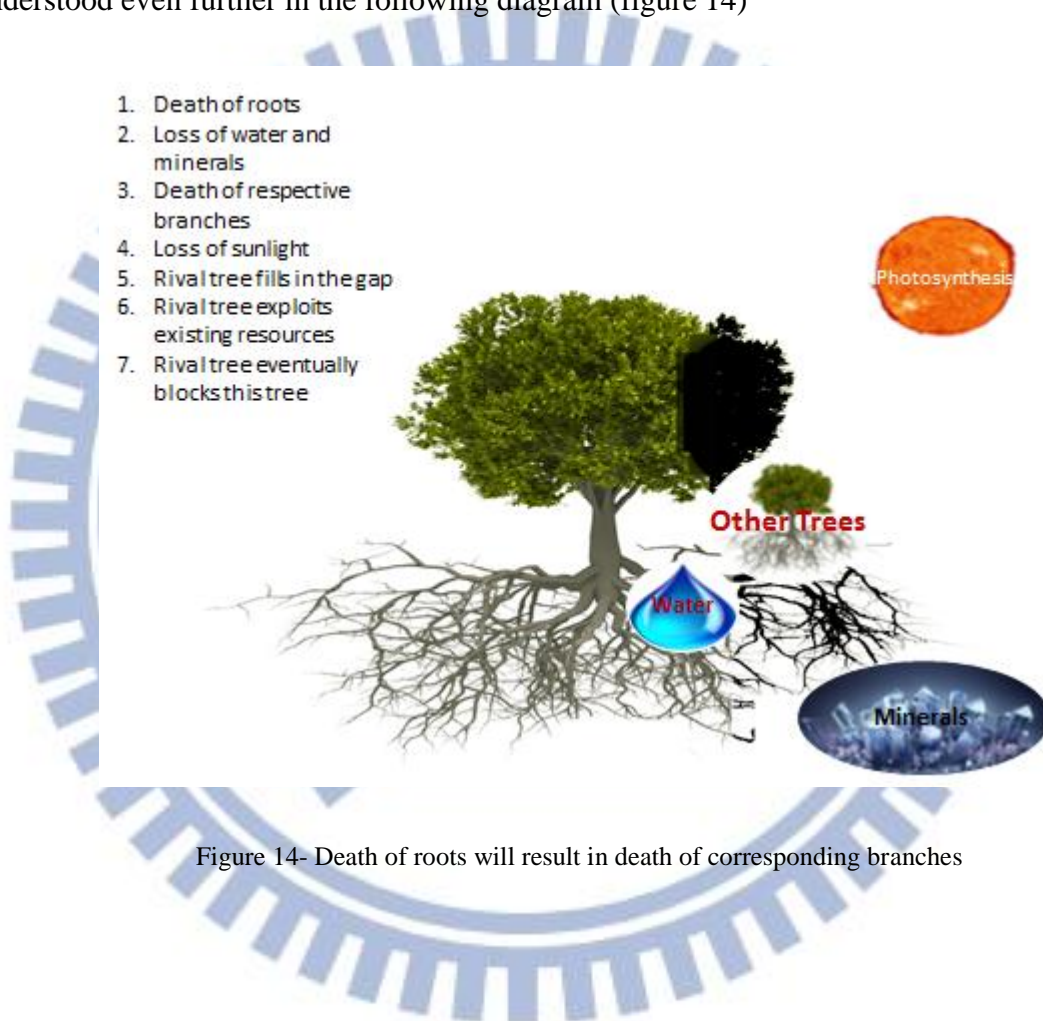


Figure 14- Death of roots will result in death of corresponding branches

When a tree loses its roots (its connection to the environment) the respective branches also die. This not only leads to less potential food for the tree, through photosynthesis, but also allows other trees to fill in the gap. As competitive trees grow, they exploit available minerals and water. The same is so with a firm. The example below in figure 15 can show us how a company that loses its focus on a stakeholder's (employee) needs could easily lose

connection with that stakeholder. In this case, we see that the company has lost connections with internal stakeholders. Because of this a competitive firm will fill in the gap. Lack of this human capital will, in turn, lead to certain sectors of the firm to lose growth potential or profitability. Leadership's role in the allocation of resources to keep stakeholders satisfied is crucial to long term performance.

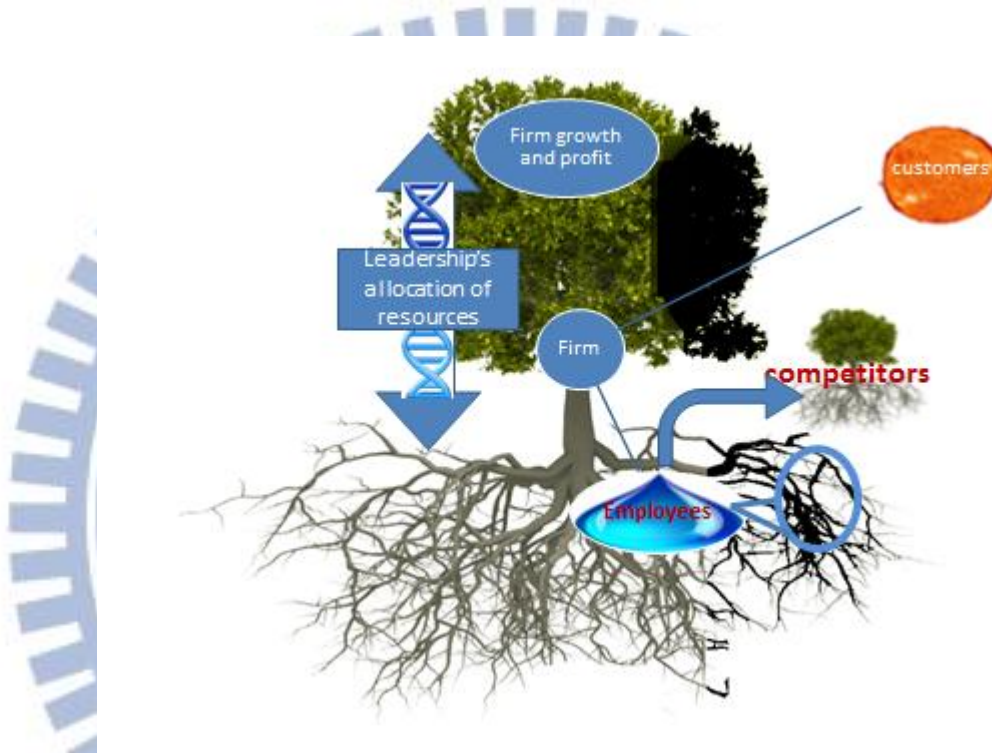


Figure 15- Loss of connections with stakeholders will result in loss of profitability

### **3.4 Finding validity in this proposed model: Purpose of this study**

The greater scientific and business community has made significant research into the topics of CSR, sustainability and stakeholder theory and leadership. However, most literature



is focused on large corporations and how their CSR strategies affect performance (financial, organizational, CSR indexes). Also, the main focus of most researchers is immediate, visible results from CSR initiatives, and do not take into account unseen, immeasurable changes. As stated, this is much simpler for large companies that have a much larger impact on the economy. The limitations here are that these studies do not include research or useful data for SMEs, their CSR strategies or the evolution of CSR strategies for a company.

Since CSR and its results are very difficult to measure, different studies conclude with different results. Even when a study does conclude that CSR is good business, usually little is offered as to why or how small and medium sized business should initiate in CSR proactively and how leadership can affect these implement these strategies throughout the growth from a SME into a large company. In addition, the majority of researchers still believe that SMEs don't have the resources to have CSR strategies in place when the majority of SMEs are constantly struggling to make a profit. Given this information, in this case we will analyze the performance and CSR practices of two companies, a small sized Korean company and a medium sized Taiwanese company, and compare them to the proposed model in order to understand the ramifications of a company's CSR strategy and suggest why or why not SMEs should have a clear CSR strategy before entering the market.

