

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Faculty of Economics and Management

Department of Economics



Diploma Thesis

**Economic Analysis of Corporate Social Responsibility
Influence on Enterprise Performance**

Bc. Tomáš Hájek

Supervisor: Ing. Petr Procházka, MSc, Ph.D.

© 2013 CULS Prague

CZECH UNIVERSITY OF LIFE SCIENCES PRAGUE

Department of Economics

Faculty of Economics and Management

DIPLOMA THESIS ASSIGNMENT

Hájek Tomáš

Economics and Management

Thesis title

Economic Analysis of Corporate Social Responsibility Influence on Enterprise Performance

Objectives of thesis

Introduce the professional terms including issues related to corporate social responsibility. Evaluate particular corporate social responsibility initiatives and practice. Determine and Evaluate outcomes and factors of CSR affecting performance of enterprise. Develop a measure of mutual relations of the CSR factors and enterprise performance, evaluate and analyze such interrelationship from the economical perspective. On this basis conclude with recommendations in further CSR approach.

Methodology

Literature review will be conducted using methods of synthesis, induction, deduction and extraction. Analytical Section will be done using methods of both qualitative (descriptive) as well as quantitative analysis of collected data.

Schedule for processing

08/2012 Literature review

12/2012 Analysis

03/2013 Finalisation

The proposed extent of the thesis

60-80 Pages

Keywords

Corporate Social Responsibility, Enterprise Performance, CSR Policy, Corporate Strategy, Economic Analysis

Recommended information sources

BENN, S. and BOLTON, D. Key Concepts in Corporate Social Responsibility. London: Sage Publications Ltd, 2011. ISBN 978-1847879295

CAROLL, A.B. and BUCHHOLTZ, A. Business and Society: Ethics and Stakeholder Management. Mason: South-Western Cengage Learning, 2011. ISBN 978-0538466769

CRANE, A., MCWILLIAMS, A., MATTEN, D., MOON, J. and SIEGEL, D.S. The Oxford Handbook of Corporate Social Responsibility. Oxford: Oxford University Press, 2009. ISBN 978-0199573943

LAWRENCE, A.T., WEBER, J. and POST, J. Business and Society: Corporate Strategy, Public Policy and Ethics. New York: McGraw-Hill Higher Education, 2007. ISBN 978-0071101028

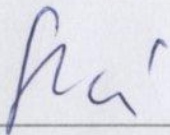
WERTHER, W. B. and CHANDLER, D. B. Strategic Corporate Social Responsibility: Stakeholders in a Global Environment. London: Sage Publications Ltd, 2010. ISBN 978-1412974530

The Diploma Thesis Supervisor

Procházka Petr, Ing., MSc, Ph.D.

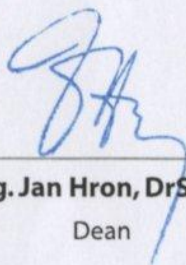
Last date for the submission

March 2013


prof. Ing. Miroslav Svatoš, CSc.

Head of the Department




prof. Ing. Jan Hron, DrSc., dr.h.c.

Dean

Prague March 8. 2013

Declaration

I declare that I have worked on the Diploma thesis of “Economic Analysis of Corporate Social Responsibility Influence on Enterprise Performance” by myself. All quotations and resources of information which I used are mentioned in the list of references of this thesis. As the author of this thesis and with regard to its creation I further declare that I did not infringe any copyrights of third parties.

In Prague, March 29. 2013

Bc. Tomáš Hájek _____

Acknowledgement

I would like to thank my supervisor Ing. Petr Procházka, MSc, Ph.D. for his guidance, support and assistance during the processing of my diploma thesis. Further acknowledgement deserve all employees and co-workers of VIA Association who have turned my attention to issues related with corporate social responsibility and to the importance of CSR concept itself.

**Ekonomická analýza vlivu společenské odpovědnosti
firem na výkonnost podniku**

**Economic Analysis of Corporate Social Responsibility
Influence on Enterprise Performance**

Souhrn

Diplomová práce je věnována problematice Ekonomické analýzy vlivu společenské odpovědnosti firem na výkonnost podniku. Práce se zabývá popisem a vyhodnocením společenské odpovědnosti firem, kterou pojímá jako fenomén spojený se sociálně-ekonomickým prostředím podniku. Teoretická část práce shrnuje dosavadní poznatky o společenské odpovědnosti firem, poskytuje vhled do teoretického pozadí problematiky a uvádí související předpoklady konceptu společenské odpovědnosti ve vztahu k firmě i kapitalistické společnosti. Související analýza potom na případu společnosti Microsoft přezkoumává a vyhodnocuje reálný vývoj výkonnosti podniku v časovém období za posledních šest let. Dále jsou zmíněny vnější i vnitřní kvantifikovatelné míry konkrétních výstupů společenské odpovědnosti firem v kontextu podnikové výkonnosti a také je vyzdvížena jejich vzájemná souvislost. V závěru práce jsou uvedena doporučení a diskuze pro další praxi v souvislosti se společenskou odpovědností firem.

Summary

The Diploma thesis focuses on the issues related to Economic analysis of corporate social responsibility influence on enterprise performance. It describes and evaluates corporate social responsibility as a phenomenon linked to the socio-economic environment of an enterprise. The theoretical section summarizes current findings about corporate social responsibility, provides with insights into the theoretical background and introduce the predispositions of the socially responsible concept in connection to the corporation and the capitalistic society. The adjacent analysis on a case of Microsoft Corporation examines and evaluates the real development of the enterprise performance within the period of past six years. As well both external and internal quantifiable measures of particular corporate social responsibility outputs in the context of the enterprise performance are mentioned and their interrelationship is underlined. Recommendations and discussion for the further corporate social responsibility practice are then listed in the conclusion.

Klíčová slova: Společenská Odpovědnost Firem, Výkonnost Podniku, CSR Index, FTSE4Good, Firemní Strategie, Ekonomická Analýza, Microsoft Corporation

Keywords: Corporate Social Responsibility, Enterprise Performance, CSR Index, FTSE4Good, Corporate Strategy, Economic Analysis, Microsoft Corporation

Table of Contents

1. Introduction	10
2. Aims and Methodology	11
2.1. Aims	11
2.2. Methodology	12
2.2.1. Preliminary Research	12
2.2.2. Economic Performance and Delta Model Analysis	12
2.2.3. CSR Influence Analysis and its Interrelation to Performance	13
3. Theoretical part.....	14
3.1. Grounds of Corporate Social Responsibility.....	14
3.1.1. Society	14
3.1.2. Ethics	16
3.1.3. Sustainability	18
3.1.4. Responsibility	20
3.1.5. Corporation	22
3.2. Corporate Social Responsibility.....	24
3.2.1. Origins of CSR.....	24
3.2.2. Corporate framework of CSR	26
3.2.3. Reporting	29
3.2.4. CSR Implementation.....	32
3.2.5. Responsibility vs. Performance	34
3.3. Influences on Corporate Social Responsibility	35
3.3.1. Expectations on CSR	36
3.3.2. Legal Framework.....	38
4. Analysis – Case study of Microsoft Corporation	40
4.1. Scope of Microsoft Corporation.....	40
4.1.1. Rationale for the selection of Microsoft	42
4.2. Analysis of the beneficiary sector	43
4.2.1. Third Sector	43

4.3.	Economic Performance Analysis	47
4.3.1.	Fundamental Analysis of Microsoft Corporation	47
4.4.	Delta Model Analysis.....	64
4.4.1.	Microsoft Corporation towards Third Sector Application.....	67
4.5.	CSR Influence Analysis	69
4.5.1.	Internal reports	70
4.5.2.	External reports.....	73
4.6.	Interrelation of CSR and Performance	80
4.6.1.	Interrelation Analysis.....	81
5.	Conclusion.....	82
6.	List of References.....	85
	List of Schemes	88
	List of Tables.....	89
7.	Annexes	90
7.1.	Additional Charts and Reports	90
7.2.	Graphical Representation of Selected Analysis Outputs	91

1. Introduction

The essence of this Diploma thesis can be captured by Henry Ford's (1903) quote, "*A business that makes nothing but money is a poor business.*" By that statement the founder of Ford Motor Company, nowadays the second biggest US vehicle manufacturing company, reflected a visionary mindset and clearly described one of the key values of social responsibility some hundred and ten years ago, thus many years (decades) before the corporate social responsibility concept was born.

Corporate social responsibility (CSR) is an intangible concept that plays an important role in advanced enterprises nowadays, as it affects all aspects of organizational activities and operations across the enterprise including its external environment. CSR need not be the sole determining factor of performing enterprise, but it certainly can provide a significant competitive advantage. (Werther and Chandler, 2010)

Diploma thesis is focused on the topic of corporate social responsibility and its determinants, particularly in relation to the enterprise performance. It offers an insight into the theoretical background of the corporate social responsibility and its predispositions within the CSR concept. Furthermore internal and external influences on CSR are mentioned throughout the thesis. This work deals with the corporate social responsibility from multiple perspectives and is especially focused on the evaluation of CSR as a phenomenon associated with the analysis of the enterprise economic environment.

Author's interest in the issue of corporate social responsibility emerged from his personal two and a half year long working experience as a partner manager within one of Microsoft's global CSR incentives, in program called TechSoup Czech Republic operated in partnership of VIA Association, Foundation Charta 77 and TechSoup Global, focused on exclusive software donations to the nonprofit sector. Author's awareness of the issue has resulted in further investigation and finally in analysis of the corporate social responsibility in context of enterprise performance on case of Microsoft Corporation.

2. Aims and Methodology

2.1. Aims

The aim of the Diploma thesis is to concentrate current relevant findings to the issue of corporate social responsibility (CSR), in the theoretical part to depict corporate social responsibility, its predetermining factors, terminology, influences and interrelationships based on the research and study of secondary sources.

Among the objectives of the practical part are: to analyze enterprise performance data in terms of the real market development of the enterprise and evaluate their respective interrelationship in order to obtain comprehensive picture of the enterprise economic condition. Consequently analyze corporate strategic approach of the enterprise and indicate its corporate social responsibility practice form the internal perspective as well as form the external viewpoint. As mentioned in the introduction the execution of the objectives is based on a case study of chosen enterprise, in this particular case the Microsoft Corporation has been chosen.

Further aim is, based on available inputs, to compose and calculate appropriate metrics describing the market driven trend, external perception or actuality based on statistical development of corporate social responsibility outputs in the quantified form. Their respective introduction and interpretation is performed and their initial influence on the enterprise performance is deducted.

Subsequent additional analysis of the selected data aims to provide the evidence that the corporate social responsibility outputs in some way affect the performance of the enterprise. Finally, based on the results of analytic part a set of discussed recommendations with regard to further CSR practice will be provided.

The Hypothesis for the practical part of diploma thesis is, that corporate social responsibility has an influence on enterprise performance.

2.2. Methodology

Literature review processing has been done by research and analysis of the available information sources. As the information sources were selected published materials, books articles and archival sources including professional periodicals and internet resources. The sequence and systematic arrangements of processed information in the theoretical part leads from the overall introduction to the concepts related to corporate social responsibility through clarification of their meaning and their relations, to the definitions and further extension of the theoretical framework.

2.2.1. Preliminary Research

In order to facilitate the process of analysis in the practical part of the Diploma thesis a preliminary research was conducted. According to the findings it has been decided to step aside from the idea of comparative analysis of multiple corporations, due to the great unlikelihood of obtaining and calculating comparable data due to the reasons such as different determination towards corporate social responsibility initiatives and especially towards its measurement of different corporations, variances among sizes, legal forms, overall activities and low level of standardization with regard to the CSR outputs.

With the regard to feasibility of practical part of the Diploma thesis a single American technology industry leading corporation with extended scope of activity, and regard to CSR, was selected for the further analyses in form of case study – Microsoft Corporation.

2.2.2. Economic Performance and Delta Model Analysis

Methodological approaches of the economic performance analysis and of delta model strategy analysis are based on the study of secondary data mostly from corporate sources (annual reports) and consequent fundamental analysis of the financial indicators and management data of enterprise (Microsoft Corporation)

The performing conditions of Microsoft Corporation has been analyzed from six different viewpoints considering measurement indicators based on method of fundamental analysis.

Those are liquidity, profitability indicators, debt, operating performance, cash flow and finally investment valuation ratio measurements.

The corporate strategy of Microsoft Corporation has been analyzed on the delta model by Arnaldo Hax and Dean Wilde (2003). Applied model is based on assumption that the customer (or CSR beneficiary) is linked to the enterprise with regards to new technologies, internet surroundings, and new emerging channels of positioning.

Both analyses with their respective results has been separately evaluated and commented.

2.2.3. CSR Influence Analysis and its Interrelation to Performance

For the purpose of CSR output influence measurements a complex indices has been introduced. Under the assumption that Microsoft Corporation as an industry leader and constituent of FTSE4Good Index bears a responsibility for the development of FTSE4Good benchmark index according to the Microsoft proportional weight (based on market capitalization proportion to the all other FTSE4Good index constituents) own adjusted Microsoft-FTSE4Good index could have been derived from FTSE4Good literature. Such index is based on valid instruments reflecting development on stock exchange market and trends and cycles as known from technical analysis theoretical framework.

On the basis on the study of secondary data another valid instrument called CSR Index was composed. Index is created jointly by two institutions the Boston College Center for Corporate Citizenship and the Reputation Institute and is created on annual basis as a large consumer oriented research focusing on issues related with corporate social responsibility and public perception.

The interrelation of the CSR indices on enterprise performance has been analyzed on the base of statistical methods. For that particular purpose and because of overall deficiency of observations inputs a simple method of Pearson's correlation has been utilized.

Such analysis provides sufficient picture of CSR to performance relationship and can serve as an additional basis for more detailed and more extensive research in the future.

3. Theoretical part

3.1. Grounds of Corporate Social Responsibility

The introductory part related to grounds of corporate social responsibility (CSR) presents the relevant terms and crucial issues for the functioning of the CSR concept. Its importance is further introduced and explained in the subchapters of society, ethics and morale. Subsequently this chapter acquaints with the closely related term of sustainability as one of the fundamental elements for corporate social responsibility. Finally responsibility, corporation and their interrelationships concerning corporate responsibility are formulated. Throughout the chapter the interrelation links among explained CSR components are mentioned with regard to the economic climate of capitalism and its further (theoretical) metamorphosis outlook.

Throughout the review a certain ambivalence of the organization, corporation, business and enterprise terms could be notable. From the purely organizational viewpoint on corporate social responsibility and for the purpose of the theoretical review as such (in most cases) their meanings can be considered synonymous with each other, in crucial parts the terms are used (and explained) appropriately.

3.1.1. Society

Society is in the most common sense understood as a collective social structure comprising of human beings. In more focused perspective under the term of society a community, nation or interest group can be recognized. The importance of this term rests not only as the (social) component of CSR concept and in the fact that it forms a most common natural environment for people. Society is very important with regard to business engagement and operation with its external environment, namely with those above mentioned and recognized forms of society. Together they get on with each other in a close relationship. (Lawrence and Weber, 2008)

A characteristic feature of society to mention is that it encompasses people with common traditions, joint activities, values and interests. With regard to the society as a group of

people, communities, interest groups or institutions a gathering of united individuals according to the purpose, cause or common belief has to be considered. But in relation to the thesis the most appropriate perspective on society is the macro-environmental which at its highest level analyze interrelationship of society and business (i.e. considers the environment outside the enterprise). The complex macro environment is formed together with social factors as well as economic and political factors. (Carroll and Buchholtz, 2008)

With such macro-environmental consideration of overall demography and prevailing social values of society, together with the economic directions of business operations and the legal blend related to political environment another very important term with relation to CSR has to be introduced – the capitalism.

Following subchapter is dedicated to the issues of capitalism known as an essential socio-economic system not only for the society that people live in, but also for the concept of corporate social responsibility. Its course of development, contemporary state and also future perspectives are important for the parallel course of corporate social responsibility as further explained.

3.1.1.1. Capitalism

Capitalism should be considered as a precondition of any arisen activity with relation to corporate social responsibility and CSR as such. For that reason it is important to introduce this professional term itself. Capitalism is understood as inviolable economic system characteristic by specific market rights based especially on recognition of rights of private property ownership and by the most crucial exchange in which the labor power is sold by majority to the enterprise, a place where capital of its owners is accumulated. (Clegg and Kornberger and Pitsis, 2008)

David Birch in connection to Lester Thurow's findings indirectly addressed Corporate Social Responsibility as a form of contemporary metamorphosis of capitalism. Thurow nearly fifty years ago underlined, that possible inexistence of a direct social competitor to the capitalism (such as socialism or communism) would force capitalism "to undergo a profound metamorphosis." (Birch, 2003) Birch particularly points out calls of environmental and social responsibility, accountability, transparency, ethical stability and

finally sustainability, the initiatives that civil and corporate sector organizations, agencies and groups of individuals undergo recently. In this concept, these calls are understood as multiple factors of concentration contrasting to the original single economic bottom line. On the topic of such one sided perception Soros determined the weak spot of global capitalism by emphasizing the exaggerated scramble for profit and success in economic and financial progress of companies while at the same time they are overlooking prospective political and social consequences. (Birch, 2003)

With the respect to the assumption that capitalism is the one and only feasible economic system in developed world in the future, but certainly not only because of that viewpoint, it should be reasonably considered to convert capitalism (global capitalism that it is known today) into the form of more sustainable; environmentally and socially responsible capitalism. Speaking about specific forms of capitalism and as an illustration of previously mentioned, following relevant types of capitalism can be distinguished: Firstly, *Market capitalism* would be evident by the patterns of individual competition aiming at production from material perspective, it is the closest form to the most recently common global form of capitalism focused solely on profit and economic success. *Liberal capitalism* could be termed as a moderate form of market capitalism which still sustains relatively high level of demand on performance and at the same time partially serves as a broader and fairer form of capitalism in an business environment friendly to those entities, that are for example either not the most powerful and influential; or those in any sort of need (support, further endowment). Finally a term *Managed capitalism* can be addressed, such term that would go along with the idea of the more sustainable, environmentally and socially responsible capitalism. The core predetermining condition for such establishment would be universal preference of social (and also other) over individual interests by its reasonable sacrificing; of course such preference would have to be supported with certain level of willingness to undergo such compromise. (Birch, 2003) Such concept of capitalism overlaps the concept of Corporate Social Responsibility and supports the CSR idea at the same time.

3.1.2. Ethics

In the general understanding ethics is a study of moral conduct. Ethics furthermore reflects and recommends the behavior patterns, as such mainly focuses on the dilemma of what is

right and what is wrong according to common practices and traditions in particular community or in social area. An analogical case, from corporate viewpoint, applies on business ethics, which reflects organizational behavior of businesses. Moreover business ethics is oriented on the effects of ethical (or unethical) behavior of individuals within a corporation as well as the effects of the organization as such.