## **IV. Case Study**

### **4.1 Methodology**

#### **4.1.1 Introduction to the two companies**

In order to better understand the model that has been introduced early in the article, the rest of the case will be focused on the following two companies: Cconma and Wowprime. The first is a Korean E-commerce company named Cconma, and the second a larger company that started in Taiwan and has developed into one of the of the largest service chains on the island: Wowprime. These two companies were chosen for the following reasons:

- They are both SMEs
- They both have dynamic, responsible leadership
- Leadership is focused on CSR and has a strong commitment to internal and external stakeholder
- They are both in highly competitive market sectors (ecommerce and restaurant)
- They are both young companies

#### **4.1.2 Data sources**

This case study will attempt to find the connection between leadership, CSR and stakeholders, while validating the need for SMEs that seek a complete edge by adopting proactive, holistic CSR strategies.

The case uses an embedded, type 4 case study design as defined by the case study material used to design this case (Yin, 2012). Data collection for Cconma was gathered from four different sources:

- Five students' internships
- open-ended interviews with the CEO and employees
- employee questionnaires
- Secondary sources –financial reports, website, newspaper, and magazine articles.

And data for collection for Wowprime was gathered through the following sources:

- Secondary sources
- Direct contact with the CEO

## **4.2 Case One: Cconma**

### **4.2.1 Introduction**

Cconma is an online shopping mall located in Korea which was established in 2005 by Mr. Tong Hun Choi. Like most dot coms, profitability was the main goal of the company, however, unlike other dot coms; Cconma had a mission and a completely different business model.

Cconma offers a wide variety of items from food, to clothes, to household products. These products are either produced and provided under the Cconma brand name or are offered through on the website through secondary sellers/stores. The products are listed on the website through nine different categories (Food, Home, Clothes, Fashion Items, Flowers & Cakes, Books, CDs & Instruments, Concerts, and Art Gallery). The website has over 30,000 visitors per week with over 194 thousand active users. (See table 4)

Unlike the majority of websites, which focus on low prices as their competitive advantage, Cconma's business model is dedicated to providing healthy and safe products and foods without pesticides and products lacking harmful residues. Their mission is to create a 'healthy and happy community' for a happy life." by providing high quality goods to its customers, while establishing links with the community around it and offering greater opportunities for their employees. Since many of the company's goods are agricultural or are textile based, this is a challenge. Most companies that deliver agricultural or textile goods to the market do not consider the living conditions or quality of life for employees working in such industries (such is the case with Nike that was mentioned earlier in this case). Additionally, it is rare to find companies that start out with such high standards and monitor the standards of their sellers/suppliers from the beginning of operation (IE: Wal-Mart's sustainability strategy mentioned earlier in the case<sup>5</sup>). However, Cconma has raised the standards in this industry and

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<sup>5</sup> Wal-Mart's sustainability was reactive not proactive



introduced itself to the business world as a company that can focus on quality and provides better working conditions for its employees/internal stakeholders, while also providing better conditions and service to the community/external stakeholders.

In the last five years, 2006-2011, the company has maintained steady growth. (See table 4) Currently the company has 34 employees, 397 stores, with revenues of \$6 million in 2011. In the past five years, the average order value has increased from \$39USD to \$63USD.

Table 4- Cconma's Financials

Years	2006	2007	2008	2009	2010	2011
Active users	16,800	67,400	106,700	155,300	175,000	194,900
The number of orders	27,467	125,945	245,765	351,277	376,330	412,828
Annual revenue of Cconma (USD)	\$1.07M	\$1.21M	\$2.50M	\$6.65M	\$6.57M	\$6.23M
Net Profit of Cconma (USD)	\$70,000.00	\$30,000.00	\$260,000.00	\$470,000.00	\$170,000.00	\$620,000.00
Profit Margin	6.50%	2.48%	10.40%	7.10%	2.60%	10.00%
Average Order Value, USD	38.95	39.54	40.32	50.41	51.49	63.54
No. of weekly visitors	8th week	9th week	10th week	11th week	12th week	13th week
2012	44,287	36,774	38,400	39,105	39,475	36,170

## Ecommerce Industry

E-commerce is a wonderful way of retailing for many different types of vendors. The medium is a great way for retailers to get their product to the market, and it becomes more popular every year. In 2008, online retailing accounted for 9% of total sales in the US, 2010 \$137 million USD of purchases were made in the US alone, and it is believed that by 2016, that figure will jump to \$175 million USD. Online shoppers, as a majority, have lower brand loyalty since they have more choices of retailers online than offline, and it is more convenient to compare prices. (Kung, Monroe, & Cox, 2002). It has been found that, for a majority of products, prices are usually lower online than when shopping at conventional brick and mortar retailers. This comes with its disadvantages though. The internet is a highly competitive market. Due to this, power is put into the customers' hands, which allows the consumer drive down the price on many online items. (Consulting, Civic, 2011). However, the internet also introduces a new advantage to sellers: the ability to find or create new buyer segmentations or niche markets. Through the internet, online vendors can study and identify buyer behavior more efficiently and update prices accordingly. With this, online retailers can identify unknown segments and offer products, services and pricing which is suitable.

This is where Cconma has excelled. By offering high quality, safe, products that are sustainability focused, they have catered to a new market segment. This market segments is

one that cares about quality, cares about the work or craftsmanship that goes into producing such a product and is willing to pay a higher premium for such products.

## 4.2.2 Cconma's Strategy

### CSR as a Competitive Advantage

Cconma has a comprehensive CSR strategy which allowed them to differentiate themselves from other online retailers which allowed them to appeal to this savvy segmentation. Here are some of the following strategies it has adopted are:

- Offering only customer focused high quality products, which is the core for its brand reputation.
- Regulating their own products and suppliers' products to meet Cconma's rigorous quality standards before being able to sell products on the website

### **High quality customer focused products**

As stated before Cconma's business model and reputation revolve around the concept of quality. Consumers buy products and join the website because they trust and respect the company's products. Therefore, Cconma spares no effort to make sure that all of its products, both its own, and sellers' products adhere to their strict standard. They also make sure that the customer always comes first. Customers' demands and needs are top priority, and it should never come at the expense of losing product quality. Customer satisfaction and brand

reputation are top priority. The company is building deep connections with the customer which improves customer satisfaction, which in turn increases sales (figure 16.)

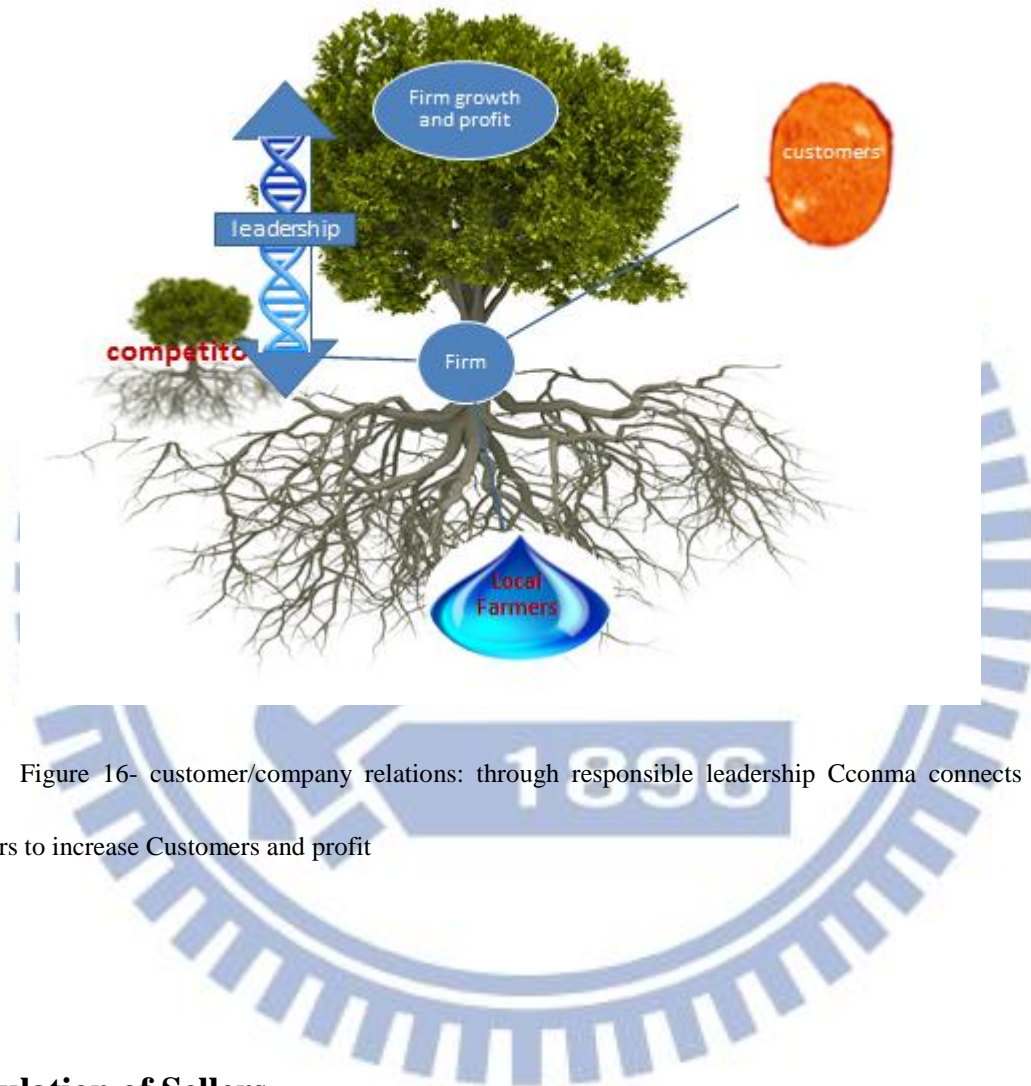


Figure 16- customer/company relations: through responsible leadership Cconma connects with local farmers to increase Customers and profit

## Regulation of Sellers

Cconma is unlike other ecommerce website. While other e-malls are anxious to host a variety of sellers, without extensive background checks, Cconma is different. Cconma has a very strict and detailed process of managing sellers. Cconma does this in five different ways:



- Cconma does not allow itself or other sellers take advantage of the anonymity of the internet. All second party sellers are responsible for the products and the quality of the products they are selling. Brand photos and introductions are offered for each product. Sellers are encouraged to strictly monitor their own product quality so that the customers associate their product with quality, which in turn helps establish brand reputation.
- Second party sellers go through a trial period, called an intern period, before officially launching their product line on the website. This is so that that Cconma can check customers' response to their products and service
- Price competition is not allowed. In the end, this lowers product quality with only a small price benefit for the consumer
- All promotions are organized by its member through online survey. This allows sellers to save money on promotion and advertisements.
- Sellers are required to donate 1% of sales to a charity of choice in the community. Cconma does the same for all of its own brand sales.

Cconma has high expectations for its sellers, but it does not wish to exploit their sellers. The sellers' fee is 10%. For Amazon.com, the number one ecommerce company in the world, sellers are expected to pay 12-15%. In return for this fee, the category managers, which are divided into food and non-food, are in charge of launching new stores, helping each store's operation and promotion, and ensuring that they adhere to Cconma's mission. (See figure 17)

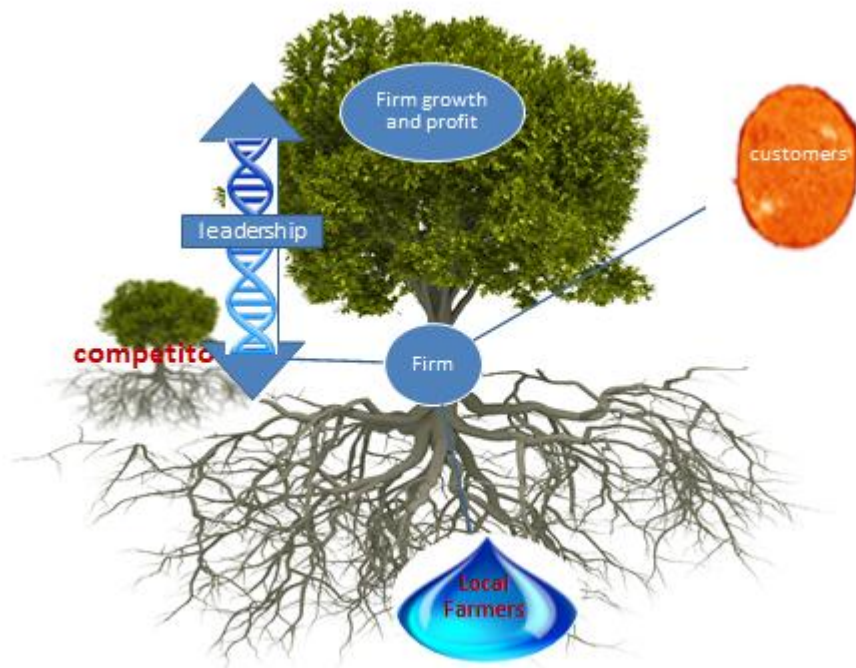


Figure 17- Cconma's CSR in working with business partners: Leadership choosing to work directly with local farmers to create a Sustainable competitive advantage while improving conditions for local farmers (sellers)

Another example of how dedicated Cconma is to quality control is in its “food” division. In 2010, Cconma moved its headquarters closer to its farmers. Cconma’s dedication to monitoring quality, and understanding their farmers and their work condition was shown in this decision. While most Ecommerce companies would prefer being in the capital city: Seoul, Cconma decided to move its base to the agricultural city, Chung-Ju. This helped show the community where their priorities lied, and also expressed where their core competence lies. As this happened work productivity increased which in turn directly affected profitability. (Figure 18)

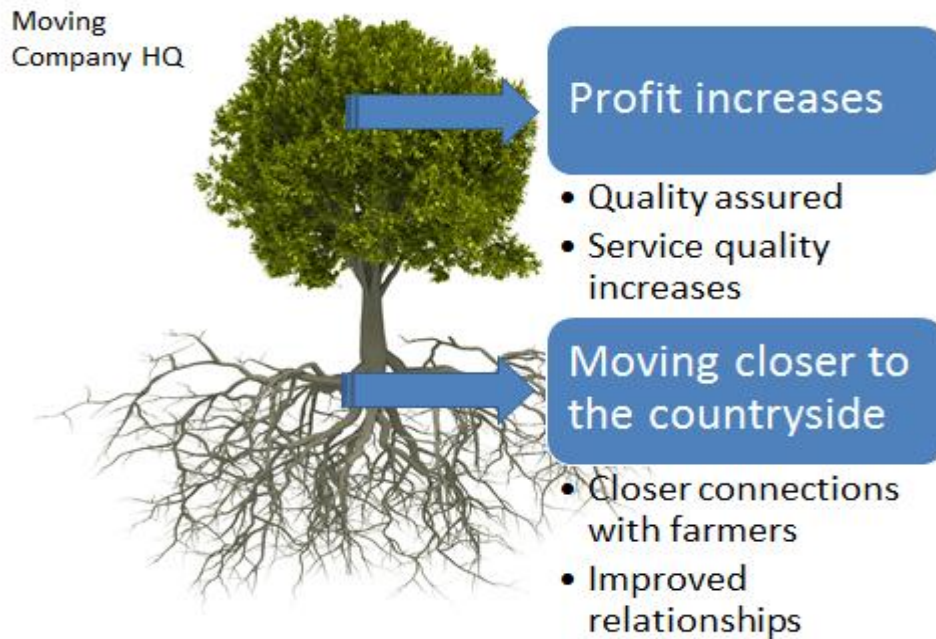


Figure 18- How moving Company HQ close to core competence can affect business relations

## Brand reputation through strong CSR

There have already been quite a few examples of how Cconma has created a strong brand reputation; however, the most lasting impression exists due to some of the stories that they create for their products.