Concerning the issue of business ethics, two different viewpoints can be recognized and took into further consideration. One of them, which stand more in favor of business ethics, fundamentally expects the business to be restricted by law (according to the law) and to be generally pursuing its interests within such boundaries. This following of rules is furthermore expected to be ethical and also implies that the business is done well. The other viewpoint is the critical one and implies that the general pursuit of business interest is in opposition to what is understood as ethical. Such perspective assumes that moral principles and financial profit does not fit each other properly and that the achievement of both is not possible at the same time. In this case businesses have to decide which one of these two opposite directions has to be restricted either profit or ethical behavior. (Clegg and Kornberger and Pitsis, 2008)

3.1.2.1. Morale

Morale is very closely related to the socio-cultural issues and is directly emerging from ethics. Morale can be understood as an important, individual and independent decision to behave oneself according to practices and rules of society (or at least community). Such decision is generally unenforceable and represents ethics in practice.

Peter French pointed out in his book *Collective and Corporate Responsibility* (1984) that the majority of western philosophers from the very beginning addressed individuals as the bearers of the morale mediation role over organizations and collectives. Abstractly, spoken to the limits from the viewpoint of morale, organizations would be considered as nonexistent and any expectations of corporate responsibility would be simply unreasonable. (French, 1984)

French, oppositely to such understanding, stood up for the recognition of the business as a morale mediator. Mostly due to the fact that organizations (corporations) are intentionally driven by internal decision making that is highly dependent on and operating as collective

establishment influenced either by corporate identity or other internal corporate relationships (such as teams, divisions, etc.) rather than on individuals as thought in general.

Such approach may be disputable concerning corporate liability and governance issues, but generally underlines the morale framework and implies understanding of the corporation as a social institution determined by collective and multiple business interests. In that context, morale acts as a predetermining value of CSR concept. (Birch, 2003)

3.1.2.2. Social Ethics

In close succession to the chapter describing the role of capitalism in connection to the society and social responsibility it is also important to understand the drifts of ethics directly related to contemporary development in society of 21st century. Discussions concerning sustainability and also possible threat of individualism in society are some of the triggers that caused tendency to form a social ethics.

Again the idea of social ethics acts as an emerging response to the fact that capitalism is the only prospective economic system for us left in western economies and that it is not primarily favorable to the society as a whole (rather it is beneficial mostly to the individuals). Forty years ago Hirsch boldly implied that the economic freedom of individuals should be modified on behalf of the participating majority. He underlined insufficient support of social morality related issues in that time. Hirsch went to the extreme by implying that the organizations have almost touched the limits of straightforward sociality and stressed out that any other progress on that matter would not be possible unless the burden of social morality were accepted and further cultivated. The need of social ethics appreciation in context of contemporary development of economic systems, society and enterprises seems to be even more crucial than ever before. (Birch, 2003)

3.1.3. Sustainability

Sustainability is another factor associated to corporate social responsibility. Not only the need for sustainability predetermines existence of CSR incentives, it should be also a resulting outcome of socially responsible behavior. Argument for that is a threat of

possible disintegration that might happen in case of unsustainable establishment (such as company, society and political or economic system) or devastation that might happen in case of unsustainable behavior towards certain objects and resources (such as Earth and its environment or natural resources).

Sustainability promises a process of renewal; it is an essence of continuum. It determines long term prospects of activities that are subjected to go on, further proceed and keep in operation. Sustainable processes are those that do not leave its future at stake. Most often (same as economics itself) is sustainability connected with resources, namely those of a material kind. In that context sustainable use of resources (i.e. raw materials) means, that resources are used in process that does not deplete them completely and ensures that they are renewed, resulting in no harm to the natural systems as a result of the material use. Exemplary, moderate process of sustainable use of resources depicts the importance of business influence on environment. (Clegg and Kornberger and Pitsis, 2008).

On the contrary to the overall idea of economic performance need that is deeply engraved in our culture and the desire of economic growth stands a viewpoint of sustainable human wellbeing elaborated in David Korten's work *When Corporations Rule the World* (Korten, 2001). Korten openly calls upon further inner revision of economic myths and illusions that are embedded in us, intermediated by dubious and confusing leverages (influences) causing further obsessions. As a future outlook he points out following two goals. First goal is the ability of balancing human needs concerning the use of environment accordingly to the eco system capacity to regenerate. Second consequent goal is the security and allocation of natural resources in order to satisfy physical needs of all people while creating adequate opportunities in their further development from social, cultural, intellectual and finally also spiritual and emotional perspective. (Korten, 2001)

3.1.3.1. Sustainable Capitalism

Sustainable capitalism is an enhanced ideology to the capitalism (As introduced in chapter 3.1.1.1.) that presumes cultural change and its shift towards sustainable thinking. From this perspective the question what does capitalism the worst should be answered and consequently elaborated. From what is known by now, it could be generalized as the opposite actions to sustainability unfortunately. Among such neglected actions the lack of

long term perspective thinking could be considered along with poor encouragement to sustainable decision making and inadequate further intentional institutional reconstructions or enhancements of not only corporations, but also of governments and individuals. (Birch, 2003)

At least over the past five decades is social responsibility discussed as a guiding principle to the possible restoration of capitalism to more sustainable capitalism. It is considered as an investment into a long-term solution for the future and also as a foundation for a sustainable society. It is implied that every corporate entity, business person, individual and also society should concern about sustainable capitalism as it is in his, hers or its interest. If the investment aims into long-term sustainable capitalism achievement should be carried out not on behalf of personal self-interest at present but on the future long-term interest of communities and people. (Birch, 2003)

3.1.4. Responsibility

The pursuit for sustainability with regard to ethical behavior seems as a noble deed. To maintain a reasonable view on such idea it is important to understand it as an attitude towards the commitment. Hence comes the term of responsibility, which accompanies and determines such promise in terms of obligation (in rather negative sense) or as a challenge and in terms of advantage or proportion (in positive sense) on the benefit for the society (environment, governance... etc.)

According to the composition of term of responsibility itself. A true meaning can be easily derived. That is the ability to respond and also a choice to do so. It is based on a proactive approach towards the world (and its surroundings respectively), on a sensitive perception of influences and interconnections and finally on the willingness to behave or act constructively, or in less formal words to do a favor to the world. (Visser, 2011)

3.1.4.1. Responsibilities of corporations

Corporations (or enterprises on more general level) have many responsibilities regardless their explicit CSR orientation or strategy. Those responsibilities are mostly of economic and legal (but as well social) nature. In case of corporations most of the corporate

responsibility is attributed to their stakeholders and more especially the owners, shareholders. Management of the firm consequently takes into consideration all these elements and while retaining all of the business obligations it appropriately and comprehensively embeds those responsibilities in the corporate strategy. The mix of the responsibilities then might cause both clashes or benefits to the firm, but most certainly broadly diversified responsibilities in CSR proactive business environment does not automatically mean lack of performance or lower profitability of an enterprise. (Lawrence and Weber, 2008)

With regard to corporate social responsibility, the call for corporate responsibility as such emerged from the corporate tendencies to call for further freedom in their economic performance as a reasonable counterbalance and consciousness that the freedom has to be used responsibly. The responsibility in that context bounds dimensions of morality and enterprise performance with regard to systematization of corporate ethics and values, governance, environment, but also needs of economically and socially disadvantaged. (Birch, 2003)

3.1.4.2. Social responsibility

The collocation of social responsibility has been mentioned many times already, also proper explanation in connection to its evolvement is appropriate. Social responsibility emerged within modern corporation establishment and is based on two predispositions. First predisposition is the function and significance of corporation as such, the second consequent predisposition is the broader influence of the corporation with regard to stakeholders.

In summary modern corporations are perceived as a source of job opportunities, as a reason for community development, means of higher living standards, tax resource for local municipality. Furthermore operations of corporations enable services connected to transportation, banking and finance, communication, as well as entertainment and social security improvements (such as health care).

Corporations (global corporation) being the most powerful and dominant institutions worldwide are capable to achieve great performance with regards to economic growth and

foreign trade expansions. Corporations nowadays undertake the task of social responsibility to counterbalance the feeling (fear) that the humanity, which is so much influenced by corporations is endangered. (Lawrence and Weber, 2008)

3.1.5. Corporation

In succession to the chapter of society and in connection to corporate social responsibility it is also appropriate to elaborate the term of corporation. Society and business (i.e. corporation as a business entity) are two interrelated elements. It is believed that society and business are dependent on each other as from corporate viewpoint corporations affect society and society affects corporations. All this is true with a perceptible stress on the importance of society. The only crucial distinction in their interrelationship is that technically spoken society, an unsophisticated one most probably, can exist regardless to existence of corporations (as it has been like that from the dawn of the humans), but corporations could not exist without society. Not only on the grounds of such reasoning the rational approach of corporations is to attach more closely to the society. (Birch, 2003)

Corporations and equivalently enterprises, in consideration of the business environment, are in terms of sociology the most important social institution intensively subjected to further sociological researches, descriptions and investigations of its functioning. This happens for a very simple reason, because it is seen as a social unit. Organizations, as they may be generally called from the sociological perspective, on the one hand cannot exist without people, on the other hand have to define the work of people, form a system of rewards, also deploy them in space and time, observe their development and career, complementarily create suitable social programs and finally (alternatively) also make people redundant. The most reasonable suggestion form that would be that the organizational management system focuses on basic cornerstone of an organization - the human. (Dědina and Cejthamr, 2005)

In other words organization (corporation, enterprise) could be generally defined as a compact yet solid social unit that is understood as a whole with regard to particular individual contributing associations that are furthermore complementing each other. Such conception in sociological theory accommodates organization from a systematical viewpoint as a complex of elements that are interacting with each other or dependent on

each other with regard to certain logical (structural) arrangements. These elements are organized in a way that each change to any of the elements, or the occurrence of a new element, will also affect their final aggregation i.e. the enterprise. (Nový, 2006) In the corporate (business) environment is, due to the systematic approach, possible to apply a broader perception, understanding and explanation of the work behavior and overall conduct of workers and workgroups, especially while taking into consideration already mentioned interdependencies and related structures.

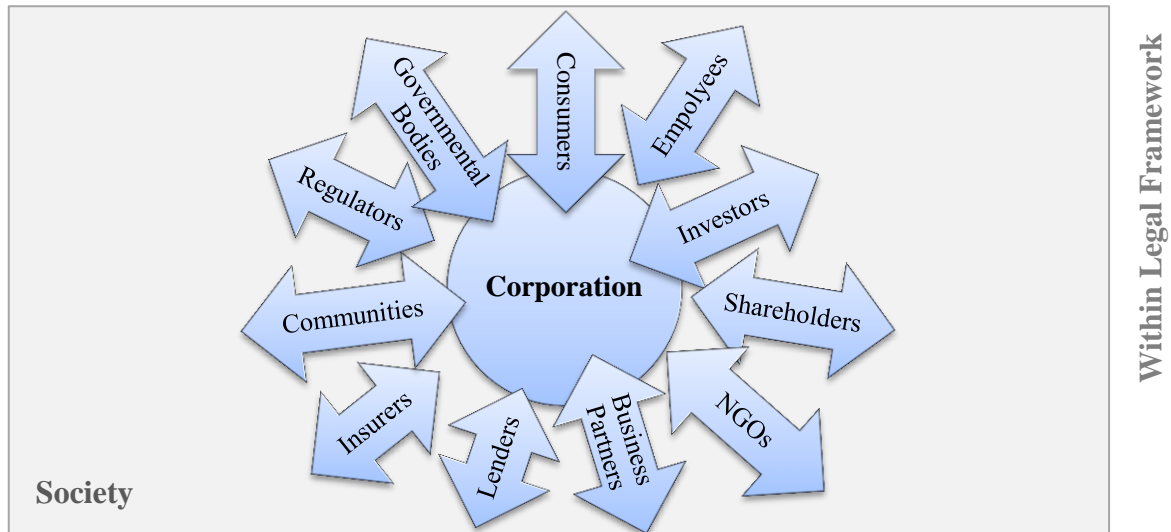
A recognition of legal requirements is necessary in terms of corporation. Corporation is separate entity from its owners, shareholders among whom the profits and losses of the firm are shared. Similarly to natural person a corporation (legal person) can trade, make contracts and own property, furthermore corporation can sue and be sued by other natural or legal person and as such answers to law. The liability of corporation is limited to creditors to the level of firm resources. Finally corporation is not dependent on the lifespan of its owners, existence of the corporation is continuous as the ownership is tradable. (Luthra, 2013)

3.1.5.1. Stakeholders

As a stakeholder can be identified an individual, group of individuals or any other entity who with either internal or external relation to the corporation affects or is affected by the corporate objectives accomplishment. (Werther and Chandler, 2010)

The identification of the stakeholders is within perspective of their engagement into socially responsible practices essential. The stakeholders of a corporation are the shareholders (owners), investors, employees, consumers (or customers), governmental entities, communities, distributors etc. All above mentioned and also many other (legally recognized entities) stakeholders within society can be on various levels involved in socially responsible practices as portrayed on a following scheme. (Hohnen, 2007)

Scheme 3-1 Corporation Stakeholders examples



Source: Own scheme based on Hohnen (2007)

Stakeholders can be furthermore differentiated into direct and indirect. As the difference lies in the type of connection, direct stakeholder is formally linked to the corporation (customer, government, etc.). The indirect stakeholder represents an external entity that is not involved but affected by the corporate behavior (community member, neighboring resident, etc.). (Clegg and Kornberger and Pitsis, 2008)

3.2. Corporate Social Responsibility

According to Wayne Visser corporate social responsibility (CSR) “*is the way in which business consistently creates shared value in society through economic development, good governance, stakeholder responsiveness and environmental improvement.*” (2011)

Corporate social responsibility can be considered as an approach based on integration and systematization through which businesses (corporations) evolves and create capital with regard to society, (social) economy, humanity and nature while avoiding any destructions or erosions of those factors. (Visser, 2011)

3.2.1. Origins of CSR

3.2.1.1. Where and when CSR began

A long and various histories are confusingly attributed to CSR in general sometimes. Moreover the efforts to track any possible patterns of social responsibility focus even on times that were centuries ago. According to the general consensus of professional literature authors concerned about CSR (Carroll, Birch, Lawrence and many others), the concept of CSR that has developed in the form known at present is approximately 60 years old. Most obvious (most often quoted) tracks of such concerns lead from United States from the period of time of 1950s, due to the most significant accumulation of formal written resources oriented on social responsibility; and as a matter of fact its (US) status of developed country is from such perspective relevant as well.

Origin-wise it is important to realize that the individual references of CSR appeared earlier in history and most likely US was not the only country where the phenomenon originated solely. More particularly among those references, yet American, were works of Chester Barnard (1938, *The Functions of the Executive*), John Maurice Clark (1939, *Social Control of Business*) and Theodore Krep (1940, *Measurement of the Social Performance of Business*) (in Carroll, 1999). Another view on its origination is that the earliest subtle academic discussions concerned about CSR commenced already in the 1920s but attracted even more significant attention later in 1970s. (Birch, 2003)

3.2.1.2. Early evolution of CSR

In 1950s, the antecedent term for CSR that used to be commonly used was *Social Responsibility* (SR). The term of corporation itself was not used back then quite often with the respect of present corporate understanding. By the time, the omnipresent influence of corporation surpassing any individual being in the business sector was not considerably noticed yet. A breaking through work of that era was the one of Howard Bowen (in Carroll, 1999) called *Social Responsibilities of Businessman*. This study not only interjectionally affirms the topical perception of men's peculiar (superior) role in business sector of that time, but more importantly narrates the importance of individual in corporation rather than corporation composed of individuals (concept of businessman is with that respect furthermore underlining the personality cult that was typical especially for the first half of

20th century). Bowen's work brought into attention an innovative viewpoint explaining that the (several) largest and most powerful businesses decide and take actions influential on many levels to the lives of people. He furthermore inquires about the anticipation of responsibilities of businessmen in question towards society, while mentioning the importance of decision making, taking actions and adopting policies in a way society values and objectives can be enhanced. Back then such approach was addressed as a *Social Consciousness*. (Caroll, 1999)

3.2.1.3. Further rapid development

The pace of CSR development was rapidly growing in 1960's and 1970's with regard to significant increase of professional literature related to the social responsibility issues. Especially in 1970's the term of corporate social responsibility became broadly used and the focus was turned also on the measurement perspective. Consequently the concept of corporate social performance (CSP) was brought into attention. Except of 1980's when the theoretical expansion of CSR slowed down and only couple of theoretical elaborations of socially responsible framework appeared. Another real boom came in 1990's, when the concept of corporate social responsibility transitioned and adapted to the new theories and approaches such as sharing certain value of civic solidarity and belonging (known as corporate citizenship), mapping of connections and engagement of related entities based on stakeholders theory, following up with the business ethics theories, and understanding of the social performance framework. With regard to implementation of those theories the corporate social responsibility remained relatively unchanged up to present day. (Caroll, 1999). By relatively it is meant that with increased globalization tendencies and technological progress, the whole world containing global corporations becomes a stakeholder (of practically everyone and everything) (Lawrence and Weber, 2008) and even the previously stated theories are slowly getting obsolete. Perhaps an increased focus on measurement and empirical research of CSR would indicate the path of future development.

3.2.2. Corporate framework of CSR

Corporate culture that include sharing of values, ideas, practices and traditions followed by

corporate strategy, which consist of a corporate strategic plan of action in order to meet certain goals and is formed by internal guidelines established by the enterprise, can be considered as the prerequisites in connection to corporate social responsibility on an enterprise level.

3.2.2.1. Corporate culture

Cultures of individual corporations (enterprises) are different. The reason for these differences are among others especially external influences, historical development, the national culture and the people involved in the company themselves. What the corporations have in common in this context, are the similar patterns within particular cultures. They represent certain characteristics, more specifically sets of rules, values and ways of thinking. Corporate culture is a factor reflecting the behavior of employees within the company, furthermore it is recognized by employees and deep-seated in them. (Horalíková and Zuzák, 2005).

Corporate culture comprises of ideas, traditions, practices, values and meanings that are shared throughout the enterprise. This blend of inputs is shared and define behavior of everyone within the enterprise. Culture consequently affects values and character of a firm as a whole and form its ethical (socially responsible) outlook. (Lawrence and Weber, 2008)

Concerning corporate culture there are a few natural relations that have to be respected and used for the benefit of the company. As already implied corporate culture reflects the disposition of human behavior and thinking, and in this context corporate culture is considered as a culture shared by the staff of a specific enterprise. Corporate culture can also operate on a subconscious level and can influence the characteristics of human behavior beyond the consciousness. It is important to mention that corporate culture relates to the way of human thinking and therefore it is difficult to change. To the contrary it is easily identifiable by its obvious visual characteristics. Corporate culture is shared and cannot be changed just by the mere agreement or regulation. Additionally, over times it becomes natural to people (perceived as natural) (Pfeifer and Umlaufová, 1993). Corporate culture is by its definition difficult to categorize, and for the same reason should be typologies of corporate cultures considered only as a tentative foundation for the further creation of theories in this subject.