Once such example of How Cconma's has developed brand reputation is with the "We-can Cookies" product. These cookies are hand-made, organic cookies. The cookies are baked by physically or intellectually handicapped individuals. This gives them the ability to have a job and live a normal life. It also lets them be a beneficial member of community. The story of Cconma's commitment to helping the community is then posted on the website.



Customers feel happy knowing that when they purchase these cookies, someone the community is benefitting.

Another example is one of Cconma's bestselling products: the "Chaga-mushroom extract fermented Soybeans," which are made from organic soybeans. This product was developed in 2004 as a way to support the settlement of Koreans who returned to Primorsky after Stalin's ethnic cleansing of 1937 to 1949. Despite its excellent quality, sales stagnated until it was introduced on Cconma's website in 2007. The story of the Koreans living in Primorsky touched many customers, which lead them to make a purchase. After tasting the product, the quality spoke for itself, which lead to repeated purchases and loyal customers.

The last example is the Rhajin organic bean paste. The bean paste is made in North Korea. Purchases of the bean paste help improve the livelihood the farmers in North Korea which produce it.

These, and other stories like these, impress consumers, which will then generate feedback on the website. This feedback then influences others to make similar purchases, which then perpetuates the Cconma strategy. Customers are number one to Cconma. But it is evident that Cconma's goal is not only pleasing the customers, but also making a difference in the community by caring for all its stakeholders, both internal and external. This dedication has a direct effect on brand reputation (figure 19)



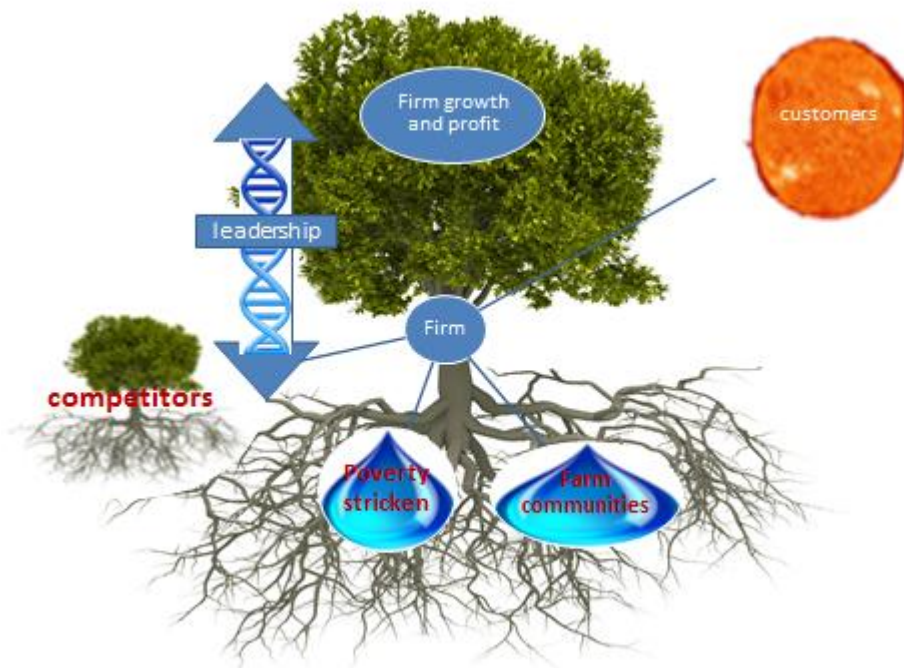


Figure 19- Brand reputation through CSR

### 4.2.3 CSR through leadership and focus on stakeholders

Behind every great mission statement is a great leader. This is no different for Cconma. The CEO has implemented strategies that are very groundbreaking for a small firm, let alone an Ecommerce firm. However, the closer we look, the more we can see ties with the fundamentals of stakeholder theory and leadership roles theory. The CEO, Mr. Choi, has created harmony between the 3Ps of CSR: people, profit and planet. He has implemented strategies that, respect each stakeholder. He has implemented a more holistic form of CSR and he has properly linked the service-profit chain through focus on employee satisfaction and customer satisfaction.

As stated, although the customer comes first, the firm does not forget about its internal stakeholders: the employees of Cconma. Mr. Choi said, in respect to his employees, he does not want to focus on some sort of symbolic benefits, but he wants to offer real services and tangible benefits to his workers. He said “satisfy[ing] their basic needs for food, shelter, and family security such as childcare” are more important. To achieve these goals, the company runs a daycare center, offers sports facilities for employees and operates shuttle buses to and from Seoul, so that employees that wish to live in the city do not have to give up their home for their job. In addition career development activities are created for their employees. In addition, monthly workshops are held to help stimulate employee creativity. When we compare these strategies to the tree model, we can see that strong roots have been developed (with employees) so tree growth has occurred rapidly (employee productivity and profit) (figure 20)

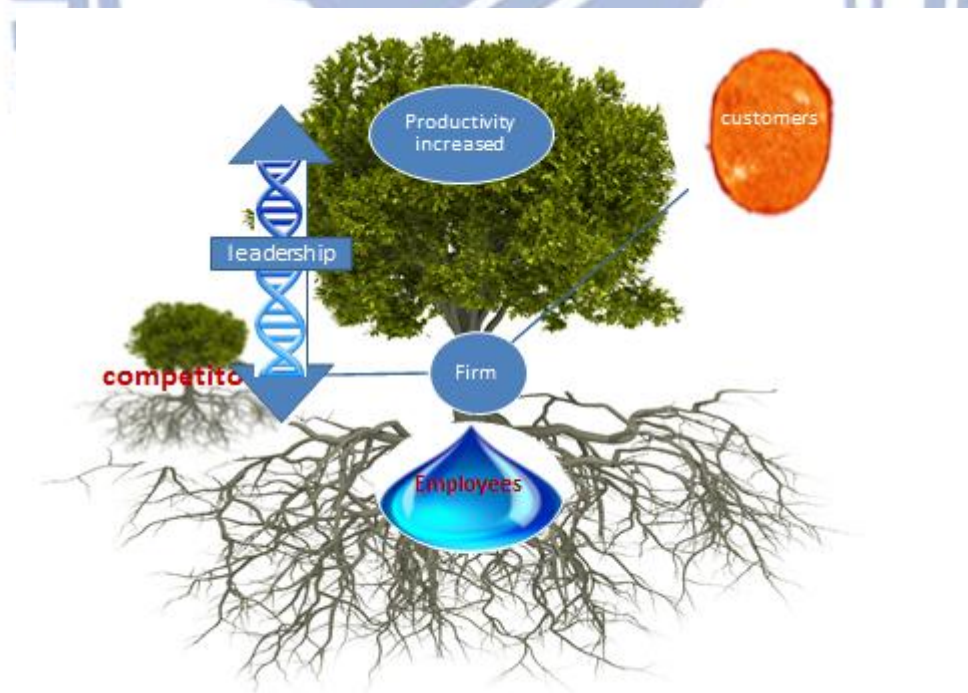


Figure 20- Employee productivity and profit

#### 4.2.4 The results of Mr. Choi's model

These initiatives have not gone unnoticed. A recent survey was conducted on 27 out of the 34 employees and found that 78% of employees were satisfied or very satisfied with their job and Cconma, with a 0% dissatisfaction rate. The same questionnaire revealed that 89% of the surveyed employees somewhat or fully committed to the company. In addition 100% of the surveyed employees answered they are satisfied with Cconma's vision and ethical values.