As an example of corporate culture typology the framework of Robert Quinn and Kim Cameron will be used. In 1999 they formulated four types of corporate culture based on two basic dimensions. The typology is based on the competing values, in which flexibility stands against stability (control), and an externally differentiated focus competes with internally integrated focus. The cultures are called clan culture, that is collaboratively oriented and in practice operates more like a family than a group of colleagues, adhocracy culture, that is creatively oriented with additional focus on purpose or order, hierarchy culture, that is control oriented with emphasis on formal or structured work environment and finally market culture, that is competitive, profit oriented and sets a well done work as a priority. (Cameron and Quinn, 2006)

3.2.2.2. Corporate strategy

The positive acceptance of socially responsible approach is determined by the ability of corporation to align its strategies accordingly. For that reason corporate strategy as such forms a predisposition of CSR and its ability to adjust is absolutely crucial for adaption of corporate social responsibility.

Corporate strategy is the driving power of CSR as it makes the social responsibility widely accepted in the environment strategy controls and in which the corporation competes. Appropriate strategy benefits from the opportunities given by particular CSR framework. In the other case, when the CSR is ignored by strategy, corporation loses certain portion of its competitive advantage.

Corporate strategy or enterprise strategy refers to the way of conduct of an organization to achieve certain objective. Strategy alone determines the way of mission and sustainable advantage achievement in the competitive environment. The epithet corporate (strategy) then further specifies that a particular business unit is in question. Corporate strategy, by the meaning, is most often referred to as a strategy based on product differentiation. The differentiation (in comparison to other enterprises) is based on factors such as low cost or another components except for price, i.e. technology. (Werther and Chandler, 2010)

3.2.3. Reporting

Ideally even Corporate Social Responsibility itself has to be performing well and improve as such. A managerial attitude towards effective CSR furthermore comprehends various important and related activities that particular business must undergo to meet such aim. Reporting, verification and evaluation are those steps leading to an answer on question whether the enterprise is involved in CSR, and furthermore how much, what exactly enterprise does as a part of its socially responsible activities and on what costs. Understandably they form an important feedback to the managers, shareholders and other stakeholders, inform them about actual changes and development in CSR activities deployment or preservation. Finally they demonstrate commitment of the firm to social responsibility and also related consequent outcomes in particular.

The main tool for communication of business economic situation, environmental stance and social attitude related to CSR and its management is reporting. Such CSR performance reviews have its uses in addressing possible affects to the enterprise. At best it may also underline the trends and effects of society in relationship towards the enterprise as well as it works the other way around, to clarify the operational outcomes and effects of enterprise on the society. It serves as a demonstration of how much (to which extent) is the company motivated and willing to conduct CSR initiatives or even step up and go beyond the boundaries of its primary business purpose. An increased attention should be paid to actual provision of business data of an enterprise. On one hand general openness and transparency enhances the credibility of the enterprise, on the other excessive amount of shared information may burden the prospective recipients (stakeholders). Obtaining of such credibility and further increases in the goodwill of a company are usually the main aims of reporting incentives. (Hohnen, 2007)

3.2.3.1. Verification

Verification, which plays a role of a reliability assurance, is the next logical step in the processing of data concerning Corporate Social Responsibility initiatives. Usually it is a voluntary or (in some cases) obligatory procedure in which usually third party entities asses CSR report genuineness. Such review can be performed in various ways. Most

common examples are professional external audits, peer based industry reviews, stakeholder reviews also internal audits or even independent assessments by external organizations (for example environmental NGOs).

The actual decision whether and how to proceed with such reporting assurance is dependent on the particular corporate cultural and strategic CSR approaches of enterprise, either they are internally established by the enterprise itself (as a part of its firm core business values) or externally legally bonded. Verification may consist of management reviews and inspections related to particular examined criteria or standards that the enterprise committed to. Furthermore those standards and codes of conduct are usually subjected to further certification. Among the most influential certification and validation initiatives that globally contribute to the area of Corporate Social Responsibility reporting development are Global Reporting Initiative, United Nations Global Compact and Account Ability (AA 1000 Standard). (Hohnen, 2007)

It seems apropos to ask whether such reporting and verifications really matter and why in particular. Strictly speaking these measurements help us with decisions for appropriate management. Purely from CSR perspective, improvements of corporate social responsibility are important for successful enterprise achievements. Not only it serves as an information needed for decision making of stakeholders that are about to interact with an enterprise. Among those stakeholders could be in particular customers with intend to buy sustainable products, investors with intend to fund a responsible company or distributors with intend to indirectly support their own communities. CSR reports also serve as a valuable tool for further internal and external assessment of an enterprise. Additional improvements or risks can be considered with regards to the reports that also might indicate new opportunities and set a new directions for the enterprise. Some of the businesses are obliged to undergo certain reporting and verification measures in order to obtain permits and licenses for operation, some are ought to reporting due to intended establishment of further relationships.

As mentioned in the chapter related to stakeholders (See chapter 3.1.5.1.) there are many entities, encompassing customers, investors, employees, unions, regulators, communities or nonprofit and non-governmental organizations, that long for information about the enterprise and about activities that the enterprise perform covered by verified CSR reports.

Although poorly executed report can be harmful to the enterprise indeed. A report that is not thorough and not enough professional will not seem credible and might even undermine position and reputation of enterprise, i.e. cause loss of opportunities and as such damage possible value perspectives.

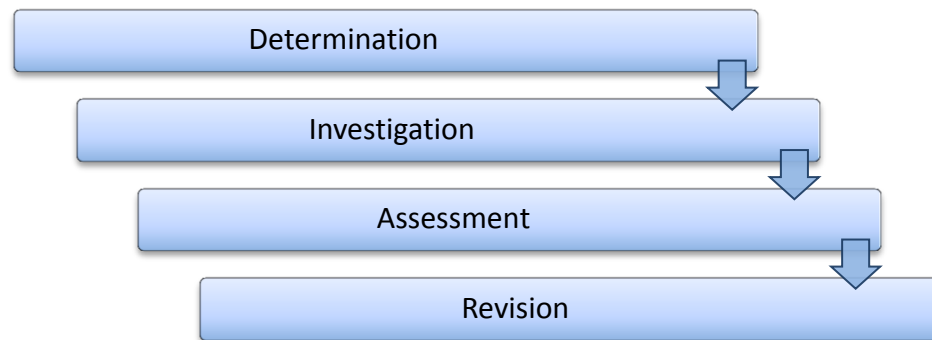
Finally there is no general formula or universal solution for reporting and validation approaches for the third parties ensuring the validity reviews of enterprise CSR incentives. The process is more complex than it seems to be due to the uniqueness and individuality of each enterprise. On the other hand, the expected outcome is supposed to be same for all enterprises, formed by a conformity acknowledgment certified by the auditing entity. (Hohnen, 2007)

3.2.3.2. Evaluation

At the end a perceptive enterprise can deduct the correct answers from the provided outcomes and draw particular consequences. Evaluation is considered to be a learning process that follows the course of CSR approach and contributes to development of enterprise. On the basis of information obtained from verified reporting incentive enterprise can improve and modify approaches towards CSR and adjust them accordingly. Learning enterprises who go along with the above mentioned are the one who benefit from reviewed information and tend to adapt in order to sustain an advantage. The process is continuous and focused on perpetual improvements of responsible approaches accordingly by the force of circumstances. In case of efficient evaluation, participation of engaged stakeholders within the enterprise is vitally important (either they are management members, coordinators, committees or individuals such as employees) as well as an additional feedback from external stakeholders (customers, suppliers, etc.)

Basically the aim of evaluation process is to allow the enterprise to know what to do in order to be even more effective. The process of evaluation itself can be divided into following four stages:

Scheme 3-2, Evaluation process in 4 stages



Source: Own scheme based on Hohnen (2007)

Firstly, it is important to **determine** the functionality of an enterprise, point out the light sides (pros) of a good operation and subsequently make sure that it will further continue that way as well as get to know, how it will be done in particular. Secondly, as a part of **investigation**, it is necessary to look on the dark sides (cons) of an enterprise, which would represent non-functionality. At this stage its reasons and barriers should be investigated, as well as procedures that would help to break those barriers. Consequently in **assessment** stage it is important to look out at the competition and other external influences. Especially consider their merit within industry, examine their achievements and particularly identify their contributions. Finally during **revision** the original aims and goals are cross-checked and additionally new one are made if necessary.

The information obtained during the process help out systematically evaluate its CSR approaches, and outline its implementation objectives. It provides valuable performance overview for management assuring that the selected enterprise (CSR) strategy is correct.

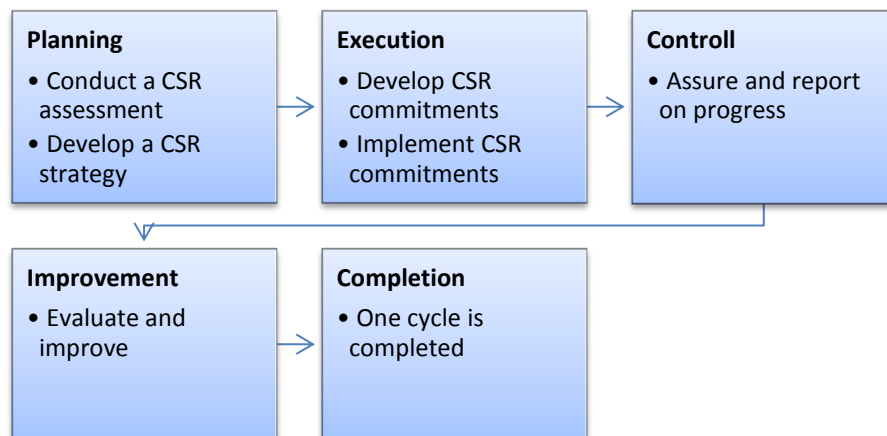
3.2.4. CSR Implementation

Implementation of corporate social responsibility has no universal formula as every enterprise is different. Various enterprises will hold a different positions towards CSR awareness, understand social responsibility in a different context and share different values. From the corporate social responsibility implementation practice viewpoint every organization is considered unique. Despite these differences, implementation as such can be systemized.

It is believed that a systematic approach might be a good start for implementation as it follows mission of the enterprise, goes along with corporate culture, business environment. Even small socially responsible incentives focused on particular stakeholders might reshape into more complex CSR approach. CSR implementation can be divided into phases accordingly to the business priorities related to available resources or time frame, not to mention that more efficient systematic approach is usually implemented in situations when it is required (i.e. by law, policy). As far as CSR becomes a core management value, it is considered as a success.

A systematized implementation framework should be based on integration of economic, social and environmental managerial approaches in order to satisfy all stakeholders along the way of CSR execution and deliver the benefits. Wrong decision making on that matter might even put enterprise operation in danger or harm it permanently. CSR implementation framework can be summarized as follows.

Scheme 3-3, CSR implementation framework



Source: Own scheme based on Hohnen (2007)

In the **planning stage**, or more precisely in the CSR assessment stage, a team for implementation is assembled together with a formulation of CSR work outlook. During the assessment a review with regard to capacities and processes according to relevant corporate documents is conducted. Any legal considerations should be carried out and the most important stakeholders are identified or engaged. The strategy of CSR has to be developed in consecutive step. Accredited team should base support among employers, management and chief officers and prepare (propose) action matrix. Finally, based on

research, a final strategy decision has to be evaluated in terms of approach, focus and boundaries.

During the **execution stage** the socially responsible commitments has to be made based on discussions with stakeholders. Such commitments has to be drafted and discussed on a recurrent basis until a structured and integrated base for CSR decision making is formed. On that basis a business plan regarding CSR can be prepared and implemented and also trainings and further engagement of employees are next in line. Vitrally important is target setting and measurement of performance. After communication plans are set up internally and externally, the commitments can be announced to public.

In the **control stage** ale previously stated and set targets are measured with an emphasis towards further stakeholder engagement. And also everything has to be properly reported (both external and internal reports).

Next stage is called **improvement** and as its name suggests the measured performance, metrics and any other reported data are evaluated. More importantly opportunities are identified. All that based on properly expressed interest to the stakeholder engagement.

Final stage is **completion** stage which should be considered rather as a moment when the cycle concludes and a socially responsible enterprise goes back to the planning stage of the new cycle. (Hohnen, 2007)

3.2.5. Responsibility vs. Performance

While understanding the importance of responsibility both in general and in context of social interaction of enterprises and society, it is also important to point out and evaluate the reciprocal relationship among responsibility and performance in coherence with CSR. Already, it has been insinuated that Corporate Social Responsibility should be subjected to further performance evaluation, but the question what kind of relationship do these two elements have among each other from the managerial viewpoint should be also clarified.

Corporate Strategies for Social Performance's author Melvin Anshen (1988) formulated in his work outstanding viewpoint related to connection between (corporate) social responsibility and corporate performance. (Birch, 2003) Firstly he expressed a concern of

overall CSR debate concentration, which in his opinion leads to further limitations in that field of study. He also added that there shouldn't be anyone limiting and narrowing the enumeration of responsible activities that are delivering benefits (and also pointing out these which does not) to the society. Finally Anshen explained that corporate social responsibility concept should be replaced by theoretically more purposeful concept of corporate social performance. Such statement is supported by understanding of internal and external directions of influences on both factors. In this context, responsibility is understood as externally driven by society, determined by social impacts, whereas performance is understood as internally driven by management, determined by managerial capability. (Birch, 2003)

3.3. Influences on Corporate Social Responsibility

There are many external subjects influencing corporate social responsibility practices. They go along with the opinion that relations among business and society should be closely connected and applied in practice. Conscious business managers, civil society groups, nongovernmental organizations persist in implementation of the social needs (and musts) into policies of businesses and furthermore contributes to the debates on that matter.

Corporate social responsibility is furthermore influenced by newly emerging and old respected organizations or partnerships. The influence as such comes from either governmental or nongovernmental organizations that place a demands based on established practice and laws. Also necessary guidance is often provided with regard to already mentioned expectations of government, society and environment. Certain global instruments are also available, for example those of OECD (Multinational Enterprise Guidelines) and United Nations (Global Compact). Their aim is to provide confidence to responsible businesses that their efforts are recognized by standards and internationally approved. (Hohnen, 2007)

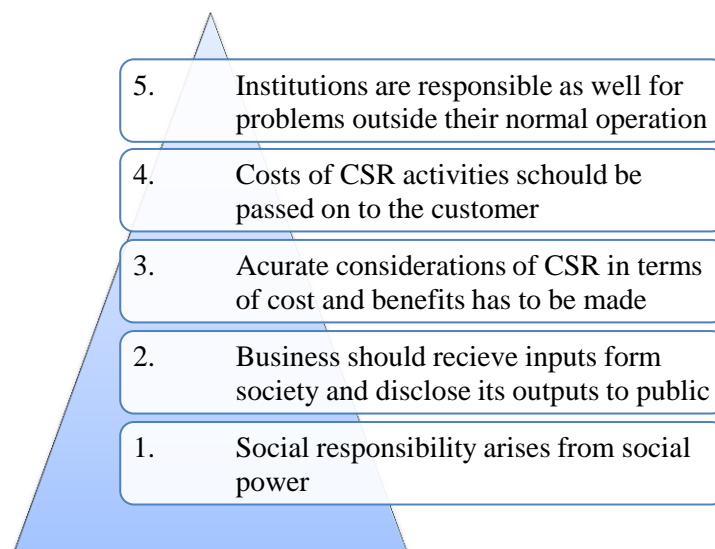
All the newly emerging demands on the related performance adjustments towards businesses reflects the CSR influences. Even though those calls might have been fragmented and diverted as such over the history of CSR, development of business to society relationships that is happening in the few past years proves a change for the better.

A consensus of a need for change in understanding of social, environmental and cultural capital in contrary to how it was perceived according to the old economics constitute a breakthrough. The need for change is in more particular demonstrated by actual demand for responsible behavior accompanied by reporting and compliance of businesses, their practices and policies. These influences and incentives intend to achieve a goal of a public, transparent and socially responsible enterprise operations. (Birch, 2003)

3.3.1. Expectations on CSR

As insinuated before, there are many reasons for the overall expectation of socially responsible behavior of enterprises. The reasons are mostly embedded in rational evaluation of our economic surroundings, they emerge from the understanding of ethics and morale of our culture, and cultures of enterprises. Also policies and laws (furthermore mentioned in following chapter 3.3.2. Legal Framework) are among those influential forces towards CSR. To get a comprehensive image of the situations and expectations an enterprise has to adhere to, which is at the same time biased with regard to natural relations of corporate social responsibility, following scheme of CSR propositions inspired by theoretical framework of Keith Davis (2008) can be used.

Scheme 3-4, Simplified scheme of 5 propositions CSR model



Source: own scheme based on Davis (2008)

Keith Davis's (2008) model is a synoptic theoretical framework of what the enterprises

should be able to do in order to adhere to the commitment of the CSR implementation in order not only protect the welfare and overall state of society and environment but also itself, the organization (i.e. corporation). First proposal as mentioned in the scheme, emerges from the fact that enterprise has influence over critical issues such as for example environment, communities, neighborhood development etc. The execution of business operations are then understandably expected to be marked as a major influence on the society, hence the enterprise is hold responsible by broader public.

Secondly, it is recommended that business should operate as a two way system with regard to open communication with public. It is furthermore emphasized that the improvements in welfare and society together with improvements in business are dependent on honesty and openness. The third proposition suggest consideration of overall feasibility of CSR incentives and encourage to further short term and long term evaluation of costs and potential economic profitability. After such considerations it is appropriate to proceed with CSR related activities. Fourth proposition introduces a rather new perspective by appealing on shift of the costs to the customer with regard on CSR. Customers should accept the fact that the enterprise will not finance its socially responsible activities at the expense of further economic disadvantages and the rational increase in prices, due to this fact, should be understood as acceptable. Finally Davis underlines that even though the enterprise would not have anything in common with a particular social problem (problem in society), its resolution falls under its responsibility as a part of its corporate citizenship. Simply due to the fact that the respective business may benefit from improved society (even from improved society by other entity). (Davis, 2008)

The rationale behind the propositions (especially the first one and the last one) is that the corporations are major social institutions and should be looked at with the same amount of citizenship responsibility as any other individual person, especially in terms of relative costs of such citizenship to the society and to the environment. (Birch, 2003)

3.3.2. Legal Framework

Law is one of the most influential elements of corporate social responsibility as they are closely related with each other. It is the most used (main practicable) tool for governments to intervene or control the impacts of an enterprise to the society, environment or economy. With regard to CSR thanks to law corporate governance, health and safety of workers, human rights, protection of environment, but also bribery can be controlled and sanctioned.

It is important for enterprises to ensure a compliance with laws and adapt their CSR approach or strategy, because regardless of its graciousness or emphasis on social sensitivity the law takes the precedence. At this stage a compliant enterprise can be distinguished from value driven enterprise. First one does mostly the required things with regard to CSR, the other proactively uses CSR as an innovative privilege and for example to enter new markets. The value driven CSR approach is the innovation driving approach that may be the answer in the hastily evolving business environment. (Hohnen, 2007)

In terms of internal organization of the enterprises the United States is still ahead. Ethics, codes of conduct or internal policies are a necessity in vast majority of all U.S. based corporations and businesses regardless size. The ethical guides and offices (or even hotlines) for managers or employees in North and South America are implemented within respective enterprises as an instrumental framework for corporate policies and laws of society. In Asian cultures such incentives are usually driven by legal compliance and similarly to European companies also driven by policies related to enterprise mission and values. (Lawrence and Weber, 2008)

Nevertheless the external law influence is more significant thanks to its final and binding nature. There are many policies, and legal proposals according to the country of origin, the enterprise, its purpose and type of activity, even in past or in debates for future. The actual relevancy always depends on the particular organization (enterprise) and its stakeholders. With regard to CSR the prospective beneficiary should be considered as an essential element according to the above mentioned. In case of nongovernmental nonprofit public service organization with tax-exempt charitable interests a further tax allowances attracting cooperation of enterprises and supporting volunteerism as well as related law such as credit allowances, loan forgiveness, government funding etc. (Sherlock and Gravelle, 2009)

The need of increased governmental control is needed while considering implementation of additional or simply supporting existing CSR related polices. From environmental matters to societal issues enterprises has to react on legal enquires from government with regard to performance and potential risks related to environment, society or governance (throughout all levels of enterprise operation) especially in countries with Anglo-American laws or countries within EU. Additionally in the last decade especially in those mentioned countries, their respective governments became engaged in the promotion of CSR as a goal towards risk management and sustaining value. Namely the European Union encourage to wider adoption of social responsibility. (Hohnen, 2007)

4. Analysis – Case study of Microsoft Corporation

4.1. Scope of Microsoft Corporation

Microsoft Corporation was founded in 1975 in the United States and over the years developed into the worldwide leader in software solutions and services. This Redmond based (Washington) enterprise is classified within technology sector and its respective industry is application software. The stated aim of Microsoft is to help people and businesses to realize their full potential using its technological products and services that are developed, licensed and supported by Microsoft exclusively. Also hardware as a part of business product portfolio is designed and sold by Microsoft. Finally the online advertising is accounted among most important Microsoft activities. Based on Microsoft corporate resources (2013) the most important software products to mention are Windows operating systems for end user computers (personal computers), Windows server applications and systems, Windows phone operating systems and its supporting software and productivity software applications such as Office Suite or Project. Further software products by Microsoft include additional applications for distributed computing environments, system and management tools, development tools and computer games. In terms of hardware Microsoft offers PC related products and in terms of entertainment Xbox 360 gaming console, further accessories including Kinect motion device.

Microsoft Corporation is by its corporate nature marketed on NASDAQ stock market exchange (to be found under the acronym of MSFT). With regard to NASDAQ investors community and the referencing consensus of major Wall Street analyst firms (such as Barclays, JPMorgan, Goldman Sachs and many more) as of March 2013 the investor confidence towards Microsoft seems close to very high and future price increases are anticipated as well, the more pessimistic analytics recommends to hold to the stocks. In stock exchange terminology Microsoft seems *Bullish* with regard to the contemporary trend. A further insight into Microsoft performance is covered within the chapter concerned about economic performance analysis (See chapter 4.3) from the fundamental perspective.

With reference to the other market operations Microsoft Corporation acquired eight software developing and online services focused companies in a span of only two years. The most significant acquisition to mention with regard to the size and volume of users is the one of Skype Global, broadly known peer to peer online networking and communication tool that took place in October 2011.

Microsoft operations can be segmented with regard to the corporate website presentation (2013) and Microsoft annual reports (2007-12) into five subdivisions. First is Windows and Windows Live division which encompass variety of software products mentioned above and additionally online productivity application solutions (Live suites and web applications) and related services with focus on individual end user. Second division is called Server and Tools, which focus on enterprise services solutions with regard to server operating systems, software development tools, database implementations or other premium B2B solutions. Third division which deals with corporate advertising (adCenter), search tools (Bing and MSN), online communication (Skype) and cloud application framework (Azure) is called Online Services Division. Microsoft Business Division contains productivity software such as Office Suites, SharePoint and Exchange, that can be deployed either as a classic software within workstation or as a cloud based solution for end user individuals, or for teams within enterprises. Microsoft Business Division also covers customer relationship management tools (CRM) for businesses of any size (from small offices to global multinational enterprises). Finally the fifth division, which is called Entertainment and Devices, focuses entertainment platforms such as already mentioned Xbox and related hardware tools, telecommunication and phone operating systems and related online entertainment services.

While facing a diversified competition of high renowned companies, such as Google, Yahoo, Apple and Salesforce, Microsoft Corporation operates globally with offices in more than 100 countries, employing more than 97 thousand people in the US and over 57 thousand people worldwide. Microsoft is furthermore considered as the most influential corporation within its industry with the largest amount of net capital employed over past years. Another very significant fact worth of mention is that Microsoft Corporation within its fundamental core product – operating systems takes the absolute majority of market share (91% as mentioned in further analysis and depicted in Annex 7.1).

4.1.1. Rationale for the selection of Microsoft

The reason for the selection of Microsoft Corporation in particular should be clarified with regard to the comprehensiveness of the analytical part of the thesis, i.e. with regard to the focus of corporate social responsibility and enterprise performance analysis.

The preliminary research showed that even though corporate social responsibility is a quantifiable phenomenon and as such worth of further performance analysis. Most of the data inputs with regard to the nature of CSR itself, its relative immaturity in terms of measurement standardization, the determination of companies to conduct CSR as such, the volumes and extent of corporate socially responsible activities, legal form, even country of origin and the size of the enterprise and its openness (also within industry) towards corporate social responsibility seems not to be derivable or in case of prospective comparison amongst multiple corporations even nonexistent.

At the same time it has been ascertained that relevant approach of CSR and performance evaluation is practicable in terms and extent of a single organization. Also considering its legal form and type of organization, globally operating corporation turned out to be the most convenient example. Further feasibility of the analysis is underlined by the fact that Microsoft Corporation in particular is sharing, measuring and reporting CSR by itself. Microsoft is considered as big and influential enough corporation to be observed with regard to CSR by external entities, auditors, independent market researchers, etc. The selection of Microsoft (being an American Corporation) is in further, originally unintended, accordance with the origin of corporate social responsibility practice in the United States.

Further reasons of Microsoft Corporation selection for the analytical part are its positive and publicly communicated attitude towards social responsibility, status of a leading corporation within its sector and industry and the due to the fact that it is a broadly known enterprise influencing lives of the majority of people with access to computer technologies worldwide on a daily basis. Finally the last of the reasons for selection of Microsoft over other like-minded companies that are similarly significant within its industry or likewise engaged in corporate social responsibility practice is the (diploma thesis) author's personal work experience related to one of the CSR disciplines and incentives of Microsoft, namely

the exclusive Microsoft software donation program for nonprofit organizations called TechSoup.

4.2. Analysis of the beneficiary sector

As the emphasis on Microsoft Corporation itself was taken in previous chapters also the other perspective, the counterparty should be introduced. In order to provide complex insight to the field of Microsoft CSR activities also a cursory glance to the respective beneficiary sector will be provided in further subchapter, to the third sector.

4.2.1. Third Sector

The idea of third sector (or nonprofit sector, sometimes referred also as community sector or voluntary sector) was born forty years ago in the mid 70's. It has emerged in the United States and is ascribed to Theodore Levitt and Amitai Etzioni. (Taylor, 2010) Most certainly the grasp of the issues in that perspective considered third sector as a new emerging socio-economical dimension (trend) with respect to its theoretical framework. In fact some of the principles that form the basis of the third sector are in operation since earlier times (i.e. volunteering generally known since the 16th century). (Harper, 2012)

Even though it could be considered as a young sector generally, compared to computer and computer software industry both phenomena are approximately the same old. Furthermore a certain bond of these two sectors (“industries”) can be noted. Presumably, but not only for the reason that intellectual property as an output part of a human knowledge forms a specific and long term footprint of the society, the interconnection among computer or computer software developing companies and third sector is on the rise over the past couple of decades (of their existence).

Especially in the United States, where as well our observed Microsoft Corporation comes from, nowadays it would be difficult or even impossible to address any major enterprise in software industry that would not support third sector anyhow. Among other key players to mention are for example Adobe, McAfee, SAP and Symantec (but also many others) which has been according to Business for Social Responsibility (2008) since 2007 even determined to cooperate with each other in their common goal of meeting and

understanding the expectations of society in relation to responsible software sector. Their intent is to adjust and identify their contributions (besides other things of software products) with the idea of sustainability and social responsibility.

For the consideration of the size of third sector are the quantities and consequently proportions and proportion changes of particular types of nonprofit (third sector) organizations (NPOs) listed below. Due to the complexity, thematic relevance and the country of origin of the researched Microsoft Corporation, its corporate social responsibility outcomes and CSR as such, the attention is turned to the third sector of the United States of America.

Table 4-1, Number of Nonprofit Organizations in the United States, comparison of y. 1999 and 2009

United States	1999		2009		1999/2009	
	Quantity	Proportion	Quantity	Proportion	Difference	Change
Public Charities	631,902	52.5%	1,006,670	63.7%	374,768	59.3%
Private Foundations	77,978	6.5%	120,617	7.6%	42,639	54.7%
Other Nonprofit Organizations	492,693	41.0%	453,824	28.7%	-38,869	-7.9%
Small Community Groups	Unknown	N/A	Unknown	N/A	N/A	N/A
All Nonprofit Organizations	1,202,573	100.0%	1,581,111	100.0%	378,538	31.5%

Source: National Center for Charitable Statistics

The most recent available data for a ten-year comparison of development of third sector take into consideration years 1999 and 2009. The types of organizations in particular can be divided into following four groups.

First group which is on the most notable upturn are public charities. Those are divided to reporting to the U.S. Internal Revenue Service (either they are primarily operating charities or supporting charities) or non-reporting public charities. Over the observed decade the number of public charities increased by 59.3% (almost 375 thousand organizations compared to the base 631.9 thousand in 1999).

Second group is formed by private foundations that are either grant-making foundations (technically understood as non-operating) or operating foundations. It's the least numerous group within the third sector with an increase of 42.6 thousand organizations in comparison of years 1999 with almost 78 thousand foundations to 2009 with over 120.6 thousand foundations. Proportion wise, even though a much less organizations are considered, the figure of increase by 54.7% seems stable and adequate to the development of public charities as mentioned before.

Third group is referred to as other nonprofit organizations (other NPOs). These are covering civic leagues and associations, social welfare organizations, fraternities and other beneficiary societies, various types of clubs (recreational, sport and social) and many others generally known as other 501(c) organizations. A significant drop in volumes of such organizations was noted in the reflected decade, when almost 39 thousand of other NPOs ceased their existence, which stands for a decrease by 7.9% compared to 1999. Such downward tendency is in opposite to the trends of public charities and private foundations.

Final fourth group are small community groups, partnerships and any other non-profit principle based entities that are either unofficial or too disintegrated for further tracking at least from the perspective of their quantities and proportions on overall third sector. As such their relevant data are unavailable.

Jointly, the total overall number of organizations within sector increased by over 378.5 thousand nonprofit organizations over the decade, which expressed by 31.5% indicates a remarkable increase.

As a reflection of third sector's economic proportions will serve following dataset concerning revenues and assets of particular types of nonprofit organizations. The latest available aggregate dataset (2009) comprises of U.S. third sector organizations that are legally obliged (according to the size or particular objectives of organization) or voluntarily determined to registration at the United States Internal Revenue Service and providing an additional set of mission, programs and financial information.

Table 4-2, Total Revenue and Assets by Nonprofit Type as of July 2009 (in billions USD) - values of share ratios are rounded

US IRS Registered Orgs. 2009	Quantity of Orgs.	Share of Orgs.	Total Revenue	Share of Revenue	Total Assets	Share of Assets
Public Charities	512,689	58.6%	\$1,397	71.1%	\$2,598	61.3%
Private Foundations	86,591	9.9%	\$181	9.2%	\$621	14.7%
Other Nonprofit Organizations	275,420	31.5%	\$386	19.7%	\$1,014	23.9%
Small Community Groups	894	0.1%	\$1	0.1%	\$2	0.1%
All Nonprofit Organizations	875,594	100%	\$1,966	100%	\$4,236	100%

Source: Sherlock and Gravelle, 2009

The feedback of U.S. Internal Revenue Service (IRS) shows that the most numerous group of the third sector organizations, which submitted the appropriate report (known as form 990), consisted of public charities accounting up to almost 512.7 thousand of NPOs. The total revenues reported by public charities amounted up to 1.4 trillion USD and the total assets reached almost 2.6 trillion USD.

Consequently, almost 86.6 thousand of private foundations reported another 181 billion USD in total revenues and 621 billion USD in total assets. And finally over 275.4 thousand of other NPOs claimed additional total of 386 billion USD in revenue and over one trillion USD in total assets as of year 2009. The least noticeable group of tax-exempt entities are as already mentioned small community groups and partnerships of which exactly 894 filed the report to the revenue service. Even those, regardless the small overall share (0.1%) of assets and revenues in the third sector, stated remarkable one billion USD of revenue and two billion USD in assets.

In the summary, as the most lucid indicator of US third sector's economic "size" could be considered the total sum of over 875.5 thousand IRS registered NPOs which accounted almost two trillions USD in revenues and astonishing total of 4.2 trillion USD in assets as a year 2009 aggregated sum.

4.3. Economic Performance Analysis

With regard to the economic performance of Microsoft Corporation determination, further chapter deals with certain systematic approaches, economic measures to be more precise, that not only specify business conduct of Microsoft in monetary terms but also provides insight into its development in broader context. As the social benefits (and costs related to Microsoft contributions) of the CSR projects of Microsoft Corporation towards the communities and third sector were introduced in previous chapters it is appropriate to outline Microsoft's economic course as such with the support of valid economic analysis method.

For the overall purpose of the thesis, considering its structure, focus on CSR and finally its extent it is adequate to analyze Microsoft performance only by one of the methods yet provide a cross-section insight. With that respect a fundamental analysis will be prioritized over technical analysis, which focuses on the analysis of historical changes and development in price (Waring, 2008) and market actions especially in terms of trends and tendencies, i.e. historical cycles (Murphy, 1999). On the other hand fundamental analysis takes into consideration much broader context with regard to state of economy, production, earnings of the enterprise, as well as its liquidity perspectives and even goes into particulars. (Waring, 2008) These so called fundamentals provide us with further explanation on how the management is carried out, they indicate the corporate strategy and finally highlight the condition of the enterprise.

4.3.1. Fundamental Analysis of Microsoft Corporation

Fundamental analysis, from theory, can be described as an analysis of something simple, basic, obvious (fundamental). But the reality is a bit different as the way of conduct of an enterprise, or more particularly an investment consideration is in question. In such situation, while confronted by important decision making, a certain value is attributed to what was previously understood as fundamental and consequently what used to be referred to as simple becomes complex. (Thomsett, 2006) The data acquired are then providing desired information about the overall situation of an enterprise in a comprehensive way.

Fundamental analysis furthermore enables to find out not only the overall state (what is happening) of the enterprise, but also helps to determine its cause (how it is happening).

In terms of Microsoft Corporation financial condition research, following framework has been chosen. It is based on fundamental analysis methods and on the uncluttered and comprehensive overview of financial ratios suggested for such investigation by Richard Loth (2013). The performing conditions of Microsoft are analyzed from six different viewpoints (categories). Those are liquidity, profitability indicators, debt, operating performance, cash flow and finally investment valuation ratio measurements. Data for analysis were obtained from Microsoft Corporation financial statements, balance sheets, cash flow statements and statements of stockholders equity that were available in Microsoft annual reports from years 2007-2012. The financial values are expressed in millions of USD unless otherwise stated, with exception to amounts related to shares and price of shares. The proportional values are expressed either by multiple rates or percentage rates with regard to the meaning of the information. The fiscal year of Microsoft Corporation ends at the 30. June annually, therefore all provided datasets including averages are related to that date.

4.3.1.1. Liquidity Measurement Ratios

First category covers the issues related to the ability to pay off the obligations of Microsoft within the short-term period. They are aggregately called liquidity ratios and for the purpose of the Microsoft Corporation analysis current ratio, quick ratio, cash ratio and cash conversion cycle were selected.

Explained in another words liquidity ratios indicate how the liabilities of Microsoft are covered by its most liquid assets. The healthy condition in general is that enterprise are able to cover their debts in horizon of near future, these ratios are also sign for potential investors that the enterprise is running its operations with regard to its obligations smoothly.

Current Ratio

Current ratio, as one of the liquidity indicators, is calculated as a proportion of current assets including cash, cash equivalents, marketable securities, receivables and inventory

compared to current liabilities including notes payable, current debts, payables, accrued expenses and taxes. In the following table current ratio calculations as of Microsoft Corporation are mentioned.

Table 4-3, Current ratio - Microsoft Corporation (financial data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Current assets	40,168	43,242	49,280	55,676	74,918	85,084
Current liabilities	23,754	29,886	27,034	26,147	28,774	32,688
Current ratio	1.69	1.45	1.82	2.13	2.60	2.60
Industry average	–	1.44	1.78	1.67	1.73	–

Source: own table based on Microsoft Corporation annual reports

Regarding current ratio, the higher values represent better situation. Microsoft Corporation is from that perspective getting better over past six years while achieving very favorable ratio (of 2.6 times covered current liabilities by current assets) on two last consecutive years and at the same time achieving significant positive distance from the industry average.

Quick Ratio

Another liquidity indicator called quick ratio provides more conservative perspective on the similar issue as previously mentioned current ratio thanks to the leaving out of the less liquid assets such as inventory and other current assets. Otherwise it is calculated similarly, as a sum of cash and cash equivalents, short term investments and receivables divided by current liabilities.