On the same questionnaire, an open-ended question was asked: "what about Cconma are you satisfied with the most?" out of the 21 employees that sufficiently responded, here are some of the responses that were given:

- Encouraging autonomy and creativity for employees
- Honest operation with valuable and ethical slogans.
- Healthy culture
- Good relationship among employees
- Good colleagues and good welfare for employees.
- Liberal, bright, and warm atmosphere with a family-like environment
- The CEO's management style
- Efficient problem solving

(see figure 21)

With results like these, it is easy to see why the company has a 94.12% retention rate. This, in turn, led to high productivity among employees. In 2011, the revenue generated per employee was significantly higher than many other companies. While eBay's productivity level was \$420,649 per employee (eBay 2011) Cconma was almost double that with \$830,000

per employee. Also, the company has a much higher average order than even the largest ecommerce companies. When compared to Amazon, the world’s largest ecommerce company, we can see that Cconma’s average orders are \$63.50, while Amazon’s average orders are only \$47.31. (Amazon, 2012) In addition, Cconma has more sales per visit. This number is represented by “conversion rate.” Cconma’s conversion rate is 14%. That means that 14% of all visitors make a purchase. Compared to the industry standard of 2% to 3% it is easy to see that Cconma has set itself apart from the competition, while still maintaining a healthy CSR policy.

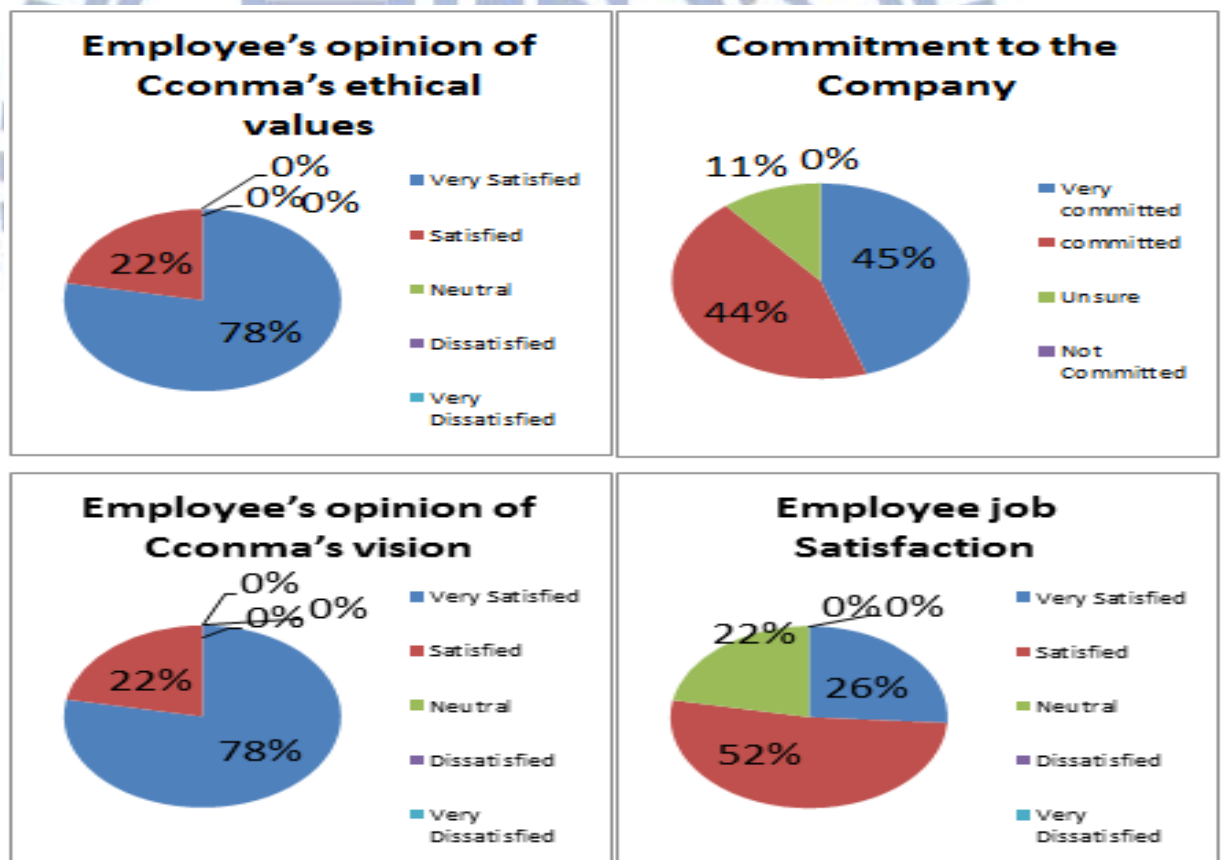


Figure 21- result of survey in 2012



According to a company survey from July 18 to August 22, 2012, the total satisfaction score was 4.68 out of 5 based on 1,008 customers and 3,018 orders. As a whole there is less than 2% dissatisfaction rating (including very dissatisfied and a little dissatisfied) for all of the products offered on the website (Cconma archive 2012). Because of this users of the website have increased significantly over the past 6 years, with revenue and profits also increasing as well, even during a recession. Since the company has put so much effort into their employees, satisfaction is very high on all fronts, this in turn created exponential growth for Cconma. This is comparable with the tree model. (Figure 22)

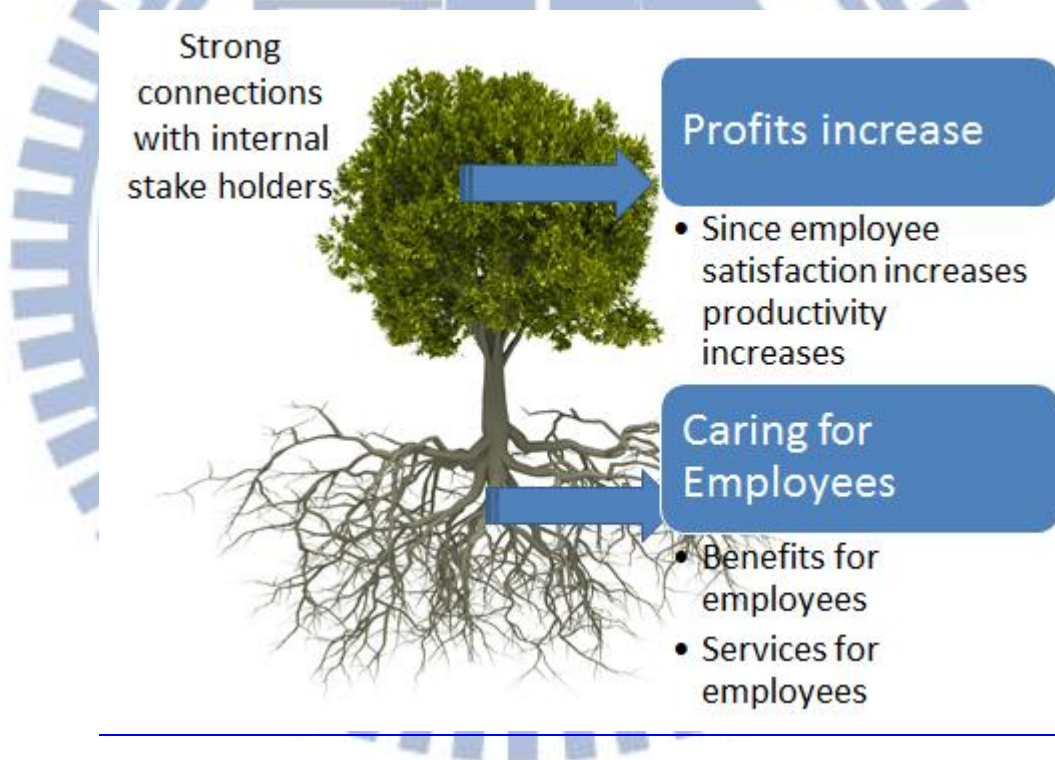


Figure 22 Cconma's connections to internal stakeholders

## 4.3 Case Two: Wowprime (Wangpin)

### 4.3.1 Taiwanese market

The island of Taiwan is an extremely hardworking and competitive environment. However, many workers see little compensation for their labor. The average monthly salary in Taiwan in 2012 was \$1,255 USD. (Taiwanese Government , 2013) It is not the lowest, by far, in Asia. However, for developed Asian countries' standards, it is one of the lowest figures; with Korea's average wage almost double that of Taiwan. In addition, there is a large gap between the rich and poor in Taiwan, and some workers, such as waiters and waitresses, can expect to only bring home \$492 USD per month (Huang, 2009).