Table 4-4, Quick ratio - Microsoft Corporation (financial data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Cash and cash equivalents	6,111	10,339	6,076	5,505	9,610	6,938
Short-term investments	17,300	13,323	25,371	31,283	43,162	56,102
Accounts receivable	11,338	13,589	11,192	13,014	14,987	15,780
Total quick assets	34,749	37,251	42,639	49,802	67,759	78,820

Current liabilities	23,754	29,886	27,034	26,147	28,774	32,688
Quick ratio	1.46	1.25	1.58	1.90	2.35	2.41
Industry average	–	1.10	1.41	1.34	1.38	–

Source: own table based on Microsoft Corporation annual reports

The most notable change of development was in Microsoft Corporation case caused by the notable increase of the short term investments that more than tripled over past six years that with relatively stable levels of liabilities lead to increase in the ratio. Thus creating notable gap in comparison with industry average.

Cash Ratio

The cash ratio indicator takes into consideration only the most liquid short term assets including cash and cash equivalents and short term investments. Otherwise it has been calculated on the same principle as both previous ratios.

Table 4-5, Quick ratio - Microsoft Corporation (financial data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Cash and cash equivalents	6,111	10,339	6,076	5,505	9,610	6,938
Short-term investments	17,300	13,323	25,371	31,283	43,162	56,102
Total cash assets	23,411	23,662	31,447	36,788	52,772	63,040
Current liabilities	23,754	29,886	27,034	26,147	28,774	32,688
Cash ratio	0.99	0.79	1.16	1.41	1.83	1.93
Industry average	–	0.63	0.89	0.84	0.88	–

Source: own table based on Microsoft Corporation annual reports

This ratio provides an insight on the real immediate ability of Microsoft to cover its liabilities. As the industry average suggests that companies usually does not hold to much cash or its equivalents in general nor they invest in short term compared to the liabilities. Microsoft Corporation goes far away from this trend by numerous investments especially over the past three years regardless their liabilities as mentioned already. Which could be

also perceived by its respective shareholders as a warning that, theoretically spoken, their potential returns are rather invested.

Cash Conversion Cycle

Cash conversion cycle is the last analyzed indicator of Microsoft Corporation liquidity outlook. It reflects the liquidity in terms of days and therefore is very practical complement for the previously mentioned ratios that might be even mislead when considered separately. It is calculated as a difference of inventory processing period plus receivables period to payables period.

Table 4-6, Cash conversion cycle - Microsoft Corporation (data units in days)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Average inventory processing period	8	6	4	4	7	6
Average receivable collection period	81	82	70	76	78	78
Average payables payment period	23	24	21	24	22	21
Cash conversion cycle	66	64	54	57	63	63
Industry average	–	40	37	39	40	–

Source: own table based on Microsoft Corporation annual reports

As calculated and depicted in the above mentioned table Microsoft Corporation lags behind the industry average by approximately 20% (20 days) over the analyzed period. Such finding partly contradicts the potential of liquidity coverage known to this moment. In reality the optimistically looking ratios does not help to fulfill Microsoft obligations as their competitors do. Taking into consideration the bigger picture, the result of almost two months cash conversion cycle period for huge corporation such as Microsoft is not that dreadful, as it still fits into the broadly recognized 3 months short term period. On the other hand as an excellent result is considered period below one month, which seems to be almost impossible for Microsoft with regard to its historical data.

4.3.1.2. Profitability Indicator Ratios

Second category, or viewpoint, focuses on profitability measures related to financial performance. These indicators underline the ability of Microsoft Corporation to generate profits and shareholder value.

Gross Profit Margin

Gross profit margin (and technically also further mentioned profit margins) portray the generated profit expressed as a percentage (proportion) of generated sales (revenues). Analysis of the profit margin indicators aims at detection of trends with regard to corporate earnings. Gross profit margin in particular, as showed in following table, represents the efficiency of fixed assets in the production process to make a profit.

Table 4-7, Gross profit margin, net profit margin - Microsoft Corporation (fin. data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Gross profit	40,429	48,822	46,282	50,089	54,366	56,193
Revenue	51,122	60,420	58,437	62,484	69,943	73,723
Gross profit margin	79.08%	80.80%	79.20%	80.16%	77.73%	76.22%

Source: own table based on Microsoft Corporation annual reports

Microsoft Corporation shows relatively high gross profit margins as it operates in industry that is not that dependent on raw materials or other manufacturing overheads typical for production processes. Additionally the values are relatively stable proving that Microsoft management is able to control additional costs more effectively (for example in comparison to heavy machinery).

Operating and net profit margin

Operating profit margin is a greatly appreciated indicator pointing out almost directly to the management decisions as it has more control over the operating expenses. Operating profit margin has been calculated as the proportion of operating income to revenue. Net profit margin (also referred as a bottom line) is discussed in terms of comprehensive

investment perspective on the enterprise profitability. Net profit margin has been calculated as the proportion of net income to revenue.

Table 4-8, Operating profit margin, net profit margin - Microsoft Corp. (fin. data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Operating income	18,438	22,271	20,363	24,098	27,161	21,763
Net income	14,065	17,681	14,569	18,760	23,150	16,978
Revenue	51,122	60,420	58,437	62,484	69,943	73,723
Operating profit margin	36.07%	36.86%	34.85%	38.57%	38.83%	29.52%
Industry average	–%	18.55%	17.49%	20.74%	20.61%	–%
Net profit margin	27.51%	29.26%	24.93%	30.02%	33.10%	23.03%
Industry average	–%	13.99%	13.10%	16.11%	16.08%	–%

Source: own table based on Microsoft Corporation annual reports

With regard to actual results of the Microsoft Corporation operating profit and net profit margin it can be concluded that the overall profitability in comparison with industry averages is higher, which represents a valuable information for prospective investors reflecting effectively performing management of Microsoft.

Return on Assets

Following profitability ratio indicates profitability in comparisons to its total assets. The ratio clarify the extent of how much is the total asset base exploit in order to make a profit. The ratio itself has been calculated as net income divided by total assets (as implied already).

Table 4-9, Return on assets - Microsoft Corporation (financial data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Net income	14,065	17,681	14,569	18,760	23,150	16,978
Total assets	63,171	72,793	77,888	86,113	108,704	121,271
ROA	22.26%	24.29%	18.71%	21.79%	21.30%	14.00%

Industry average	–%	12.22%	10.23%	12.46%	12.28%	–%
------------------	----	--------	--------	--------	--------	----

Source: own table based on Microsoft Corporation annual reports

Results of Microsoft Corporation on the one hand positively surprise with well above industrial average ratios of returns on assets, but on the other hand attract attention to its relatively increasing asset base. Microsoft Corporation in the last two years shows volumes of total assets that are almost twice as big in comparison to the situation five to six years ago. Proportionally significant increase of asset volume that would be relevant rather to enterprises in capital intensive industries over technological and service sector corporation such as Microsoft clearly caused notable decrease in return on assets in last year.

Return on Equity

Alternatively to return on asset also profitability indicator with regard to equity has been analyzed in case of Microsoft Corporation. This ratio was calculated as a proportion of net income to the shareholders equity. The ratio provides with information how effective was the management in order to generate return to investors (shareholders).

Table 4-10, Return on equity - Microsoft Corporation (financial data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Net income	14,065	17,681	14,569	18,760	23,150	16,978
Stockholders' equity	31,097	36,286	39,558	46,175	57,083	66,363
ROE	45.23%	48.73%	36.83%	40.63%	40.55%	25.58%
Industry average	–%	27.29%	21.25%	26.28%	26.99%	–%

Source: own table based on Microsoft Corporation annual reports

While observing the outcomes of return on equity calculation the investors has to be satisfied in terms of Microsoft Corporation earnings performance over time. Except for decrease in last year (in which return on equity ratio dropped to the approximate average industrial level of ROE in period 2007 to 2011) all other years showed relatively stable and balance above-average performance of Microsoft Corporation return of equity.

4.3.1.3. Debt Ratios

The third perspective of economic-financial analysis of Microsoft Corporation is focused on the debt load of the enterprise. These ratios are vitally important for assessment of risks arisen from the corporate debts and consequently for the assessment of potential bankruptcy risks.

Debt-Equity Ratio

Debt to equity ratio as first debt (solvency) ratio mentioned in this analysis underlines the proportion of suppliers, lenders and creditors involvement in the company compared to the extent of shareholders' involvement. As portrayed in following table it is calculated as the sum of total debts divided by the total equity of shareholders.

Table 4-11, Debt to Equity ratio - Microsoft Corporation (financial data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Short-term debt	–	–	2,000	1,000	–	–
Long-term debt	–	–	3,746	4,939	11,921	11,944
Total debt	–	–	5,746	5,939	11,921	11,944
Stockholders' equity	31,097	36,286	39,558	46,175	57,083	66,363
Debt to Equity	–	–	0.15	0.13	0.21	0.18
Industry average	–	0.30	0.26	0.30	0.37	–

Source: own table based on Microsoft Corporation annual reports

Debt to equity ratio can be considered as an assessment of Microsoft leverage situation. Microsoft has shown its total debts (if any) approximately five to seven times smaller compared to stockholders equity over time, also its debt to equity ratio is in each available year significantly smaller than the one of industry average. Even though that year by year the liabilities are increasing (also the stockholders' equity is increasing) the low debt to equity ratio proves using less leverage and Microsoft overall strong position with regard to equity.

Capitalization Ratio

Capitalization ratio focuses as the previous ratio to stockholder equity with especial regard to long term debt. It examines to which extent are the long term debts part of the corporate capital structure.

Table 4-12, Capitalization Ratio - Microsoft Corporation (financial data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Long-term debt	–	–	3,746	4,939	11,921	11,944
Stockholders' equity	31,097	36,286	39,558	46,175	57,083	66,363
Capitalization ratio	–	–	8.65%	9.66%	17.27%	15.25%

Source: own table based on Microsoft Corporation annual reports

The output of capitalization ratio calculation on example of Microsoft Corporation portrays a slight oscillating increase in past three years. Thus an increase in debt leverage is notable, however at this position no restriction as a result of very high leverage from creditors is threatening Microsoft. Further worsening of the capitalization ratio could endanger Microsoft Corporation, especially from the perspective of late due payments of liabilities.

Interest Coverage Ratio

The last ratio within the solvency analysis of Microsoft Corporation focuses on the ability to pay interest expenses on its outstanding debts. For the ratio purpose earnings before interest and taxes are calculated and consequently divided by interest expenses as indicated in following table.

Table 4-13, Interest coverage ratio- Microsoft Corporation (financial data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Net income	14,065	17,681	14,569	18,760	23,150	16,978
Interest expense	–	106	38	151	295	380
Income tax expense (benefit)	6,036	6,133	5,252	6,253	4,921	5,289
Earnings before interest and tax	20,101	23,920	19,859	25,164	28,366	22,647

Interest coverage ratio	–	225.66	522.61	166.65	96.16	59.60
Industry average	–	45.77	42.03	51.18	45.02	–

Source: own table based on Microsoft Corporation annual reports

The ability to cover interest expenses of Microsoft Corporation has been amazing back in years 2008 and 2009. Back then Microsoft was able to cover the interest expenses approximately five times more in 2008 and almost twelve times more in 2009 compared to the industry average. The increases in interest expenses came in subsequent years and the ability to cover them decreased to level that is still three times higher than the industry average. From this perspective Microsoft Corporation does not represent any risk to its creditors whatsoever.

4.3.1.4. Operating Performance Ratios

Fourth category of ratios that are analyzed on the example of Microsoft Corporation are the operating performance ratios. For the purpose of operating performance evaluation two ratios in particular will be analyzed, firstly it is fixed asset turnover ratio and secondly the operating cycle.

Fixed-Asset Turnover

Fixed assets turnover is a ratio that points out the productivity of an enterprise reflected in its sales. Ratio has been calculated as the proportion of revenue to the fixed assets (property and equipment).

Table 4-14, Fixed-asset turnover - Microsoft Corporation (financial data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Revenue	51,122	60,420	58,437	62,484	69,943	73,723
Property and equipment	4,350	6,242	7,535	7,630	8,162	8,269
Fixed asset turnover	11.75	9.68	7.76	8.19	8.57	8.92
Industry average	–	5.64	5.15	5.35	5.11	–

Source: own table based on Microsoft Corporation annual reports

The result of fixed asset turnover calculations are very pleasant for Microsoft Corporation, again over exceeding industry averages in all respective years. It proves efficiency of Microsoft in managing fixed assets. No investment are included in this ratio, so with consideration of previous findings, that investments of Microsoft Corporation form a significant amount of total assets, this ratio becomes useful while taking into consideration performance regardless investments and overall overcapitalization of Microsoft Corporation. Nevertheless Microsoft performs according to the results very well.

Operating Cycle

Operating cycle is the second operating profit ratio, that in terms of days analyze the perspective of corporate management of critical assets. Operating cycle has been calculated as sum of inventory processing period and average receivables collection period

Table 4-15, Operating cycle - Microsoft Corporation (data units in days)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Average inventory processing period	8	6	4	4	7	6
Average receivable collection period	81	82	70	76	78	78
Operating Cycle	89	88	74	80	85	84
Industry average	–	69	67	67	68	–

Source: own table based on Microsoft Corporation annual reports

Microsoft Corporation is in terms of collection period generally slower, causing delays in comparison to industry averages. The operating cycle of Microsoft Corporation has been for past six years always longer than two months, which basically puts Microsoft at risk (having a loose control of receivables collection). On the other hand the overall state of the operating cycle has been consistent over those six past years providing high profits.

4.3.1.5. Cash Flow Indicator Ratios

The next-to-the last group of ratios is called cash flow indicators. Cash flow ratios primarily focus on the generation of cash and especially generated volumes of cash

providing another insight into the financial health conditions of an enterprise. Among those ratios are mentioned operating cash flow to sales ratio, free cash flow to operating cash ratio and dividend payout ratio.

Operating Cash Flow/Sales Ratio

Following ratio reflects the proportion of operating cash flow compared to net sales and from its nature provides the information about the ability of the corporation to convert sales into cash. Under normal healthy circumstances the increase of corporate sales is also mirrored in increases in cash flow.

Table 4-16, Operating cash flow/sales ratio - Microsoft Corporation (financial data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Operating Cash Flow	17,796	21,612	19,037	24,073	26,994	31,626
Revenue	51,122	60,420	58,437	62,484	69,943	73,723
Operating CF/Sales ratio	34.81%	35.77%	32.57%	38.52%	38.59%	42.89%

Source: own table based on Microsoft Corporation annual reports

The operating cash flow to sales ratio of Microsoft Corporation shows slight increases over the past six years period at the same time operating cash flow and revenues increased separately. More particularly operating cash flow almost doubled in comparison of years 2012 to 2007. The results are for Microsoft positive as the higher values represent better and healthier financial flows.

Free Cash Flow/Operating Cash Ratio

On a similar principle to the previous ratio and as the name of the ratio suggests, the ratio reveals the interrelation among the two indicators of free CF and operating CF. New analyzed term of free cash flow refers to available funds of the corporation that could be theoretically used for further expansions (or acquisitions).

Table 4-17, Free cash flow/operation cash ratio - Microsoft Corporation (fin. data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
-----------------	------	------	------	------	------	------

Operating Cash Flow	17,796	21,612	19,037	24,073	26,994	31,626
Free Cash Flow	15,532	18,430	15,918	22,205	24,801	29,583
Free CF/Operating Cash Ratio	87.27%	85.27%	83.61%	92.24%	91.87%	93.54%

Source: own table based on Microsoft Corporation annual reports

Microsoft Corporation covers its operating cash flow with the free cash flow by the average rate of 88.97% over past six years. The ratio is very large and once again proves the investment qualities of Microsoft. The free cash flow ratio is furthermore considered as a very important financial metric (in some cases even over earnings with regard to investment qualities of the corporation). Table furthermore depicts steady increase with regard to all mentioned indicators, both practically doubled in comparison of years 2007 and 2012.

Dividend Payout Ratio

Last cash flow related indicator evaluated within the analysis of Microsoft Corporation is called dividend payout ratio. It provides with amount of net income per share with regard to stockholder dividends allocation as it is paid to the respective shareholders at the end of quarters from by enterprise cash flow in case cash is available.

Table 4-18, Dividend payout ratio - Microsoft Corporation (financial data in USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Earnings per share	1,50	1,94	1,64	2,17	2,76	2,03
Cash dividends per common share	0,4	0,44	0,52	0,52	0,64	0,8
Dividend Payout Ratio	26.66%	22.68%	31.70%	23.96%	23.18%	39.40%

Source: own table based on Microsoft Corporation annual reports

In Microsoft case, the projected dividends per share has been covered 3-4 times by earnings per share in past six years. So the ability to pay off the shareholders was from that perspective at no risk at all. For the sake of completeness it is important to mention that this ratio is relevant only in the corporations that are paying off dividends to its shareholders (it has no use in case of solely speculative market shares of companies not

paying off the dividends). Microsoft with its size as such and with the proportion of dividend payout should be considered as a stable and mature large corporation.

4.3.1.6. Investment Valuation Ratios

Final group of indicators focused on investment valuations with regard to the economic fundamental analysis encompass price to book value ratio, price to earnings ratio, price to sales ratio and enterprise value multiple. In another words regarding those ratios potential investors can easily understand and estimate the attractiveness of investment and the ratios furthermore provides them with additional insight into the corporate investment valuation.

Price/Book Value Ratio

Price to book value ratio takes into consideration the proportion of stockholders equity per share to the share price. Its interpretation can be grasped as a market judgment indicator of required rate of return by the corporation compared to the actual rate of return.

Table 4-19, Price to book value ratio - Microsoft Corporation (financial data in USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Book value per share	3.32	3.97	4.44	5.34	6.81	7.92
Share price	28.96	25.72	23.81	25.81	27.72	29.16
Price to book value ratio	8.73	6.47	5.36	4.84	4.07	3.68
Industry average	–	3.48	3.75	3.53	3.43	3.22

Source: own table based on Microsoft Corporation annual reports

The ratio provides with an insight for investors into the market value paid for each share comparison to the value of the firm (reflected in book value per share). On the example of Microsoft Corporation it is clear that the share price is way higher than its book value meaning is valued or even slightly overvalued. Thus being perceived as getting proposition or at worst being a stagnant investment in the foreseeable future. Which is unfortunately not entirely the case of two last years 2011 and 2012, when the proportion of price to book ratio decreased notably.

Price/Earnings Ratio

Price to earnings is perhaps the most generally known ratio out of those dealing with valuation of investments. Its aim is to compare the current price of shares to the generated earnings. This way it informs the holder of common stocks how much it is invested in the corporation for one dollar of current earnings. It is comprehensive and simple enough ratio for the purposes of further comparison of enterprise performance among its competitors, industry or investor portfolio.

Table 4-20, Price to earnings ratio - Microsoft Corporation (financial data in USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Earnings per share	1.50	1.94	1.64	2.17	2.76	2.03
Share price	28.96	25.72	23.81	25.81	27.72	29.16
Price to earnings ratio	19.30	13.28	14.56	11.91	10.03	14.40
Industry average	–	12.74	17.66	13.44	12.69	17.51

Source: own table based on Microsoft Corporation annual reports

The price to earnings results of Microsoft Corporation showed in comparison to industry average high P/E ratio only in year 2008 (and assumed also in 2007) and low P/E ratios in the all other consecutive years. Thus the only anticipation for higher earnings growth would be attributed to years 2007 and 2008, and the more moderate expectations in overall could be attributed to the years 2009 to 2012. Meaning mostly a growth focused investors has been satisfied in 2007-8 and the value focused investors has been investing into Microsoft Corporation since 2009. There are many reasons to be addressed as a cause for such change in 2009, emerging economic recession was definitely one of the most significant of them. Finally as this is the most extensively used metric/quote it is always very important to consider its benchmarking industrial P/E average.

Price/Sales Ratio

Price to sales ratio is very similar to the previously mentioned P/E ratio, with exception that in the denominator of the ratio we consider annual sales of the enterprise. The rationale for this particular ratio is the assumption that the financial figures at the very top

of the income statement are less likely subjected to any distortions compared to other fundamental data.

Table 4-21, Price to sales ratio - Microsoft Corporation (financial data in USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Sales per share	5,45	6,62	6,56	7,22	8,35	8,79
Share price	28,96	25,72	23,81	25,81	27,72	29,16
Price to sales ratio	5,31	3,89	3,63	3,57	3,32	3,32
Industry average	–	1,78	2,31	2,17	2,04	1,78

Source: own table based on Microsoft Corporation annual reports

Microsoft Corporation showed relatively steady development of the price per share (except for particular difficulties in year 2009) and at the same time made notable increases in sales per share with regard to the analyzed years, so far peaking at 8.79 USD of sales per one share (worth 29.16 USD) as of June 30th 2012. Over time Microsoft Corporation has been always ahead of the industry average from that perspective. The most powerful P/S ratio had Microsoft in year 2007 before the recession technically pushed the share prices down.

Enterprise Value Multiple

The final metric of the investment valuation ratios intended for the fundamental analysis of Microsoft Corporation reflects the proportion of the enterprise value to the EBITDA (earnings before interests, tax, depreciation and amortization). Enterprise value multiple is very useful ratio from investor viewpoint with regard to possible acquirement of the corporation (which is on the other hand highly unlikely in case of Microsoft Corporation). In another words it reflects the period in years of how long it would take to earn enough money to pay off an acquisition (assuming that the earnings would not change).

Table 4-22, Enterprise value multiple - Microsoft Corporation (financial data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Enterprise value	248 103	211 169	186 462	192 500	191 395	193 364

Earnings before interest, tax, depreciation and amortization	21 541	25 976	22 421	27 837	31 132	25 614
Enterprise value multiple	11,52	8,13	8,32	6,92	6,15	7,55
Industry average	–	6,86	8,95	7,45	7,15	7,92

Source: own table based on Microsoft Corporation annual reports

In the time before financial recession Microsoft Corporation had the biggest value as such accounting almost quarter trillion USD. Its earnings (EBITDA) were on the other hand lowest back then accompanied by second weakest year (2009) in terms of earnings. Otherwise Microsoft earnings before interest, tax, depreciation and amortization were relatively steady. The ratio of enterprise value multiple in 2007 was 11.52 meaning it would take eleven and half years to earn enough to pay off any potential acquisition. Over the next consecutive years this value fell down even under the industrial average settling at the last 3 year average of 6.83 (again meaning 6.83 years to earn to cover the potential acquisition cost). The post-recession turn of events in general caused decreases in the ratio and making Microsoft Corporation seem as undervalued enterprise.

4.4. Delta Model Analysis

Furthermore it is appropriate to evaluate the overall strategic approach of Microsoft Corporation towards Corporate Social Responsibility in more detail. For that purpose a suitable analytic scheme based on appropriate theoretical background has to be selected.

Firstly, as it has been implied, Corporate Social Responsibility itself (by its social nature) does not seem as a very suitable indicator with respect to the most proclaimed economic competing schemes known, for example from authors such as Michael Porter. This Harvard Business School author places the meaning and the interrelations of an industry into the center of attention in the process of business strategies evaluation. A primary role in that relation play business performance variations that shall provide the best explanations of structural characteristics within certain industry. All that leading to the uttermost perception that high margins and low profitability are the only components for further consideration and that some of the industries, or enterprises within industries, are doomed to be looked at as bad (inferior) with nothing else to offer. In the other economic words, based on Porter's (Hax and Wilde, 2003) theory, the successful firm is the one who

achieve monopolistic rents as a predominant or even sole competitor within particular industry or its segment.

The rationale of such thinking is correct and to the last detail applicable to the Microsoft Corporation while considering its sole competition scheme regardless CSR. Maintenance of cost leadership, sustaining economies of scale, product and process simplifications, obtaining significant market share are the domains of a software application technology leader such as Microsoft (complemented by broad product differentiation in forms of image, technology features, services and networks). But on the other hand, beyond the black and white world of low cost and product differentiation business approach based on Porter's influence it should be realized that incentives such as Corporate Social Responsibility does not quite fit aggressive and solely profit based enterprise strategy approaches.

Another broadly regarded framework, which is opposed to the seeking of an industry as a profitable source, is a resource-based view. In the contrary to the common product-market intersection focus, resource-based view aims on the firm itself. The competencies, capabilities and resources of the enterprise are understood as the most valuable items. The returns to the enterprise with that respect are in a form of so called *Ricardian rents*, based on David Ricardo's theory, (Hax and Wilde, 2003) that comprise of rare, hardly to imitate (or to substitute) resource-based values based on recognition of scarce factors such as overall managerial skills, capabilities of an enterprise emerged from awareness of certain issues and practice (i.e. particular specialized administrative processes).

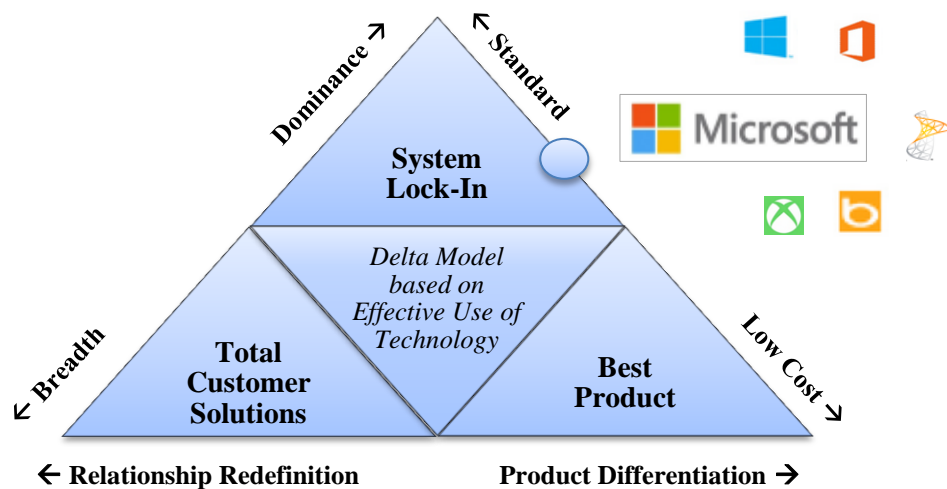
This approach is way closer to the idea of CSR deployment and its retrospective strategy evaluation-analysis. Either competitive advantage or focus on unique resources and capabilities is considered (both rather conflicting scenarios). The golden mean course would be to differentiate and broaden the strategy by considering both of these above mentioned. But in the complexity of the problem, as further explained, the most suitable approach is within the CSR context and for the purpose of CSR based strategic analysis of Microsoft Corporation the delta model viewpoint of the enterprise.

Delta model authors Arnaldo Hax and Dean Wilde (2003) pointed out the fact that the other theories does not quite include the customer (except the buyer and its bargaining

power as one of the constituents of Porter’s Five Forces, which influence is perceived as rather negative), for whom would be with respect to the CSR context more suitable term the beneficiary. Applied model is based on assumption that the customer (or CSR beneficiary) is linked to the enterprise and its extended initiatives with regards to new technologies, internet surroundings, and new emerging channels of positioning that can be evaluated and which as a matter of fact form the basis of the theory. It also partly considerate perspective of foregoing frameworks and acts as a unifying and compact strategic tool.

The key element with regard to delta model is the customer bonding that comprise of a linkage, creation of close relationship and application of related knowledge in practice. The bonding itself represents great margin and so much regarded sustainability (within CSR framework). As depicted in following scheme delta model comprises of three dimensions:

Scheme 4-1, Delta Model Triangle Scheme – Distinct Strategy positions



Source: own scheme based on Hax and Wilde (2003)

Microsoft Corporation with respect to the delta model is based close to the System Lock-In dimension on the right edge of the model neighboring with Best Product dimension, far away from the dimension of Total Customer Solutions. The reason of this particular placement to the model is the prevailing role of Microsoft as a dominant company on the market, systematically addressing whole network of customers as the relevant scope, typical with its enormous market share. Especially in the segment of desktop operating systems Microsoft achieved over 91% market share according to the Netmarketshare as of

February 2013 with quite steady progress over past couple of decades. That enables Microsoft of not only so called lock-in of customers but also lock-out of competitors. System Lock-In dimension is furthermore focused on system economics and market dominance as indicated above already. This dimension is according to the model considered as most demanding and Microsoft Corporation is in this area operating exceptionally well.

In the plane of Microsoft presence in the delta model lies another related dimension called Best Product which is relevant as well. Microsoft product's characteristics and features tends to retain its customers themselves implying soft inclination towards product economies and product shares. It takes only two to three most contemporary products of Microsoft product portfolio to achieve such significant market share as mentioned above. Microsoft products are standardized mostly out of the box solutions (either operating systems, server systems or productivity office software).

In the exact opposite is Total Customer Solutions dimension. Which is in particular case of Microsoft rather unbalanced. This dimension represents solutions that are opposed to those that are standardized and isolated, moreover it represents further added values of additional bonding with the individual customer thru unique channels based on customer economics principles. The rationale of this dimension is based on value chain based on different than purely internal distribution channels. It's the customer, suppliers and respective enterprise combined all together creating such additional value. The poor provision of a complete individual solution could be considered as the Microsoft's weakest point at the moment and form and strategic opportunity outlook for the future which could be filled with its complex application, data storage and web service cloud based services.

4.4.1. Microsoft Corporation towards Third Sector Application

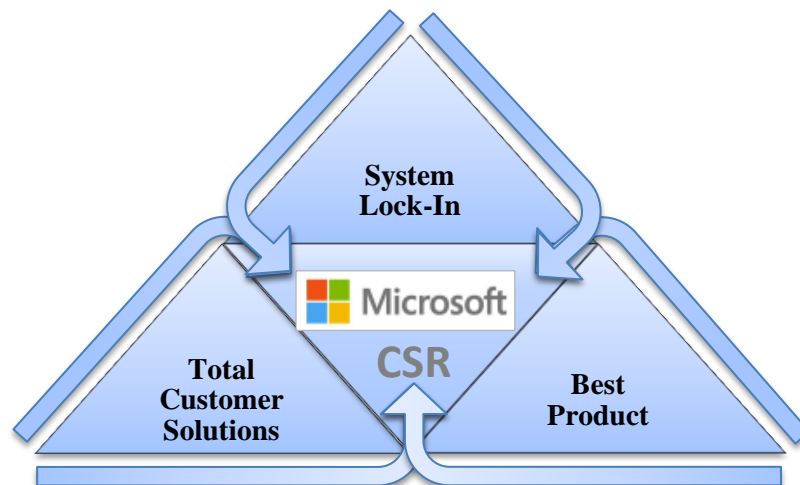
In case the overall and purely economic framework of Microsoft Corporation strategy as described above is put apart and its CSR incentives are considered solely, the model would look different. Due to the CSR overall not for profit nature it would have been unfeasible to conduct some of the purely business (competitive) based analyses. With certain level of sympathy and understanding the industry based paradigms and theory could have been

compared to the social dimension of nonprofit (*third sector*) recipient of CSR outcomes, yet the element of the competition doesn't fit with that respect any of them.

Delta model on the other hand, as a framework which has a strong bias towards the end customer on which behalf the prospective strategies are considered, can be applied on the example of CSR-NPO environment relationship (relationship of corporate social responsibility towards nonprofit organizations environment, i.e. third sector). From slightly different viewpoint and in different words it can be assumed that without regards to competitive advantage and profitability indices, third sector as such can be likened to the (term) customer within delta model framework.

In that perspective the CSR of Microsoft Corporation should be considered as an important delta model balance component. While considering Microsoft's Corporate Citizenship initiatives the capital attention is attracted to the software donorship and also Microsoft subsidize grants that leads to following customization of its strategic positioning (with regard to delta model and with the special accent on CSR). As indicated in the following scheme Microsoft Corporation's CSR can be with the above mentioned respect based closer to the middle of the third dimensional model:

Scheme 4-2, Adjusted Delta Model – Microsoft Corporation strategic position with regard of CSR application and the relationship to the third sector



Source: own scheme based on Hax and Wilde (2003)

Microsoft application software, which in form of a direct donations represent one of the forms of CSR outputs, still maintains its standardized characteristics as there are no adjustments or reductions made to the particular donated products. Reasonable expectations on the volume of demand are fulfilled and the offerings are very successful worldwide with steady or slightly increasing tendencies as the third sector itself develops. The dominant position of Microsoft Corporation is from this perspective sustained as well.

At the very same time the best product dimension is balanced by avoiding costs as free donations are considered. The customer (i.e. nonprofit nongovernmental organization) is more deeply integrated into the process of transaction and exchange as new technological channels and platforms are put into operation. Also the practice of donations themselves is unique as such because most of the product based donations are carried out based on particular demand of prospective donees (most often the organizations request particular products and volumes of licenses from Microsoft).

Concerning the otherwise underestimated dimension of Total Customer Solutions Microsoft enables many financial based aids to the beneficiaries of CSR from overall grant funding though direct financial donations to volunteering and matching gifts based on the Microsoft employees participation. All that together with previously mentioned product donations is leading to coherent support of the third sector and other eligible entities that benefit from socially responsible incentives of Microsoft while raising funds or their technological assets in order to serve its communities and causes. Microsoft Corporation within its CSR range redefines the relationship to the customers (towards the beneficiary organizations) and as such maintains balance in the middle of the above mentioned strategic matrix. Microsoft's CSR then forms a compact and solid unit that serves its purpose based on new technologically supported and unique strategy with a multidimensional overlap with regard to the delta model analysis.

4.5. CSR Influence Analysis

The analysis of CSR influence (clarification of particular CSR outputs) of Microsoft Corporation can be conducted with regard to two different viewpoints. Firstly the internal reports of the CSR incentives are considered, consequently second viewpoint of external

observers is reviewed. With the regard to the higher expected objectivity and nature of CSR measurements and interpretations (and also to the quantifiability) of input data the higher overall emphasis will be laid on the external viewpoint analysis. Appropriate metrics will be beyond the overall evaluation of CSR influence furthermore considered in connection to the corresponding Microsoft performance metrics. In order to provide full comprehensiveness of the proposed framework the most vitally relevant internal reporting outputs will be mentioned in following subchapter.

4.5.1. Internal reports

On the level of public relations and in terms of corporate social responsibility Microsoft Corporation is presenting itself as an enterprise aware of the need to take over the responsibilities for operations that are directly or indirectly affecting the society or the environment. With regard to its mission related to CSR published on the corporate website (2013), Microsoft present itself as a corporation that is responsible, making positive impact on the world and the people in it. For the purpose of the CSR commitments execution Microsoft has established corporate citizenship initiative, its own CSR incentive and communication channel, on which behalf internal (publically available) corporate citizenship reports are issued annually since year 2003.

4.5.1.1. Microsoft Corporate Citizenship

Corporate citizenship of Microsoft Corporation is very systematic and consist of two partially overlapping incentives. The Global Citizenship Initiative and Microsoft Community Affairs. Global citizenship is focused on the commitments to the public and communities served while creating opportunities especially in places where is the business happening, all that thanks to the innovations and technologies. Community affairs are aimed at creation of socio-economical opportunities through trainings or tools in order to transform communities and therefore help them benefit of their full potential. The support of various worldwide organizations and projects of Microsoft leads to expansions of opportunities and to further digital inclusion.

In terms of social responsibility proclamations according to its CSR reporting. Microsoft Corporation claims high level of compliance to the U.S. and international standards and commitments on the range of various socially or environmentally responsible activities and procedures established as Microsoft core values. Its innovative based leadership through innovation approach to Microsoft external environment is recognized and enabled, except of the internal terms of responsible conduct, by means of direct support through Microsoft global giving initiative.

Microsoft Giving Global

Microsoft Corporation throughout its global giving incentives offers two kinds of donation outputs. Those are cash giving and in-kind giving in a form of Microsoft software products. The cash giving of Microsoft can be furthermore subdivided to matching gifts, volunteer grants, investments within so called unlimited potential initiative or partners in action initiative and finally to any other exceptional donations. The in-kind giving of Microsoft needs no further division as it comprise of one single donation possibility – the Microsoft software itself.

In the table below are summarized metrics of total Microsoft global giving (both cash and in-kind) over past 6 years according to data showed within its corporate citizenship incentive framework (reports).

Table 4-23, Microsoft giving global - Microsoft Corporation (financial data in millions USD)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Cash giving	110	122	113	99	105	100
In-kind giving	322	376	404	504	844	804
Total giving	432	498	517	603	949	904
Giving to pre-tax profit	2.15%	2.09%	2.61%	3.20%	3.48%	4.05%
Countries reached	–	98	100	95	113	120

Source: own table based on Microsoft Corporation corporate citizenship annual reports

With regard to the portrayed data it can be briefly summarized that increase in total donations is significant. It almost doubled over past six years with a slight but notable

impact of the financial recession influence as Microsoft in years 2009 and 2010 enterprise reduced its cash giving. However from these metrics is clearly visible that the commitments, visions and strategies of Microsoft Corporation concerning CSR (and its overall CSR performing output) are very deeply embedded in the enterprise. Another slight influence related to market trends is visible in the values as of year 2012 or more particularly, in the decrease of in-kind giving value of 2012 caused by delays in release of Windows 8 and overall lower than expected demand of the product. In-kind gifts metrics are in terms of FMVs (fair market values), thus meaning a sum of particular products prices on fair markets base without any discounts.