Figures like this make it easy to understand why the restaurant industry is very unappealing for the majority of Taiwanese citizens. However, with this being stated, it is equally difficult to see how a restaurant chain could make it to the number one, most attractive, however; based on a 2013 survey, among young people, Wowprime or Wangpin was rated number one (Hsu & Low, 2013) (Liu, 2013), even beating top tech firms such as TSMC and Chimei.

So, how could a company in a sector that is characterized by low wages, lack of benefits and few future job opportunities become the most attractive job, not only in the service sector, but through every business sector in the country? The answer is through differentiation and dedication to its employees.

### 4.3.2 Wowprime Introduction

Wowprime was established in 1993, by current CEO Steve Day (Dai ShengYi). The first restaurant was a high-end steak restaurant in Taipei named “Wang Steak” or “Wangpin.” The steak restaurant received public approval and in 2001, Steve day began expanding the company by opening multi-brand multi-tier restaurants. Currently the company is a publicly traded company and has 13 restaurants under the Wowprime group, and is the largest non-fast food chain restaurant on the island. Each restaurant specializes in a different style of cuisine (i.e.: Japanese cuisine, western cuisine and hot pot), and each restaurant offers different price ranges to cater to different income segmentations (high income and middle income). The price of a meal at any one of the chains in the Wowprime group is higher than the average meal price in Taiwan, and is considered to be more high end dining. However, that has not affected sales at all. In fact Wowprime has had exponential growth in the past 10 years, and has continued to stay maintain healthy growth even through recession. Table 5 shows Wowprime’s financials for the past 3 years. Sales and market share have also grown steadily, with an impressive 21.9% increase in net income in 2011, and in 2012 was rated the top 20th Taiwanese brand (InterBrand, 2012) and was listed on Forbes’ Asia list of the best 200 companies under a Billion (Huang J. , 2012).

Table 5- Past 3 year’s financials

Year	2010	2011	2012
Wowprime	\$5,753M	\$7,698M	\$9,682M
Restaurant Industry	\$291,646M	\$316,720M	\$328,476M
Market Share	1.97%	2.43%	2.98%

Wowprime increase in sales	26.33%	25.27%	20.49%
Industry increase in total sales	6.83%	7.92%	3.58%

In the early 2000s, Wowprime updated some of the strategies for the company. For example, in 2003, after rapid growth and expansion in the Taiwanese market, management realized that Taiwan is a very limited market, with only 23 million people. However, China, with a population of over 1.3 billion people, and a rapid growing economy offers a huge market with many opportunities not available in Taiwan. The decision was made to open two chain stores, Wang Steak and Tasty's in select locations in China. The venture was a success. Today with 286 different locations, the majority being in Taiwan, Wowprime is now even more focused on expansion to new markets, and has its sights set on Asia and even western markets. The focus is expansion and, of course, profitability; however, regardless of where the chain heads, the CEO, Steve Day, has never lost his vision or strong ethical commitment to the company, society and most importantly its internal stakeholders.

### 4.3.3 Company Philosophy

The CEO, Steve Day had two inspirations when starting his 9th company, Wowprime. The first was Chinese philosophies, (such as Han Fei zi's legalism, Daoism, Buddhism and Confucianism philosophies) and the second was the CEO of Chimei, a well-known Taiwanese company (Fan, Chen, & Tsai, 2011). Due to the Chinese religious philosophies instilled in the company's business model, the firm has a strong moral and ethical foundation. One example is through Day's leadership style, which is a collective leadership approach inspired by these philosophies.



In addition to this ethical foundation, Day's also observed and practiced the ethical strategies and company codes of many other great entrepreneurs. One example is of Day's admired role model, Shi Wen-Long. Mr. Shi was the long time CEO of Chimei, and led the company to become the largest LCD production company in the world. (Wang & Tan, 2010). Shi's philosophy is "the company exists to pursue human well-being" (Chimei, 2013). He was one of the pioneers of CSR on the Island. Day offers a lot of the credit of his business model to Mr. Shi, and it is easy to see how Day implemented many of the practices Shi used in CEO into the Wowprime business operation.

#### **4.3.4 Implementation of CSR and stakeholder theory in the company model**

Internal stakeholders (employees)

#### **Summery**

Wowprime's CEO realizes that employees are the most valuable asset of the company. This is why the company goes to great lengths retaining employees with visible and usable talents. Wowprime is the top employer of choice for university graduates and tries its best to hire as many educated individuals as possible. (Huang J. , 2012) This is because Wowprime offers real, tangible incentives to their most important stakeholders. Wowprime also offers many other incentives for employees, including:

- Higher wages than any in the industry
- Bi-monthly pay- Salary and bonus

- Safeguard fund for employees
- Emergency fund for employees
- College fund for employees
- Profit sharing
- Encourage personal growth

Few companies have such a high commitment to their employees and Wowprime, let alone companies in the service sector or restaurant industry. While most restaurants offer wages closer to \$700 or \$800 a month for a full time waiter, Wowprime is pushing for \$1000. CEO Steve Day believes to attract professional workers you have to give tangible incentives. That's why Day implemented the "20/20 program" into his business model. In order to stay competitive, the company should offer 20% more in benefits and pay to its employees than its competitors while spending 20% less on personnel of the competition. This is an impressive model and is difficult to duplicate for any company that wants to be like Wowprime for Wowprime does this and still maintains a 10% profit margins and keeps its personnel turnover below 2%, 8% lower than the industry average. (Chen & Chen, 2012)(Huang J. , 2012).

### **Reasons for Wowprime's commitment to employees**

Like Cconma Wowprime realizes that the customer should come first. Wowprime also realizes, during normal business operation, leadership and managers cannot control whether or not the customer comes first. That responsibility falls on the waiter and waitresses shoulders, and day believes that the employees will model after their employers (Chen H. y., 2011). Day realized that in order to put the customer first during normal business operations, incentives must be given to the employee. Day made a reference to classical conditioning in

this aspect. The idea is offer a reward to elicit a desired response. Therefore, as of 1994, Wowprime has had a profit-sharing strategy to the business model. Employees can share 33% of profit generated per store. (Chen & Chen, 2012). This makes employees feel that their actions can create a desired response. In addition, employees also feel that they are part of the company, further strengthening their dedication to the company. Day describes this strategy as a “virtuous circle.” (Figure 23) Employees are happy to work at Wowprime because benefits are higher than other available jobs. Customers are treated well by employees, which drives up profit. Profit increases allowing Wowprime to give more benefits to the employees. When looking at the tree model we can automatically make connections. Just like a tree sets up roots that offer strength and protection of the soil, so does Wowprime offer strength and protection of its employees (see figure 24)