Microsoft supports mostly third sector entities (NGOs, nonprofits, charities) and also educational institutions, schools etc. In the absolute majority of cases a tax-exempt entities are in question. For the very same reason the ratio of donations compared to pre-tax profit is very relevant as the corporation gets certain tax allowances for such transactions. Therefore is no surprise that this ratio has been increasing over time regardless any interferences, such as market trends. In a bulk, like Microsoft does, and with regard to very high corporate taxation in the US, the donations will at least partly pay off. Especially software product donations are not that harmful (costly) to Microsoft Corporation, as the product is of intellectual property nature and the donation as such is practically “just a license key,” they are furthermore balanced by the benefits – the allowances.

With regard to cash giving and cash donations, Microsoft in its home country furthermore supports its socially responsible employees by matching gifts and providing volunteer grants. Meaning that basically any donation by the (US) Microsoft employee is matched by a minimum of 25 USD (and maximum of 12,000 USD) as a matching gift. Similar mechanism is applied on volunteerism of employees. Any registered US nonprofit will upon agreement (besides the Microsoft employee volunteer work done) get additional 17 USD per each hour of the volunteer. These donations are already included in the overview table mentioned above. For example in year 2011 Microsoft granted over 6.5 million USD for 383,566 volunteer hours, which is even more than 6.3 million USD (363,696 volunteer hours) granted in 2010. Regarding the matching gifts, Microsoft Corporation in particular matched 48.9 million USD totaling 93.5 million USD donated to the third sector as of year

2011, similarly matched 43.7 million USD totaling 84.5 million USD donated in year 2010.

The global giving figures also reflects other global incentives such as Microsoft unlimited potential or Microsoft partners in learning that focus on community development and further education or training with relation to digital technologies. Finally other additional aid and support in (natural) disaster situations are included in the metrics as well.

Since 2006 Microsoft Corporation is committed to the United Nations Global Compact. It has took over related responsibilities connected to the principles of UN Global Compact and aligned them with own business strategies, policies, every day operations and practice.

4.5.2. External reports

Another viewpoint on Microsoft's corporate social responsibility initiatives comes from external observers. As the outputs of external entities, such as nongovernmental organizations, governmental bodies or any other self-appointed institutions or research centers, arise various rates, indices, proclamations or even licenses and permits.

In the particular case of Microsoft Corporation the external measurements and reports are carried out mostly by independent research institutes that focus (among many other things) on public perception of the corporation and also private enterprises with intent to evaluate particular outputs and the Microsoft's corporate conduct in order to determine its qualities with regards to considerations for investments on stock exchange market. Worldwide, there are many institutions with similar aims with the regard to above mentioned and it would not be feasible to cover every single measure available. Not to mention that some of the measurement outputs are considered completely confidential or as a valuable know-how for considerations of investments. For that reason are in further subchapters some of the most critical measures and reports that, as the author of this thesis believe, are most relevant and as such form an attractive part of theoretical framework for measuring and reporting of respective CSR outputs (as opposed to the provision of complete thorough yet misleading insight to that issue).

4.5.2.1. CSR Index

The first case scenario of external independent entity as mentioned just a few lines above is proved by so called CSR Index (Corporate Social Responsibility Index or CSRI). The Index is created jointly by two institutions the Boston College Center for Corporate Citizenship and the Reputation Institute. B.C. Center for Corporate Citizenship is a membership based knowledge center established in 1987. It's a detached university research center with broad expertise in corporate citizenship research and education. Reputation Institute is a world's leading reputation management consultancy (established 1997).

The index itself is built on the idea of external data measurement. More specifically it measures a marginal value to the enterprise based on socially responsible conduct and its corporate strategy. The core assumption for the framework of CSR Index is that enterprises can benefit from their CSR activities by reinforcement of positive overall corporate reputation and reputation in fields closely related to CSR in particular.

Before CSR Index can be derived a reputation of firms on an annual basis within Global Pulse Study (Global RepTrak) framework of Reputation Institute is measured. Study focus on certain dimension such as esteem, admiration, feeling and trust and examine them in seven particular fields: Leadership, Performance, Products/Services, Innovation, Workplace, Governance and Citizenship as shown on a following scheme.

Scheme 4-3, Global RepTrak (Pulse) Study framework



Source: Reputation Institute

The measurement is based on collection of external views on the companies, which reflects

independence from any possible corporate interferences. The collection consists of more than hundred thousand independent annual ratings of consumers across the United States annually.

This “reputation only” kind of output suggest that the overall reputation of an enterprise can provide actual economic benefits to the enterprise. The RepTrak reputation framework is measured within its most recent methodology since year 2006 with only minor adjustments. The research itself consists of a survey that analyses the firm to stakeholder emotional bonds with regards to the seven mentioned topics. The research has a global scope and focuses on 600 largest and most influential companies worldwide (from 2011 has been the research reduced to 150 largest companies worldwide).

Over the past seven years had Microsoft the privilege to place itself among those examined companies every time. And in the last three years Microsoft Corporation placed itself in a very competitive top places, concluding as a top seventh ranked most reputable global company. Additionally, every year of the research Microsoft scored in Global Pulse Study in-between 70 and 78 point on a one hundred point scale. Starting on 70.0 points at 2006 placed as a 139th company and finishing with 77.98 points as of last year (2012) placed 7th as mentioned above and in the following table.

Table 4-24, Microsoft Global Pulse score, reputation and rank

Microsoft Corporation	2006	2007	2008	2009	2010	2011	2012
MSFT Global Pulse score	70.0	72.95	70.52	78.05	74.47	77.30	77.98
MSFT Global Pulse rank	139	116	137	30	11	11	7

Source: Own table based on Reputation Institute

What is understood as a strong point of the research might also cause a bit of ambiguity and further clarification is needed when reviewing the actual scores per each year. The most interesting attribute of the research is a bulk independent assessment by external observers (customers/stakeholders). Actual momentary impression of the respondent, together with dynamic and volatile business environment, perhaps a change of overall CSR activities strategy of an enterprise might cause a bit inconsistent looking scores when

compared in detail among particular years. That is also the reason why the highest achieved score (78.05) was noted in year 2009 even though the rank of the Microsoft Corporation has been the fourth best (the enterprise ranked 30th) and the enterprise tends to invest into CSR more over time.

Finally, based on RepTrak Global Pulse outputs, CSR Index can be derived. The methodology of CSRI is based on the methodology of RepTrak with an addition of conceptually more balanced viewpoint towards CSR and CSR related dimensions of the RepTrak framework. Boston College Center for Corporate Citizenship furthermore operates especially with public perception outputs related to sphere of corporate citizenship, governance and workplace. As implied already CSR Index is an outgrowth of the RepTrak framework and as such also form a score and a rank of enterprises. The most notable difference of CSRI to Global Pulse are two. Firstly, in general CSRI is measured for the first one hundred of the largest (only) U.S. based companies. Secondly, the first cooperation of the Boston College Center for Corporate Citizenship and the Reputation Institute took place in year 2008 which is rather disappointing fact while taking into account all other time series mentioned throughout the analysis and consequent possibilities of evaluation. The most recent available CSR Indices are provided in the table below.

Table 4-25, Corporate Social Responsibility Index and rank

Microsoft Corporation	2006	2007	2008	2009	2010	2011	2012
MSFT CSR Index	N/A	N/A	74,83	78,66	80,18	73,87	N/A*
MSFT CSRI rank	N/A	N/A	10	2	4	18	N/A*

*In process, Source: Own table based on Boston College Center for Corporate Citizenship

The evaluation model again reflects the principle of higher the score, the greater and better reputation an enterprise possess. Microsoft Corporation placed itself on a very competitive places even in CSR Index ranking of all analyzed years so far. Again on the one hundred point scale Microsoft achieved rankings from 73.87 to 80.18 points in four respective years. Microsoft Corporation according to the joint research of Boston College Center for

Corporate Citizenship and the Reputation Institute became in the year 2009 the second most CSR well perceived company in the United States of America and in the following year placed 4th. As mentioned before, same unevenness (a consequence to the total independence of survey responses) is reflected in CSR Indices, due to the various level of CSR involvement of enterprise, its consumer perception and business environment differences itself over the years.

4.5.2.2. FTSE4Good Index

FTSE is a private enterprise owned jointly by London Stock Exchange and Financial Times. It's a private research organization focused on index calculations related to stock market on various level and in all scales. Both globally and locally it provides with benchmarks and helps institutional as well as individual investors and firms to make informed decisions on daily basis. FTSE stands for Financial Times Stock Exchange and as implied it focuses on development of indices relevant to stock trading and stock market itself. FTSE calculate indices related to global equity, regions, currency, income, real estate, environmental and social governance, investment strategy and other alternative or customized indices.

The index relevant to the CSR study purpose of this thesis created by FTSE with cooperation of Ethical Research Services (UK based nonprofit) is called FTSE4Good. It has been launched in 2001. The number one reason for its existence is additional measurement of performance of companies that are marketed on stock exchanges and at the same time recognized as socially responsible according to global standards. FTSE4Good also becomes a useful tool for all shareholders from investment, research and benchmark or reference perspective. FTSE4Good is a technical analysis based index.

On the example of Microsoft Corporation that has been the FTSE4Good constituent over past seven years without any break the purpose of the instrument can be clearly demonstrated.

FTSE4Good is a tool indicating that Microsoft Corporation should be considered as a responsible investment and that any following foundation or research of financial instruments and analysis base on the fact that Microsoft is globally considered and

standardized with a status of socially responsible corporate governance. The same applies for further research of the enterprise (involving this analysis as well) that explicitly identify Microsoft Corporation as socially and environmentally responsible enterprise.

FTSE4Good also works as a reference to which Microsoft can demonstrate its achievements and success in a standardized and understandable way (and prove CSR globally). Finally it serves as a benchmark for future performance tracking of investment into Microsoft Corporation as to the responsible enterprise. With particular regard to Microsoft Corporation, FTSE4Good annual reviews after its aggregation offer following data.

Table 4-26, FTSE4Good weights - Microsoft Corporation (financial data in billions USD)

Microsoft Corp.	2006	2007	2008	2009	2010	2011	2012
Microsoft Net Market Cap.	237.7	281.9	257.9	211.4	201.8	218.5	257.0
MS. FTSE4Good Weight	1.80%	1.80%	2.00%	2.31%	2.00%	1.66%	2.14%
MS. FTSE4Good Top10 Const. Rank	2	1	1	1	2	2	2
FTSE4Good Total Constituents	729	711	705	666	661	718	725
FTSE4Good Total Net Market Cap.	13,135.7	15,580.0	12,785.7	9,158.6	10,096.4	13,129.4	12,034.8

Source: own table and calculations based on FTSE4Good index series reviews as of MSFT fiscal year end (30.June annually)

It is important to realize that not all of the most influencing enterprises are considered within FTSE4Good framework every year. Prospective enterprises are subjected to a selection process in which at the end a fourteen-member advisory committee consisting of respectable fund managers, bankers, and most influencing global nonprofit organization representatives (i.e. Unicef) has to decide about the final choice of FTSE4Good constituents.

Microsoft Corporation was not only selected as a constituent, but also took foremost positions in the evaluation concerning the overall rank of all constituents' weight within the study placing second (influence wise) in years 2006, 2010, 2011 and 2012 and placing

first in years 2007 to 2009. In those years 700 companies in average made it to the FTSE4Good evaluation. Microsoft in past 7 years achieved annually a 1.95% weight in average to the overall FTSE4Good index, which is with regard to hundreds of other enterprises a remarkable result. Microsoft is relatively steady concerning the indicator of net market capitalization. The reason why is the most volatile indicator of total sum of net market capitalization of all Enterprises within FTSE4Good study so fluctuating is simple. The Enterprises (except on Microsoft Corporation based on the findings) are changing its rankings, influence and finally its presence as such in the FTSE4Good study with regard to CSR incentives.

With regard to FTSE4Good index and index weight of Microsoft Corporation within FTSE4Good framework, it is possible to derive a certain (own) adjusted index. It is implied before that index constituents (Microsoft included) are weighted by share of market capitalization. The index itself reflects hundreds of environmentally and socially responsible companies. Hence the interrelationship (ratio) of these two indicators that would be in question will represent a (technically spoken) marked driven, professionally appraised and quantified value of CSR effect of Microsoft Corporation based on valid evaluation and methodology of reputable institutions. Such measure can be consequently subjected to further research.

Table 4-27, Own adjusted Microsoft-FTSE4Good Index

Microsoft Corp.	2006	2007	2008	2009	2010	2011	2012
FTSE4Good Benchmark Index	5789.35*	7012.45	5876.89	4129.07	4360.67	5500.75	5021.41*
MSFT Index Weight	0.0180	0.0180	0.0200	0.0231	0.0200	0.0166	0.0214
MS-FTSE4Good Adjusted Index	104.21	126.22	117.54	95.38	87.21	91.31	107.46

Source: own table and calculations based on FTSE4Good index series reviews and Wall Street Journal, Market Watch historical daily-closing quotes as of MSFT fiscal year end (30. June annually/ *29.June: Friday)

The above mentioned adjusted index of Microsoft Corporation with regard to FTSE4Good Global index is based on assumption that the enterprise that was able to sustain within the FTSE4Good group of constituents for certain period of time, with certain level of influence

(and importance with regard to market capitalization and enterprise value) also comparatively bears the responsibility for overall success of the general FTSE4Good index. More specifically in case of Microsoft, with respect to the above mentioned predispositions for FTSE4Good, it can be concluded that such calculation of adjusted index is feasible. The differences among particular values in years related to both FTSE4Good benchmark index and adjusted Microsoft Corporation FTSE4Good index are caused by variations of constituents and their CSR behavior (as in case of market capitalization indicator) as well as development on stock exchange market and according to trends and cycles as known from technical analysis theoretical framework.

4.6. Interrelation of CSR and Performance

On the basis of already stated indices or historical overview data, it is already clearly visible that the CSR incentives are influencing enterprise performance. Some of the CSR metrics (namely volumes of software donations for tax-exempt entities and their respective ratio of pre-tax profit per giving ratio in years) directly influence the tax rates of the enterprise, for the reason that the values of donations given decrease a tax base of the donor.

Nevertheless, for the purpose of overachieving all of the resolutions stated in the aims of this Diploma thesis an additional final analysis of the interrelations among quantifiable CSR outputs of Microsoft Corporation will be carried out.

Based on statistical methods, and mainly because of the uncertainty related to relatively low number of observations a simple Pearson's correlation coefficient will be used. Pearson's correlation coefficient, based on a covariance ratio to the standard deviations of both sample data sets as visible in following scheme, is able to identify interrelationship (influence) of variables (Sharma, 2007).

Scheme 4-4, Pearson's correlation coefficient

$$\rho = \frac{\text{cov}(X, Y)}{\sigma_X \sigma_Y}$$

Source: Sharma, 2007

4.6.1. Interrelation Analysis

The correlation analysis is within the framework of this thesis primarily intended for the most respectable (valid) measures. Those are the Adjusted MSFT-FTSE4Good index on the side of corporate social responsibility and the most generally known Price to Earnings ratio on the other side of enterprise performance as an investment valuation ratio. The datasets and results are portrayed in tables below.

Table 4-28, Adjusted MSFT-FTSE4Good and P/E dataset - Microsoft Corporation (data in units)

Microsoft Corp.	2007	2008	2009	2010	2011	2012
Adjusted MSFT-FTSE4Good index (x)	126,22	117,54	95,38	87,21	91,31	107,46
Price to Earnings ratio (y)	19,3	13,28	14,56	11,91	10,03	14,4

Source: own table, own calculations

Table 4-29, Correlation of MSFT-FTSE4Good and P/E dataset - Microsoft Corporation (data in units)

n	$\bar{X}_{Mean}(\mu_x)$	$\bar{Y}_{Mean}(\mu_y)$	σ_x	σ_y	Correlation Coefficient
6	104.18	13.91	15.531	3.1358	0.7808

Source: own table, own calculations

In case of the Adjusted MSFT-FTSE4Good index and Price to Earnings the correlation coefficient appeared to be 0.78 which is with regard to theory in the interval of high correlation $\langle 0.7-0.9 \rangle$, therefore proving interdependence of variables. Confirming the hypothesis, that there is an influence of CSR on enterprise performance.

For the complete understanding of all above mentioned in the context of the Pearson's correlation coefficient, it is also important to mention that this interrelationship does not explain whether the variables (x) cause or affect the variables (y) and vice versa, but "a" relationship is certain. Furthermore (x) may be one of (y)'s causes but it is not the only one.

5. Conclusion

This Diploma thesis was focused in the theoretical part on gathering of the relevant findings related to corporate social responsibility and in practical, analytical part was focused on the corporate social responsibility and enterprise performance interrelationships.

Part of the analytical has been was deliberately devoted to the third sector as a respective beneficiary of corporate social responsibility initiatives. As well as a part has been furthermore devoted to corporate strategy analysis.

The theoretical review execution furthermore pointed out the importance of corporate social responsibility concept within nowadays business environment and with regard to the society, socio-economic environment, stakeholders of a corporation and capitalism. The corporate social responsibility is even today, over 50 years since the introduction of the term to academic authors, considered as an evolving immature concept that should be continually further elaborated.

It has been proven that the corporate social responsibility has in recent market economy its firm place and definitely should not be overlooked or undervalued. Not only for the reason that the CSR offers a potential for differentiation and a competitive advantage for building future success (and maintaining enterprise performance)

For the purpose of CSR measurement a custom values can be derived within a framework of internationally known market analyst initiatives such as Financial Times Stock Exchange 4 Good benchmark indices.

The aims of the Diploma thesis were fulfilled as a correlation among own adjusted CSR index and a valuation (economic performance) ratio has been found. More particularly with a strong correlation among a Microsoft-FTSE4Good adjusted index variables and Price to Earnings ratio variables has been proven interdependence, thus the hypothesis has been confirmed. There is an influence of corporate social responsibility on enterprise performance.

Recommendations towards Microsoft (but it applies also for any other enterprise) are directed to more systematical and consistent observation of CSR outputs and its internal evaluation that would lead to more comprehensive CSR reports providing a base for even more valid or more reliable datasets from academic viewpoint. But also from the practical managerial and CSR reporting viewpoint, it is important for companies such Microsoft that their huge opportunities on forms of investment into CSR should be also properly marketed, again, based on sufficient amount of valid data.

A more visionary approach or ambition would be any incentive that would try to create some more universal tool for immediate CSR self-evaluation, in order to enable even small companies and firms to evaluate their social responsibility and end up with standardized and easy to compare data.

With regard to the economic analysis of Microsoft we have witnessed a leading corporation firmly set into its sector. Concerning its fundamental analysis outcomes, Microsoft is a huge potential for investments. Regarding the turn of events after the period of economic recession the investment opportunity is more likely attract those, who are oriented on a long term value, rather than quick growth.

Fundamental analysis did not reveal any problems connected with Microsoft's financial health condition. The only slight lag was seen from the perspective of time, with regard to inventory turnovers and payment periods, which is reasonable considering the size of Microsoft Corporation.

The last shown fiscal year 2012 seemed a bit less prosperous to Microsoft, but the reasons for that can be simply attributed to the market trend and a bad timing of a new product releases. As for fiscal year 2013 there are big expectations regarding Windows 8 operating system, whole new productivity Office suite 2013. Furthermore also Microsoft Surface tablet will become worldwide available and Microsoft partners in mobile communication (Nokia) has finally released the Windows Phone 8 operating system smartphones that has been unavailable till the end of the 2012 calendar year.

In general the future of the sustainable yet effective socio-economic environment lies in businesses diverting from profit-hunting strictly performance focused and in a way dehumanized strategies. It also lies in corporate social responsibility inclining to the world

of numbers, being able to measure and compare itself and to the other companies, industries or sectors.

6. List of References

Bibliography

BENN, S. and BOLTON, D. *Key Concepts in Corporate Social Responsibility*. London: Sage Publications Ltd, 2011. ISBN 978-1847879295

CAMERON, K.S. and QUINN, R.E. *Diagnosing and Changing Organisational Culture: Based on the Competing Values Framework*. San Francisco: Jossey Bass Publishers, 2006. ISBN 978-0-7879-8283-6

CAROLL, A.B. and BUCHHOLTZ, A. *Business and Society: Ethics and Stakeholder Management*. Mason: South-Western Cengage Learning, 2008. ISBN 978-0-324-56939-1

CLEGG, S., KORNBERGER, M. and PITSIS, T. *Managing & Organizations*. London: Sage Publications, 2008. ISBN 978-1-4129-4877-7

CRANE, A., MCWILLIAMS, A., MATTEN, D., MOON, J. and SIEGEL, D.S. *The Oxford Handbook of Corporate Social Responsibility*. Oxford: Oxford University Press, 2009. ISBN 978-0199573943

DĚDINA, J. and CEJTHAMR, V. *Management a organizační chování*. Praha: Grada Publishing, 2005. ISBN 80-247-1300-4

FRENCH, A. P. *Collective and Corporate Responsibility*. New York: Columbia University Press, 1984. ISBN-13: 978-0231058360

HORALÍKOVÁ, M. and ZUZÁK, R. *Talenty v podnikové praxi*. Praha: Česká zemědělská univerzita, 2005. ISBN 80-213-1292-0

KORTEN, C. D. *When Corporations Rule the World*. San Francisco: Berrett-Koehler Publishers, 2001. ISBN-13: 978-1887208048

LAWRENCE, A.T., WEBER, J. and POST, J. *Business and Society: Corporate Strategy, Public Policy and Ethics*. New York: McGraw-Hill Higher Education, 2007. ISBN 978-0071101028

MURPHY, J.J. *Technical Analysis of the Financial Markets: A Comprehensive Guide to Trading Methods and Applications*. New Jersey: New York Institute of Finance. 1999.

ISBN 0-7352-0066-1

NOVÝ, I. *Sociologie pro ekonomy a manažery*. Praha: Grada Publishing, 2006. ISBN 80-247-1705-0

PFEIFER, L. and UMLAUFOVÁ, M. *Firemní kultura*. Praha: Grada Publishing, 1993. ISBN 80-7169-018-X

SHARMA, J.K. *Business Statistics*. Delhi: Dorling Kindersley. 2007. ISBN 978-81-7758-654-1

TAYLOR, R. *Third sector research*. New York: Springer. 2010. ISBN 978-1-4419-5706-1

THOMSETT, C.M. *Getting Started in Fundamental Analysis*. New Jersey: Hoboken. 2006. ISBN 978-0-471-75446-6

VISSER, W. *The Age of Responsibility: CSR 2.0 and the New DNA of Business*. West Sussex: John Wiley & Sons Ltd., 2011. ISBN 978-0-470-68857-1

WERTHER, W. B. and CHANDLER, D. B. *Strategic Corporate Social Responsibility: Stakeholders in a Global Environment*. London: Sage Publications Ltd, 2010. ISBN 978-1412974530

Internet Resources

BIRCH, D. *Corporate Social Responsibility: Some Key Theoretical Issues and Concepts for New Ways of Doing Business*. [online]. Journal of New Business Ideas and Trends 1(1), pp1-19, 2003. Available from: <<http://jnbit.org/Images/PDF/Birch-1-1-2003.pdf>>.

CAROLL, B.A. *Corporate social responsibility*. [online]. Business and Society. 1999. Available from: <<http://www.kantakji.com/fiqh/Files/Companies/e16.pdf>>.

DAVIS, K. *Model of Corporate Social Responsibility*. [online]. 6.12.2008. Available from: <<http://managementinnovations.wordpress.com/2008/12/06/keith-davis-model-of-corporate-social-responsibility/>>.

HARPER, D. *Online Etymology Dictionary, Volunteer*. [online]. 2012. Available from: <<http://www.etymonline.com/index.php?term=volunteer>>.

HAX, C.A. and WILDE, L.D. *The Delta Model - a New Framework of Strategy*. [online]. Journal of Strategic Management Education 1 (1). 2003. Available from: <<http://pesona.mmu.edu.my/~wruslan/MISP1/Readings/detail/Reading-37.pdf>>.

HOHEN, P. *Corporate Social Responsibility - An Implementation Guide for Business*. [online]. International Institute for Sustainable Development. 2007. Available from: <http://www.iisd.org/pdf/2007/csr_guide.pdf>.

LOTH, R. *Financial Ratio Tutorial*. [online]. Investopedia. 2013. Available from: <<http://www.investopedia.com/university/ratios/>>.

LUTHRA, V. *Business Dictionary. Corporation* [online]. Webfinance. 2013. Available from: <<http://www.businessdictionary.com/definition/corporation.html>>.

SHERLOCK, F.M. and GRAVELLE, G.J. *An Overview of the Nonprofit and Charitable Sector*. [online]. 17.11.2009. Available from: <<http://www.fas.org/sgp/crs/misc/R40919.pdf>>.

VELLA, J. *Message from Ford Motor Company Fund and Community Services President Jim Vella* [online]. 2013. Available from: <<http://corporate.ford.com/our-company/community/ford-fund/presidents-message-401p>>.

WARING, D. *An Introduction to Fundamental Analysis and the US Economy, Informed Trades*. [online]. 14.2.2008. Available from: <<http://www.informedtrades.com/13036-introduction-fundamental-analysis-us-economy.html#post13168>>.

Boston College Carroll School of Management Center for Corporate Citizenship. [online]. 2013. Available from: <<http://www.bcccc.net/>>.

Business for Social Responsibility, Materiality Analysis for CSR in the Software Industry. [online]. 23.8.2008. Available from: <<http://www.bsr.org/en/our-insights/report-view/materiality-analysis-for-csr-in-the-software-industry>>.

Financial Times Stock Exchange. [online]. 2013. Available from: <<http://www.ftse.com/index.jsp>>.

FTSE4Good index series reviews. [online]. 2013. Available from: <http://www.ftse.com/Indices/FTSE4Good_Index_Series/Index_Reviews.jsp>.

Microsoft Corporation. [online]. 2013. Available from: <<http://www.microsoft.com/about/companyinformation/en/us/default.aspx>>.

Microsoft Corporation. Annual Reports. [online]. 2013. Available from: <<http://www.microsoft.com/investor/annualreports/default.aspx>>.

Microsoft Corporation. Corporate Citizenship. [online]. 2013. Available from: <<http://www.microsoft.com/about/corporatecitizenship/en-us/>>.

Nasdaq Stock Market. [online]. 2013. Available from: <<http://www.nasdaq.com/>>.

National Center For Charitable Statistics. [online]. 2013. Available from: <<http://nccsdataweb.urban.org/PubApps/profile1.php?state=US>>.

Netmarketshare, Desktop Operating System Market Share. [online]. 02.2013. Available from: <<http://netmarketshare.com/operating-system-market-share.aspx?qprid=10&qpcustomd=0>>.

Reputation Institute. Global RepTrak (Pulse) Study framework. [online]. 2013. Available from: <<http://www.reputationinstitute.com/thought-leadership/the-reptrak-system>>.

List of Schemes

Scheme 3-1 Corporation Stakeholders examples.....	24
Scheme 3-2, Evaluation process in 4 stages.....	32
Scheme 3-3, CSR implementation framework.....	33
Scheme 3-4, Simplified scheme of 5 propositions CSR model	36
Scheme 4-1, Delta Model Triangle Scheme – Distinct Strategy positions	66
Scheme 4-2, Adjusted Delta Model – Microsoft Corporation strategic position with regard of CSR application and the relationship to the third sector	68
Scheme 4-3, Global RepTrak (Pulse) Study framework.....	74
Scheme 4-4, Pearson’s correlation coefficient.....	80
Scheme 7-1, Desktop Operating System Market Share Worldwide	90
Scheme 7-2, Microsoft Global Giving development in years	91
Scheme 7-5, Correlation diagram and a linear trend line - Adjusted MSFT-FTSE4Good index and P/E ratio - Microsoft Corporation (data in units)	91

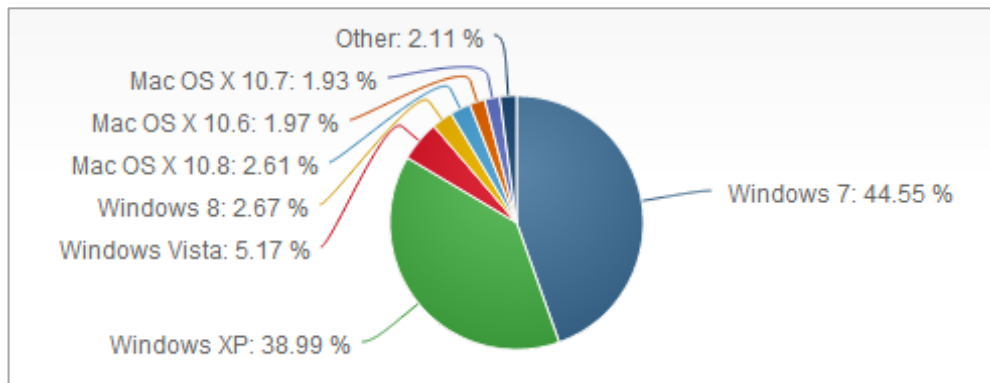
List of Tables

Table 4-1, Number of Nonprofit Organizations in the United States, comparison of y. 1999 and 2009.....	44
Table 4-2, Total Revenue and Assets by Nonprofit Type as of July 2009 (in billions USD) - values of share ratios are rounded	46
Table 4-3, Current ratio - Microsoft Corporation (financial data in millions USD)	49
Table 4-4, Quick ratio - Microsoft Corporation (financial data in millions USD)	49
Table 4-5, Quick ratio - Microsoft Corporation (financial data in millions USD)	50
Table 4-6, Cash conversion cycle - Microsoft Corporation (data units in days).....	51
Table 4-7, Gross profit margin, net profit margin - Microsoft Corporation (fin. data in millions USD)	52
Table 4-8, Operating profit margin, net profit margin - Microsoft Corp. (fin. data in millions USD)	53
Table 4-9, Return on assets - Microsoft Corporation (financial data in millions USD)	53
Table 4-10, Return on equity - Microsoft Corporation (financial data in millions USD).....	54
Table 4-11, Debt to Equity ratio - Microsoft Corporation (financial data in millions USD).....	55
Table 4-12, Capitalization Ratio - Microsoft Corporation (financial data in millions USD).....	56
Table 4-13, Interest coverage ratio- Microsoft Corporation (financial data in millions USD).....	56
Table 4-14, Fixed-asset turnover - Microsoft Corporation (financial data in millions USD).....	57
Table 4-15, Operating cycle - Microsoft Corporation (data units in days)	58
Table 4-16, Operating cash flow/sales ratio - Microsoft Corporation (financial data in millions USD)	59
Table 4-17, Free cash flow/operation cash ratio - Microsoft Corporation (fin. data in millions USD)	59
Table 4-18, Dividend payout ratio - Microsoft Corporation (financial data in USD).....	60
Table 4-19, Price to book value ratio - Microsoft Corporation (financial data in USD)	61
Table 4-20, Price to earnings ratio - Microsoft Corporation (financial data in USD).....	62
Table 4-21, Price to sales ratio - Microsoft Corporation (financial data in USD)	63
Table 4-22, Enterprise value multiple - Microsoft Corporation (financial data in millions USD) ..	63
Table 4-23, Microsoft giving global - Microsoft Corporation (financial data in millions USD).....	71
Table 4-24, Microsoft Global Pulse score, reputation and rank.....	75
Table 4-25, Corporate Social Responsibility Index and rank	76
Table 4-26, FTSE4Good weights - Microsoft Corporation (financial data in billions USD)	78
Table 4-27, Own adjusted Microsoft-FTSE4Good Index	79
Table 4-28, Adjusted MSFT-FTSE4Good and P/E dataset - Microsoft Corporation (data in units)	81
Table 4-29, Correlation of MSFT-FTSE4Good and P/E dataset - Microsoft Corporation (data in units)	81

7. Annexes

7.1. Additional Charts and Reports

Scheme 7-1, Desktop Operating System Market Share Worldwide

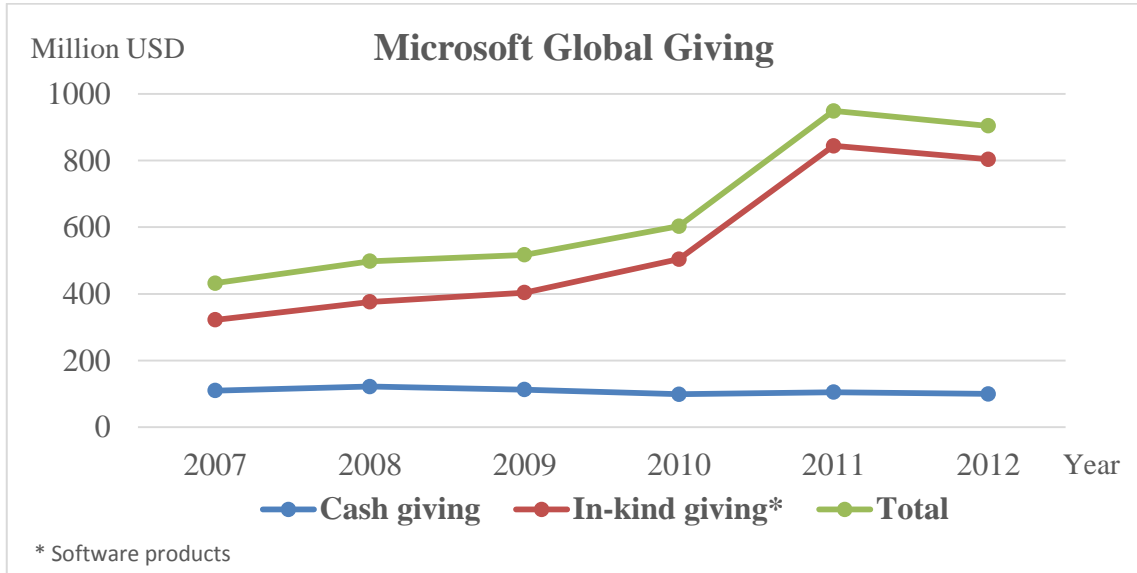


OPERATING SYSTEM	TOTAL MARKET SHARE
Windows 7	44.55%
Windows XP	38.99%
Windows Vista	5.17%
Windows 8	2.67%
Mac OS X 10.8	2.61%
Mac OS X 10.6	1.97%
Mac OS X 10.7	1.93%
Linux	1.21%
Mac OS X 10.5	0.51%
Mac OS X 10.4	0.13%
Windows 8 Touch	0.10%
Windows 2000	0.06%
Windows NT	0.06%
Windows 8 RT Touch	0.02%
Mac OS X (no version reported)	0.02%
Windows 98	0.01%
Mac OS X Mach-O	0.00%

Source: netmarketshare.com, as of February, 2013

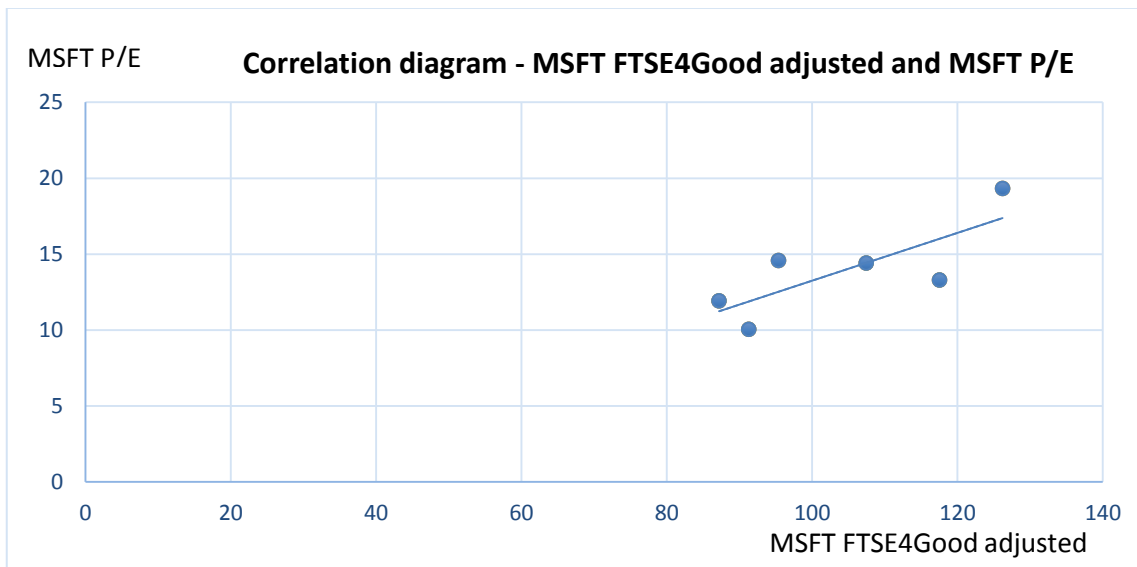
7.2. Graphical Representation of Selected Analysis Outputs

Scheme 7-2, Microsoft Global Giving development in years



Source: own scheme based on Microsoft corporate citizenship reports

Scheme 7-3, Correlation diagram and a linear trend line - Adjusted MSFT-FTSE4Good index and P/E ratio - Microsoft Corporation (data in units)



Source: own table, own calculations