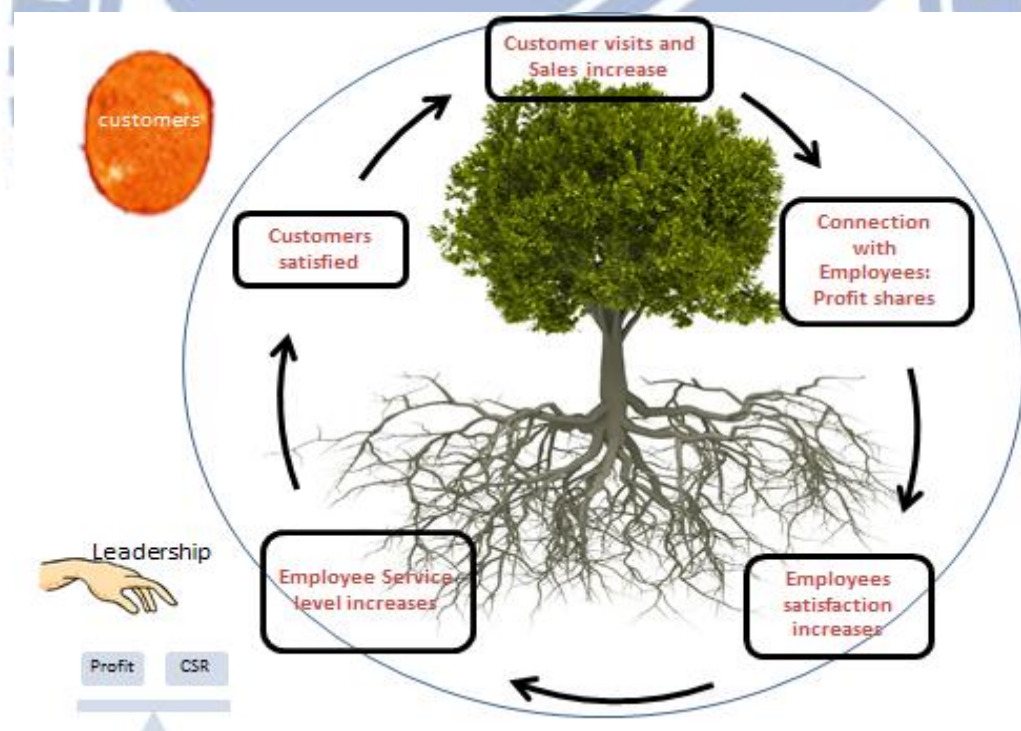


Figure 23- Wowprime’s “Virtuous Circle” Model analyzed with the ARBORE model





Figure 24- Wowprime and its employees

### Other incentives for employees

If higher salary and profit sharing were the only areas where Wowprime differentiated itself from the competition, then Wowprime would still be ranked very high among companies in the service industry in Taiwan. However, Wowprime goes beyond even employees expectations and offers employees “peace of mind” and personal growth

### Security funds

As mentioned Safeguard funds, emergency funds and college funds are all examples of benefits employees can receive by becoming a part of this restaurant chain. Funds like these are almost unheard of in the restaurant industry in Taiwan, but that did not stop



Wowprime from creating them, and they have given employees a sense of security, and given aid to those that have suffered an unfortunate accident.

But how can a company afford to give what is essentially social security benefits to its employees? The answer is simple: company profit. In order to create the employee safeguard fund, Steve day donated company stock, which was used to set up a seed account. As the company grows, the stock also grows. An annual average return of one million US dollars is generated in this fund, which is used to pay for any emergency needs the employees have. In order to be eligible for this service, all an employee must do is be at the company for a full year. After a full year the "peace of mind certificate," which the employee receives after 3 months in the company, will be activated.

These, and other employee services, are what really set Wowprime apart from the competition. Giving an employee a raise is a cost that most companies sooner or later must address, but providing for an employee's wellbeing and peace-of-mind is beyond the call of duty.

## **Personal growth**

Few companies care about employee free time or employee's personal growth. As long as an employee is efficient and gets his/her job done, without any complaints, then management and leadership is happy. Wowprime, on the other hand, does not follow this trend. Wowprime wants employees to value their free time and focus on personal growth.

To help employees set goals, Wowprime implemented the “300 credit” program. This program consists of three objectives:

- Eating at 100 different restaurants
- Hiking 100 different mountains over 3000 meters
- Visiting 100 different countries

The total score is 300, and every time a full time employee can achieve a new goal, there is a small pay increase. Steve Day does not only set these goals for others, he also teaches by example. Steve day is an avid hiker and enjoys his free time. In 2011 he and many of his top managers took trip to Nepal and hiked to Everest Base Camp. In 2012, he had already climbed over 50 of the top 100 mountains in Taiwan. (Chen C.-y. , 2011)(Personal discussion with CEO).

## Customers

As stated, customers are number one, and in order to satisfy the customer, a company must offer him/her value. Wowprime does a survey of 1000 customers before putting a meal on the menu. One of the key questions involves pricing. When Wowprime finds the average expected price of a dish, they cut it by 30% in order to ensure a strong ratio of value/price. Wowprime's does not need to obtain high margins since it can use scale to keep operating margins above 10%. But net profit margin is pegged at 10%. Day said that if the company has a higher margin than 10% then customers are not being offered a good enough product for the price they are spending, but it should also not slide below 10% because then employees will worry. (Asia, 2012). This focus on the customer as priority number one stakeholder creates

stronger ties to the company. Just as the tree creates strong ties with the ground, so does Wowprime create strong ties with its most important stakeholders (Figure 25)

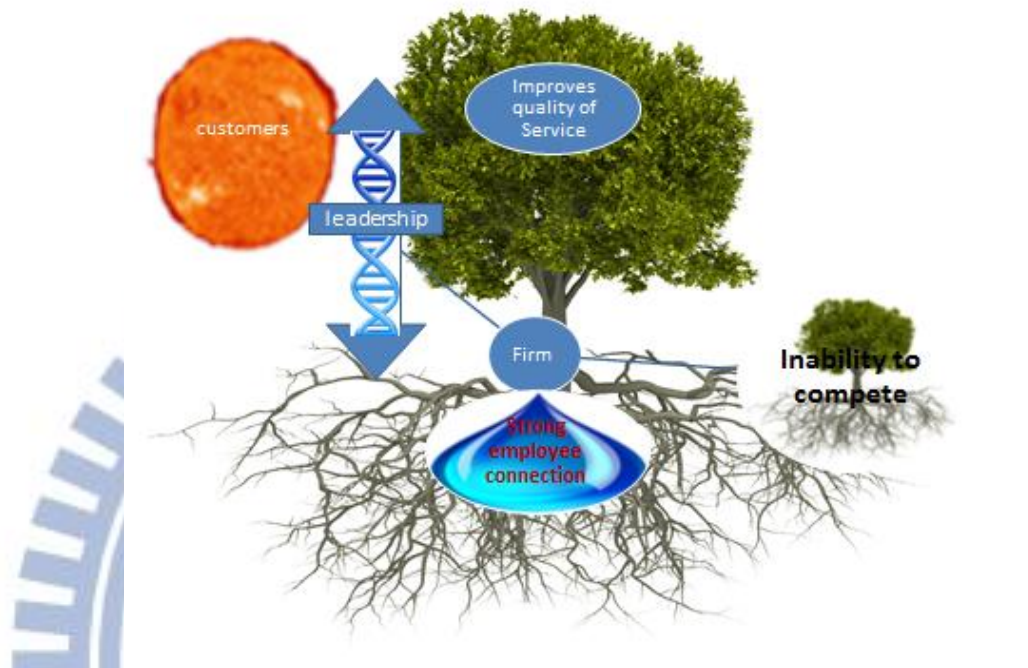


Figure 25- Wowprime and its customer relations

### Other important CSR strategies

Though Wowprime's focus is on internal stakeholders and customers, the firm does have other CSR policies which it implements into the company. In addition to basic rules, the company also has a few special rules, termed "fastidious" rules, which even the Chairman must follow. Some of these 27 rules are:

- \$3.50USD fine for being late to a meeting
- Political neutrality in the company
- In the company, luxury brands are not encouraged or advocated

- Counterfeit goods are prohibited
- No employee should drive a car valued at over \$50,000USD
- Gifts on wedding days may not exceed \$30.00USD
- No member of the company can be a political party member while working at Wowprime
- Zero tolerance acceptance of gratuities or gifts over \$3.50 US, with penalty of job loss<sup>6</sup>

Some of these rules may seem “fastidious” and that may be why the chairman named them so, but there is importance to many of them.

First, politics and business should not be mixed if one wants the business model to be “pure.” There are many examples of how business use political connections to continue with unethical operations or use business connections to get special treatment. Also the use of expensive cars or designer clothes to obtain “status” in society is something that Day says he tried and failed, and that he gained more true friendships after dropping the façade. Day does not want this, especially after entering the Chinese market, which is notorious for the avocation of political ties and “guanxi” in business. (Luo, 2000). The company created these rules to raise the standard on morals and work ethic. Since Wowprime gives so many incentives to its employees, it can be “picky.”

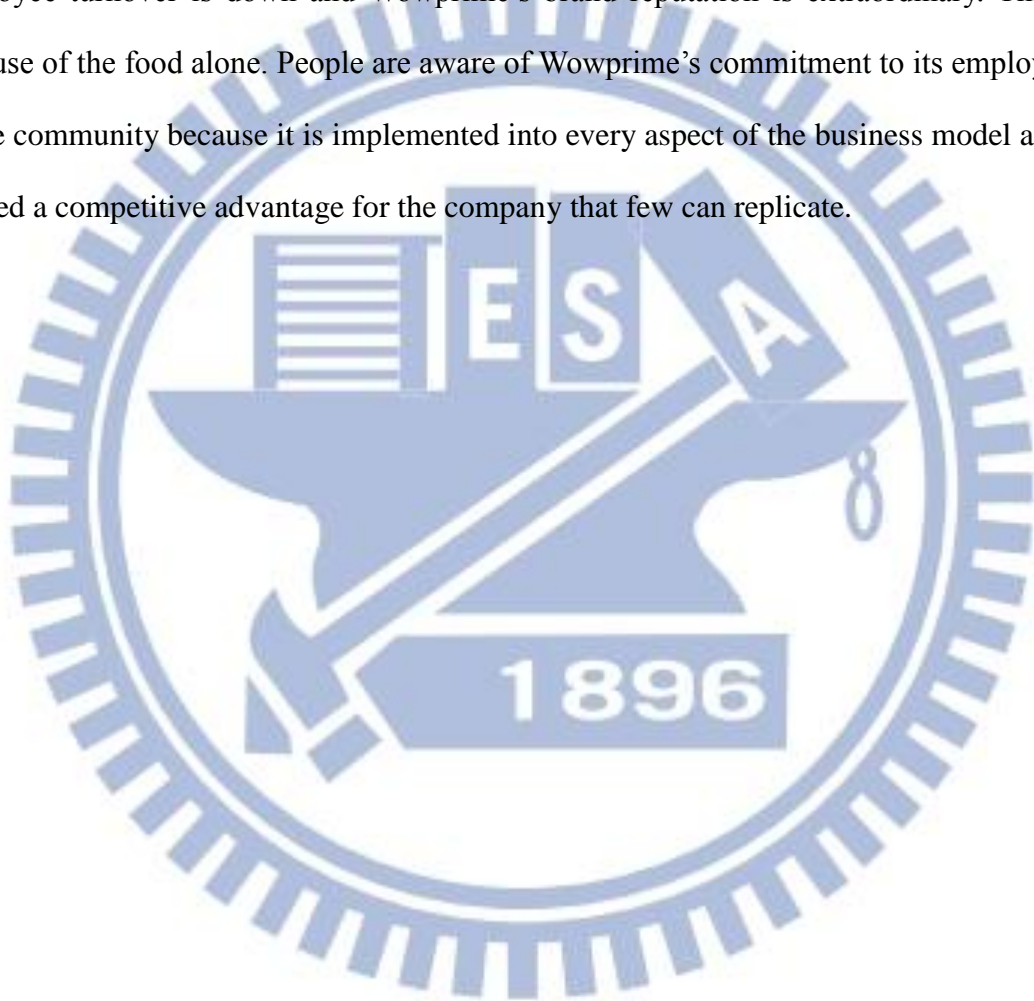
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<sup>6</sup> All rules originally found and translated from Chinese in this document:  
[http://eshare.stust.edu.tw/EshareFile/2010\\_12/2010\\_12\\_d3027bbf.pdf](http://eshare.stust.edu.tw/EshareFile/2010_12/2010_12_d3027bbf.pdf)



### 4.3.5 Results of Wowprime's efforts

In a recent survey covered by the famous magazine Common Wealth, 96.77 of employees said that Day "Cares for and understands employees, looks after employee's welfare" (Huang D. , 2011). Also the numbers speak for themselves. Sales are up; Profit is up; employee turnover is down and Wowprime's brand reputation is extraordinary. This is not because of the food alone. People are aware of Wowprime's commitment to its employees and to the community because it is implemented into every aspect of the business model and it has created a competitive advantage for the company that few can replicate.



# V. Assumptions and limitations and Conclusion

## 5.1 Assumptions and limitations

The business world idolizes great leaders. Iconic figures like Steve Jobs (late CEO of Apple Inc.), Jim Sinegal (CEO of Costco) or Warren Buffet (CEO of Berkshire Hathaway) are all example of great leaders, which have helped boost stock performance and other KPI, while providing a certain image for the company. These figures possess a certain skill or drive, along with a bit of charisma, which helps them lead their company to success. When times are tough, people often place the blame on leaders' negligence in some aspect of business operations; and when successful, the public usually finds a way to tie that success to the man holding the reins.

That being said, however, even though it is extremely difficult to truly measure leaderships' effect on company "success," or even on KPI, the general consensus is that without responsible leadership a company or any organization or group will never be able to reach its full potential.

CSR suffers from the same misunderstanding. It is very difficult to measure CSR or Stakeholder connections' effect on the performance of a company. Yet, the majority of CSR research is quantitative studies, which evaluate KPI or indexes in order to deduce cause and effect. This may be limiting researchers, and may be keeping businesses from understanding the importance of CSR in a company, for what may seem like a costly CSR strategy in the short-run may benefit the company in the long-run. In addition, CSR strategies may very well

have a negative effect on certain performance indicators in an organization, while also having a positive effect on, other, unmeasured/immeasurable, factors. This is why it is important to conduct more longitudinal studies and case studies focused on a holistic approach. Lastly, more research should be done on SMEs and the CSR strategies in their business model. Studies like this will give more feedback on the importance of CSR in every stage of business development.

Despite what kind of conclusions researchers can make for the case of CSR, in practice, it is for the company to decide which strategy it will adopt. Investors sometimes want a quick return on their investment and implementing CSR strategies can be costly. Due to this factor, sometimes less importance and emphasis is put on CSR initiatives in a company. In the end, CSR may be the deciding factor for short-term and long-term growth. It is the responsibility of both firm and investors to create sustainable growth for a company. The model which was created for this paper can address some of these issues, while looking at business practices from a more “down to Earth” perspective. The rules and scientific laws, which are true in nature, usually have their implications for individuals and organizations.

## **5.2 Conclusion**

When overwhelmed with data, it is best to look at things from multiple perspectives. The never-ending desire to obtain more profit and create more growth has made many investors and organization incapable of “seeing the forest through the trees.” The model created in this paper is a very simple and very easy to understand model. That does not, however, undermine its relevance. Through the use of this model we can create an analogy

between trees and organizations. The researcher hopes that this model and this paper can help future researchers to contemplate the following four concepts:

- Tree growth is a culmination of many different factors, such as: environmental factors and genetic factors. Just like a tree, a company must also react and adapt. Leadership and the environment are the guiding forces in growth
- Underneath every strong tree is a strong set of roots: usually unseen but present. Every great company has deep ties with its stakeholders and environment: usually unseen but present.
- Balance is essential. Every tree has its own genetic disposition to create balance in its environment by setting up roots that are proportionate to its size. Every business should strive to create a healthy balance between itself and stakeholders. This should be implemented into the business model and visible at every stage of the business growth.
- Trees with longer and stronger roots are more resilient. Companies with greater ties to its stakeholders decrease the risk.

In the end, by better understanding the guiding forces of leadership, the importance of firm/stakeholder relationship, the balance between firm investments versus societal investments and the importance of CSR as a security measure leadership will be able to create stronger ties with society, reduce risk, generate sustainable growth, all while improving the conditions for all of its stakeholders.



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